

Peloton

Peloton announces a co-branded fitness hub on TikTok

Maintain Rating: UNDERPERFORM | PO: 4.60 USD | Price: 5.38 USD

Peloton announces partnership with TikTok

Peloton has announced an exclusive partnership with TikTok, featuring a new generation of fitness content and creators. The new fitness hub on TikTok will have a co-branded hub with custom Peloton content (*#TikTokFitness Powered by Peloton*), available in the US, UK and Canada. Content will include select live Peloton classes with and without equipment required, original Instructor series, ongoing creator partnerships, Peloton class clips, and celebrity collaborations. It gives Peloton access to TikTok's 1bn users, and broadens reach to an audience that is likely younger than the core subscriber.

Partnerships to broaden demographic reach

Peloton shares are reacting positively to the news (+16% vs. flat for Nasdaq 100) and the partnership with TikTok comes at an opportune time, given the "New Year" drive to start or resume fitness regimes. We see this continuing several partnerships created and marketing programs initiated in 2023 to broaden the brand's reach and demographics. In Sep'23, Peloton announced a 5yr apparel/content partnership with Lululemon. In 2023, other partnerships included collaborations with Liverpool Football Club (LFC), the University of Michigan, New York Road Runners, and the NBA and WNBA.

Remain cautious on connected sub churn trends

For F2Q, revenue/EBITDA guidance at \$715-750mn/\$ (90)-(70)mn was below then Street expectations. Outlook suggested impact of macro-led uncertainties on connected subscriber net adds. Paid App Subscription churn in 2Q is expected to increase due to the expiration of legacy content access for App subscribers who joined Peloton prior to the announcement of their paid tier pricing in May 2023, although new higher price points were trending better than mgmt. expectations on the F1Q earnings call.

Initiatives could take time to scale, debt an overhang; U/P

We think benefits growth from partnerships, rentals and app expansion could take time to scale and may not be material enough to offset still soft subscriber trends for the core connected fitness base. Aided by gross margin and inventory, we estimate FCF of \$(91)mn in FY'24 (vs. -\$470mn in '23), and we don't expect positive FCF until 2H24 (pushed out vs earlier expectations of FCF positive by F4Q23). The refinancing of \$1bn of convertible notes (issued in Feb '21 and maturing in Feb '26) also remains a risk. We maintain our PO of \$4.6 based on 2.25x '24E subscriber GP. We remain cautious on revenue, margin expansion and cash flow and maintain our Underperform rating.

| Estimates (Jun) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|---------|--------|--------|--------|--------|
| EPS | (4.11) | (1.33) | (0.31) | (0.11) | (0.05) |
| GAAP EPS | (8.74) | (3.64) | (1.48) | (1.21) | (1.23) |
| EPS Change (YoY) | NM | 67.6% | 76.7% | 64.5% | 54.5% |
| Consensus EPS (Bloomberg) | | | (1.36) | (1.00) | (0.78) |
| DPS | 0 | 0 | 0 | 5.00 | 5.00 |
| Valuation (Jun) | | | | | |
| Dividend Yield | 0% | 0% | 0% | 92.9% | 92.9% |
| Free Cash Flow Yield* | -127.9% | -25.5% | -4.9% | -3.7% | -8.1% |

* For full definitions of *IQmethod*SM measures, see page 4.

04 January 2024

Equity

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Stock Data

| | |
|---------------------------------|----------------------|
| Price | 5.38 USD |
| Price Objective | 4.60 USD |
| Date Established | 2-Nov-2023 |
| Investment Opinion | C-3-9 |
| 52-Week Range | 4.28 USD - 17.83 USD |
| Mrkt Val (mn) / Shares Out (mn) | 1,842 USD / 342.4 |
| Free Float | 96.4% |
| Average Daily Value (mn) | 51.38 USD |
| BofA Ticker / Exchange | PTON / NAS |
| Bloomberg / Reuters | PTON US / PTON.OQ |
| ROE (2024E) | NA |
| Net Dbt to Eqty (Jun-2023A) | NA |
| ESGMeter TM | Medium |

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Timestamp: 04 January 2024 02:36PM EST

iQprofileSM Peloton

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|---------|---------|-------|-------|-------|
| Return on Capital Employed | -34.9% | -14.1% | -2.6% | -1.7% | -0.5% |
| Return on Equity | -105.0% | -213.1% | NM | NM | NM |
| Operating Margin | -34.4% | -14.2% | -2.1% | -1.3% | -0.3% |
| Free Cash Flow | (2,357) | (470) | (91) | (68) | (150) |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|--------|-------|-------|-------|-------|
| Cash Realization Ratio | NM | NM | NM | NM | NM |
| Asset Replacement Ratio | 2.2x | 0.7x | 0.2x | 0.2x | 0.2x |
| Tax Rate | NM | NM | NM | NM | NM |
| Net Debt-to-Equity Ratio | -67.7% | NM | NM | NM | NM |
| Interest Cover | NA | NA | NA | NA | NA |

Income Statement Data (Jun)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|----------------|--------------|--------------|--------------|--------------|
| Sales | 3,582 | 2,800 | 2,711 | 2,631 | 2,992 |
| % Change | -10.9% | -21.8% | -3.2% | -3.0% | 13.7% |
| Gross Profit | 787 | 1,031 | 1,274 | 1,270 | 1,295 |
| % Change | -48.1% | 31.0% | 23.5% | -0.3% | 2.0% |
| EBITDA | (926) | (209) | (82) | (32) | (6) |
| % Change | NM | 77.5% | 60.6% | 61.4% | 80.2% |
| Net Interest & Other Income | (74) | (61) | (54) | (8) | (8) |
| Net Income (Adjusted) | (1,325) | (461) | (112) | (41) | (19) |
| % Change | NM | 65.2% | 75.6% | 63.4% | 53.1% |

Free Cash Flow Data (Jun)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|----------------|--------------|--------------|--------------|----------------|
| Net Income from Cont Operations (GAAP) | (2,817) | (1,262) | (538) | (454) | (475) |
| Depreciation & Amortization | 143 | 124 | 117 | 108 | 121 |
| Change in Working Capital | (641) | 114 | 6 | 21 | (86) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 1,278 | 636 | 345 | 283 | 318 |
| Capital Expenditure | (320) | (82) | (22) | (27) | (27) |
| Free Cash Flow | -2,357 | -470 | -91 | -68 | -150 |
| % Change | -390.4% | 80.0% | 80.6% | 25.1% | -119.4% |
| Share / Issue Repurchase | 84 | 80 | 11 | 0 | 0 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | 696 | (8) | (4) | (2) | (2) |

Balance Sheet Data (Jun)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 1,254 | 814 | 880 | 739 | 588 |
| Trade Receivables | 84 | 97 | 95 | 85 | 106 |
| Other Current Assets | 1,297 | 728 | 540 | 403 | 459 |
| Property, Plant & Equipment | 788 | 403 | 420 | 420 | 420 |
| Other Non-Current Assets | 783 | 685 | 657 | 651 | 647 |
| Total Assets | 4,205 | 2,727 | 2,593 | 2,298 | 2,220 |
| Short-Term Debt | 8 | 8 | 8 | 8 | 8 |
| Other Current Liabilities | 1,098 | 754 | 643 | 560 | 606 |
| Long-Term Debt | 725 | 594 | 526 | 446 | 366 |
| Other Non-Current Liabilities | 1,605 | 1,709 | 1,708 | 1,708 | 1,708 |
| Total Liabilities | 3,436 | 3,064 | 2,885 | 2,721 | 2,688 |
| Total Equity | 770 | (337) | (292) | (423) | (467) |
| Total Equity & Liabilities | 4,205 | 2,727 | 2,593 | 2,298 | 2,220 |

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Internet/e-Commerce

Company Description

Peloton is the largest global interactive fitness platform, with a community of three million connected subscribers. The company offers a workout Bike, Tread and Rower which include a touchscreen that streams live and on-demand classes for indoor cycling, running, walking, bootcamp, yoga, strength training, and meditation. The company serves customers in the U.S., Canada, UK, and Germany, and is expanding to more countries.

Investment Rationale

Peloton offers an integrated solution that capitalizes on several trends including in-home fitness/health, subscription services, and on-demand streaming. However, we are cautious on the risk of increased subscriber churn and a lack of progress so far on growth initiatives which limits Peloton's ability to achieve breakeven to positive EBITDA.

Stock Data

Average Daily Volume 9833,081

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|--------|--------|
| Q1 | -0.31A | -0.15A |
| Q2 | -0.44A | -0.22A |
| Q3 | -0.34A | -0.01E |
| Q4 | -0.31A | 0.01E |

Price objective basis & risk

Peloton (PTON)

Our \$4.60 price objective is based on 2.25x 2024 subscriber gross profit/EV. We do not include Peloton's hardware segment (40% of revenues) in our valuation given immaterial gross margins. This represents a discount to subscriber comps which trade at 5.3x gross profit/EV which we believe is warranted given lower EBITDA margins & FCF generation and revenue growth.

Upside risk to our PO are: 1) stabilization in monthly churn trends, 2) better than expected subscriber growth from growth initiatives including FaaS, new app strategy and expanded partnerships, 3) positive hardware gross margins from manufacturing and supply chain efficiencies, and 4) achieving breakeven to positive EBITDA if Peloton is able to reaccelerate connected subscriber revenue.

Downside risks to our PO are: 1) higher subscriber churn as COVID cohorts mature, 2) lower than expected revenue from growth initiatives, 3) limited traction in new international markets, 4) reopening and shift back to in-person fitness, and 5) uncertain TAM given high upfront costs.

Analyst Certification

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US - Internet Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|----------------------|-------------|------------------|--------------------|
| BUY | | | | |
| | Alphabet | GOOGL | GOOGL US | Justin Post |
| | Alphabet | GOOG | GOOG US | Justin Post |
| | Amazon.com | AMZN | AMZN US | Justin Post |
| | AppLovin | APP | APP US | Omar Dessouky, CFA |
| | DoorDash | DASH | DASH US | Michael McGovern |
| | Electronic Arts | EA | EA US | Omar Dessouky, CFA |
| | Expedia | EXPE | EXPE US | Justin Post |
| | LegalZoom | LZ | LZ US | Michael McGovern |
| | Match Group | MTCH | MTCH US | Curtis Nagle, CFA |
| | Meta Platforms Inc | META | META US | Justin Post |
| | Pinterest | PINS | PINS US | Justin Post |
| | RH | RH | RH US | Curtis Nagle, CFA |
| | Roblox Corp. Class A | RBLX | RBLX US | Omar Dessouky, CFA |
| | Squarespace, Inc. | SQSP | SQSP US | Michael McGovern |
| | Uber | UBER | UBER US | Justin Post |
| | Udemy Inc | UDMY | UDMY US | Curtis Nagle, CFA |
| | Vivid Seats | SEAT | SEAT US | Curtis Nagle, CFA |
| | Wayfair | W | W US | Curtis Nagle, CFA |
| | Wix.com | WIX | WIX US | Michael McGovern |
| | Zillow | ZG | ZG US | Curtis Nagle, CFA |
| | Zillow | Z | Z US | Curtis Nagle, CFA |
| NEUTRAL | | | | |
| | ACV Auctions | ACVA | ACVA US | Curtis Nagle, CFA |
| | Airbnb | ABNB | ABNB US | Justin Post |



US - Internet Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|-----------------------|-------------|------------------|--------------------|
| | Beyond Inc | BYON | BYON US | Curtis Nagle, CFA |
| | Booking Holdings Inc | BKNG | BKNG US | Justin Post |
| | Bumble | BMBL | BMBL US | Curtis Nagle, CFA |
| | Digital Turbine, Inc | APPS | APPS US | Omar Dessouky, CFA |
| | Duolingo | DUOL | DUOL US | Curtis Nagle, CFA |
| | eBay | EBAY | EBAY US | Justin Post |
| | Etsy, Inc. | ETSY | ETSY US | Curtis Nagle, CFA |
| | Instacart | CART | CART US | Justin Post |
| | Playtika | PLTK | PLTK US | Omar Dessouky, CFA |
| | Snap | SNAP | SNAP US | Justin Post |
| | Take-Two Interactive | TTWO | TTWO US | Omar Dessouky, CFA |
| UNDERPERFORM | | | | |
| | Chewy Inc | CHWY | CHWY US | Curtis Nagle, CFA |
| | Lyft, Inc. | LYFT | LYFT US | Michael McGovern |
| | Opendoor Technologies | OPEN | OPEN US | Curtis Nagle, CFA |
| | Peloton | PTON | PTON US | Curtis Nagle, CFA |
| | Redfin Corp | RDFN | RDFN US | Curtis Nagle, CFA |
| | Shutterstock | SSTK | SSTK US | Curtis Nagle, CFA |

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

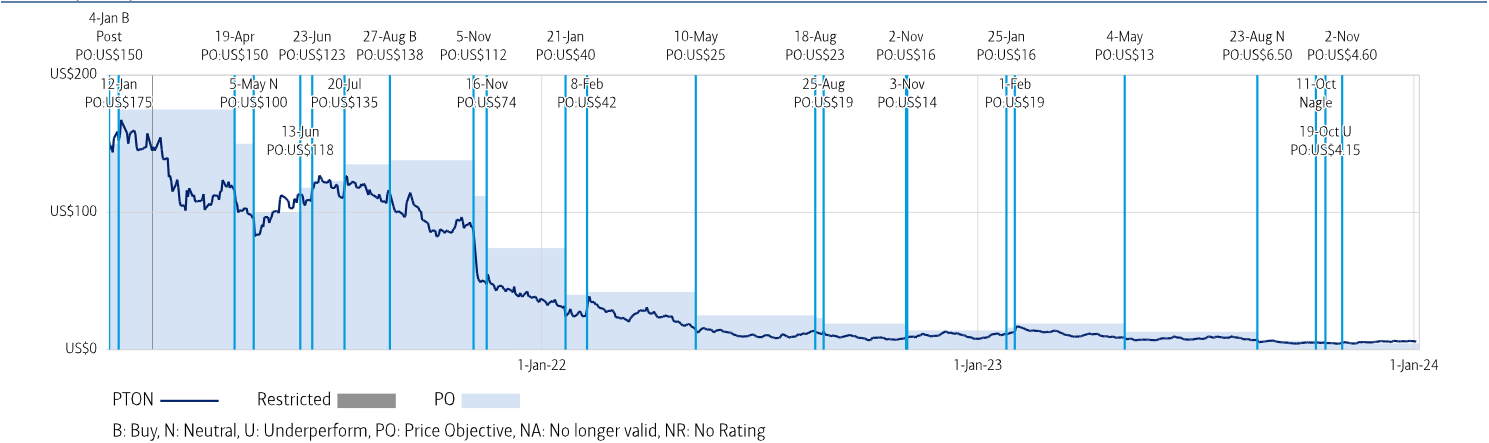
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Peloton (PTON) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 215 | 53.09% | Buy | 111 | 51.63% |
| Hold | 97 | 23.95% | Hold | 45 | 46.39% |
| Sell | 93 | 22.96% | Sell | 24 | 25.81% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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