

FIN 580

Entrepreneurial Finance

Case: Valuing Peloton

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Peloton Interactive, Inc

- Peloton Interactive, a well-known venture-capital-backed unicorn in the connected fitness space, had gone public with a market capitalization of over \$8.0 billion.
- However, in the weeks following its public debut, Peloton's stock price had fallen by over 25%.
- Investors believed that connected fitness products were the future of exercise and had been excited about the prospect of investing in Peloton.

Peloton Interactive, Inc

- However, given the market's reaction to the company's IPO, investors understood the need to determine the fundamental value of Peloton's shares, as well as to identify and to evaluate the key risks associated with its innovative business model.
- Reflecting on the situation, we wondered if this is an opportunity to invest at a discount. Or, did market understand something we didn't?

Case Questions

- Is this an opportunity to invest at a discount?
- What are the key risks associated with its business model?

Is this an opportunity to invest at a discount?

- Overview of Peloton
 - ▶ Peloton is an interactive fitness platform with millions of members, offering connected, technology-enabled fitness classes that utilize its proprietary hardware
 - ▶ The Company's Connected Fitness products include the Peloton Bike, Bike+, Peloton Tread and Tread+
 - ▶ Peloton generates strong recurring revenue from its Members, who pay subscription fees to access Peloton's app or Connected Fitness products
 - ▶ The Company has been challenged by a series of execution errors; as a result, Q1 2022 revenue was down ~36% from the Company's peak in Q3 2021
 - ▶ Reference: Peloton pitch deck & investor presentations

Is this an opportunity to invest at a discount?



Is this an opportunity to invest at a discount?

The Peloton Bike Portfolio



Experience **Tried & tested:** Effective, fun, motivating cardio experience

Touchscreen Size 22" HD touchscreen

Audio System Rear facing speaker system

Resistance Control Manually controlled magnetic resistance

Adjustments Customizable settings; first generation locking system

Screen Adjustment 30° vertical tilt

Integration BLE, ANT+

Price Now \$1,895



Cardio+: Complement your cardio with strength, yoga and beyond through a dynamic swivel screen that lets you access a whole world of off-the-bike content

24" All glass, HD touchscreen

Built-in stereo soundbar and integrated subwoofer system

Digitally controlled magnetic resistance; Auto-Follow Target Metrics

Customizable settings; Refined ergonomic adjustment system






50° vertical tilt; 360° rotation for quick transitions from on-bike workouts to floor-based strength, yoga, stretching and more

Apple Watch, BLE, ANT+

\$2,495

Is this an opportunity to invest at a discount?

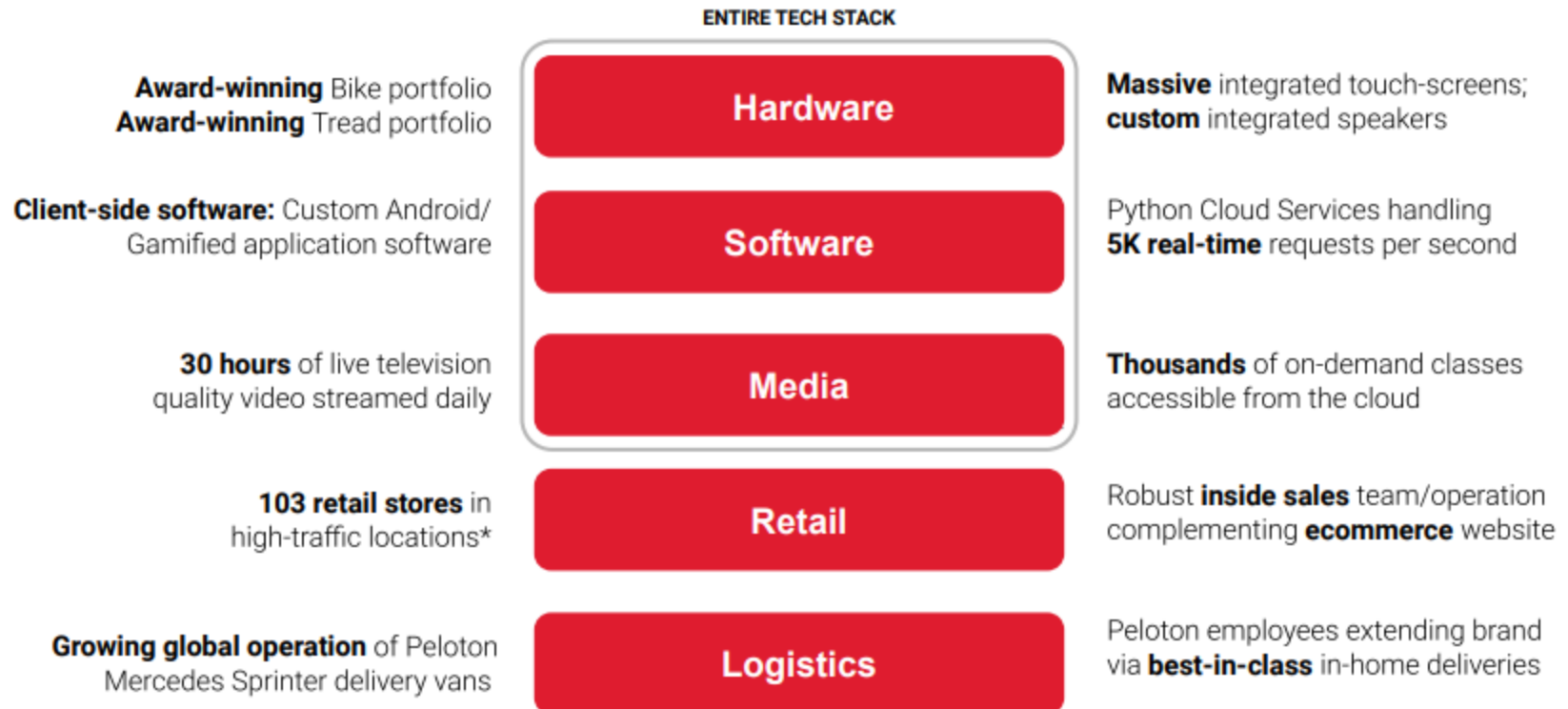
Global Digital Disruption

		DISRUPTED	DISRUPTOR
	Movies	~40,000 local and regional theater operators	Disney amazon HBO NETFLIX SHOWTIME Apple
	Video Games	~13,000 local and regional dedicated arcades	Microsoft SONY Nintendo Mobile
	Music	~3,300 independent record and CD stores	amazon Spotify pandora Apple
	Books	~38,500 local and national bookstores	amazon nook Apple
	Fitness	~36,500 health clubs and boutique fitness operators	PELOTON

Better experiences, more selection, and time-shifted consumption at a better location (home)...render brick and mortar locations inferior

Is this an opportunity to invest at a discount?

Unique Vertically Integrated Business



*As of 9-10-20

Is this an opportunity to invest at a discount?

- Market Size

- ▶ In U.S., the number of healthy club memberships exceeded 62 million and industry revenue \$32bn
- ▶ Globally, 183 million membership and \$100 bn revenue

Total Addressable Market Continues to Expand

Peloton Demographic: Households aged 18-70 with \$50k or more in household income (or equivalent)

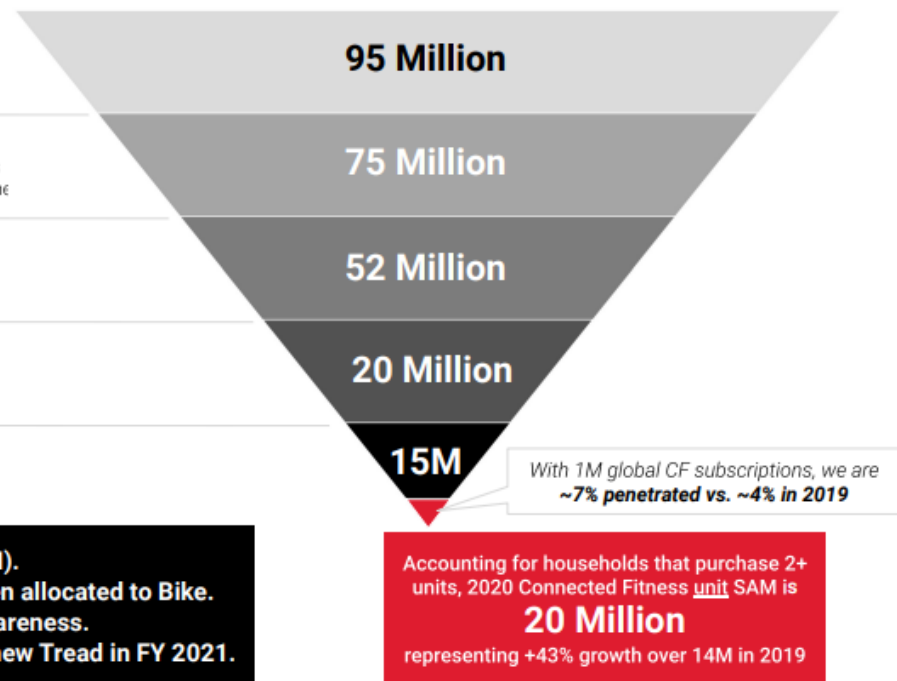
Peloton TAM: Households that may or may not be interested in purchasing a Peloton product today, but could be interested in the future. Defined as households with broadband internet and that own or are open to purchasing subscription fitness

Peloton interest: Households that express interest in learning more about at least one Peloton product **without seeing price**

Peloton Connected Fitness + Digital household SAM: Estimated households that are interested in purchasing one or more current Peloton products at current price

Peloton Connected Fitness household SAM: Estimated households that are interested in purchasing one or more current Peloton products at current pricing

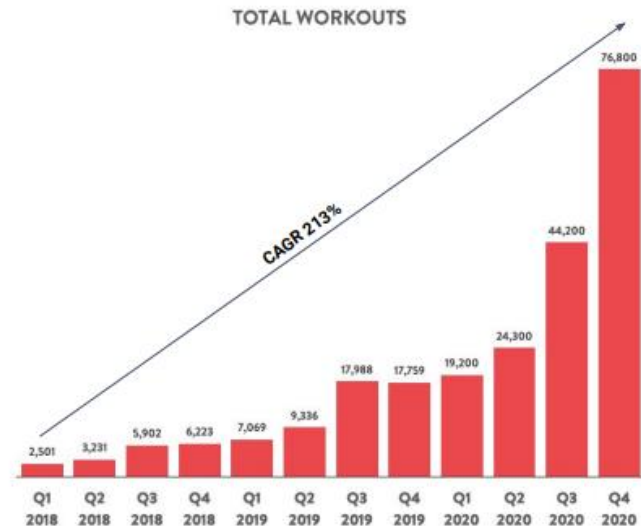
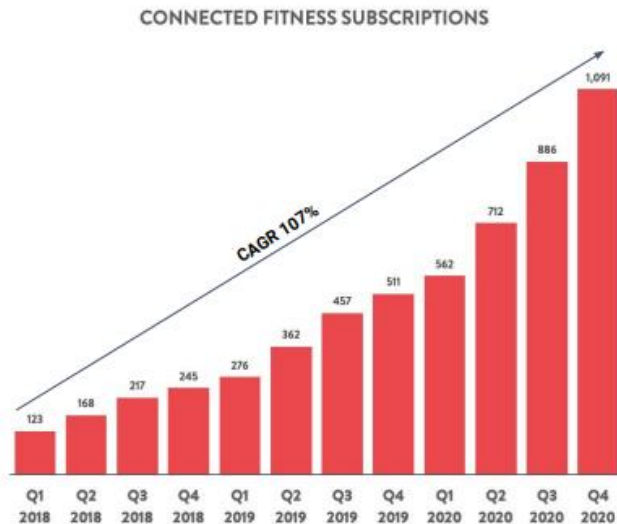
Brand and product awareness drives purchase intent (SAM).
To date, the vast majority of our advertising spend has been allocated to Bike.
Bike aided awareness is more than double Tread aided awareness.
We expect Tread SAM to grow significantly as we market new Tread in FY 2021.



Is this an opportunity to invest at a discount?

- Growth
 - ▶ Traditional gyms: 0.6% annual growth
 - ▶ Boutique fitness: 23% annual growth
 - ▶ Peloton's subscriber base continues to grow

Workout Growth Continues to Outpace Subscription Growth

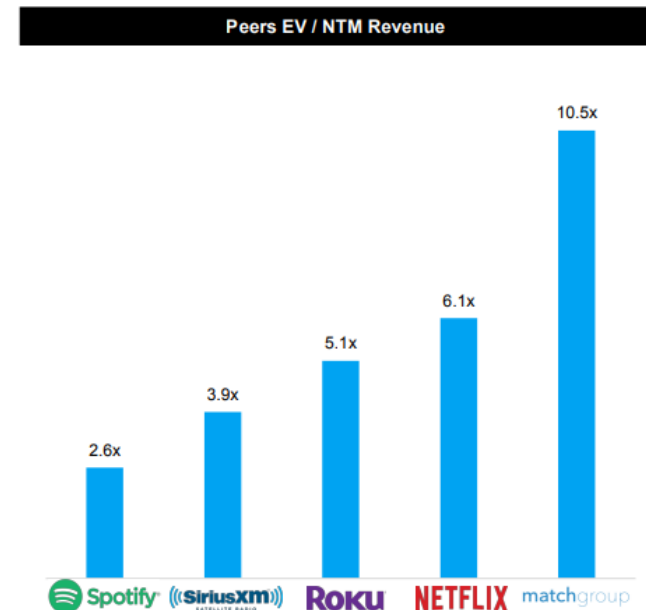
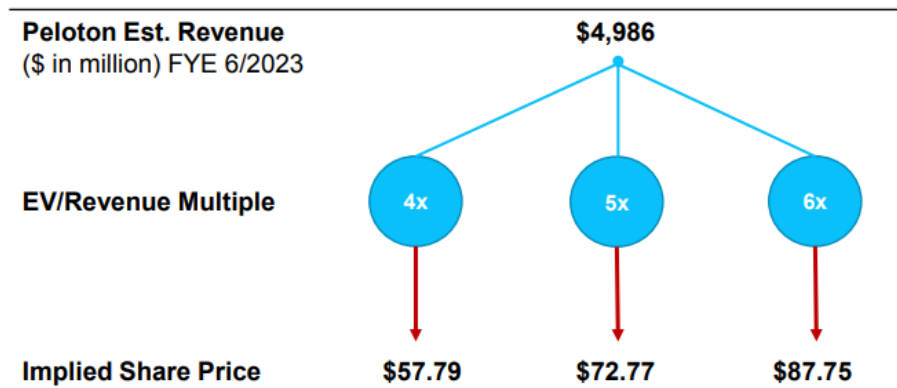


Is this an opportunity to invest at a discount?

- Is it an attractive business?
 - ▶ Large addressable market; early days for market penetration
 - ▶ Largest interactive fitness platform
 - ▶ Admired brand with top-ranked NPS scores
 - ▶ Recurring subscription-based revenue model with high incremental margins
 - ▶ Network effects from ecosystem and stickiness from “star” instructors
 - ▶ Highly engaged subscriber base with low churn
 - ▶ Multiple growth drivers, including unrealized pricing power
 - ▶ Significant intellectual property

Is this an opportunity to invest at a discount?

- Peloton is worth substantially more than its current stock price using Revenue multiples
- Peloton's peers currently trade at an average of 5.6x EV / NTM Revenue
- Applying a range of EV / Revenue on Peloton's FYE 6/30/23 expected revenue yields an implied price per share of \$57.79 - \$87.75



Key risks associated with its business model

- Abysmal current stock performance

Peloton Interactive Inc

\$8.69 ↓65.57% -16.55 5Y

Pre-market: \$8.69 (0.00%) 0.00

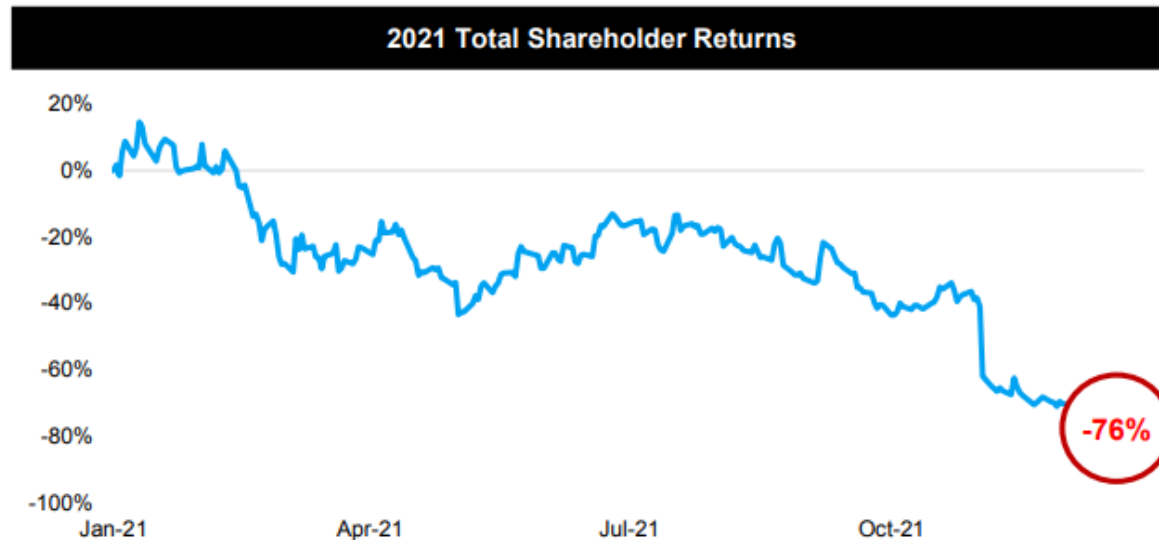
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1D 5D 1M 6M YTD 1Y 5Y MAX



Key risks associated with its business model

- Abysmal current stock performance



Enterprise Value	\$8,753 Million
Market Cap	\$8,043 Million
LTM Revenue	\$4,069 Million
LTM Adj. EBITDA	(\$99) Million
EV/LTM Revenue	2.2x
Employees (as of June 30, 2021)	8,976
LTM Revenue/Employee	\$453,342

Key risks associated with its business model

- Lack of Management Qualifications?
- Poor Decision Making?
- Lack of Financial Discipline?
- Misalignment of Interests?
- Loss of Credibility?

Key risks associated with its business model

- Lack of Management Qualifications?
- Poor Decision Making?
 - ▶ Product, pricing, demand, safety and capital allocation
 - ▶ Inconsistent go-to-market strategy
 - ▶ Accident involving Peloton Treadmill
 - ▶ Peloton bought troubled Precor for \$431 million and months later, admitted it was a mistake
 - ▶ Peloton signed a 15-year lease that totals more than \$450 million to be paid over the period

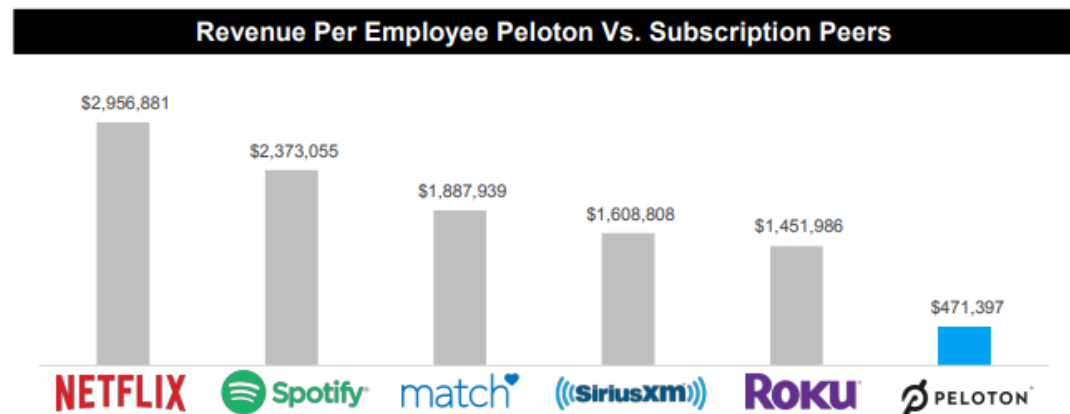
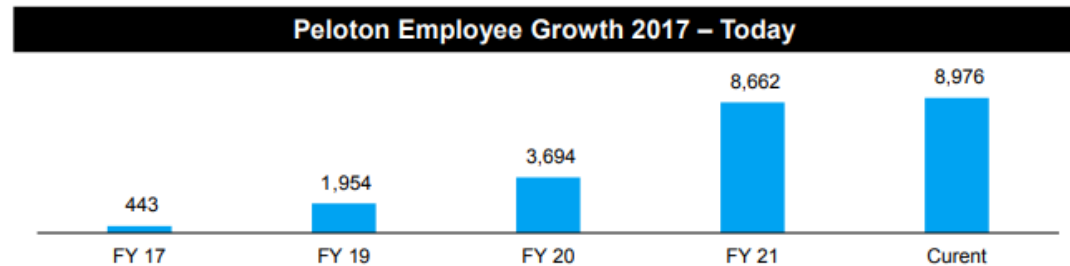
“What’s the optimal price point, \$1000?”¹



“I don’t know.” – John Foley

Key risks associated with its business model

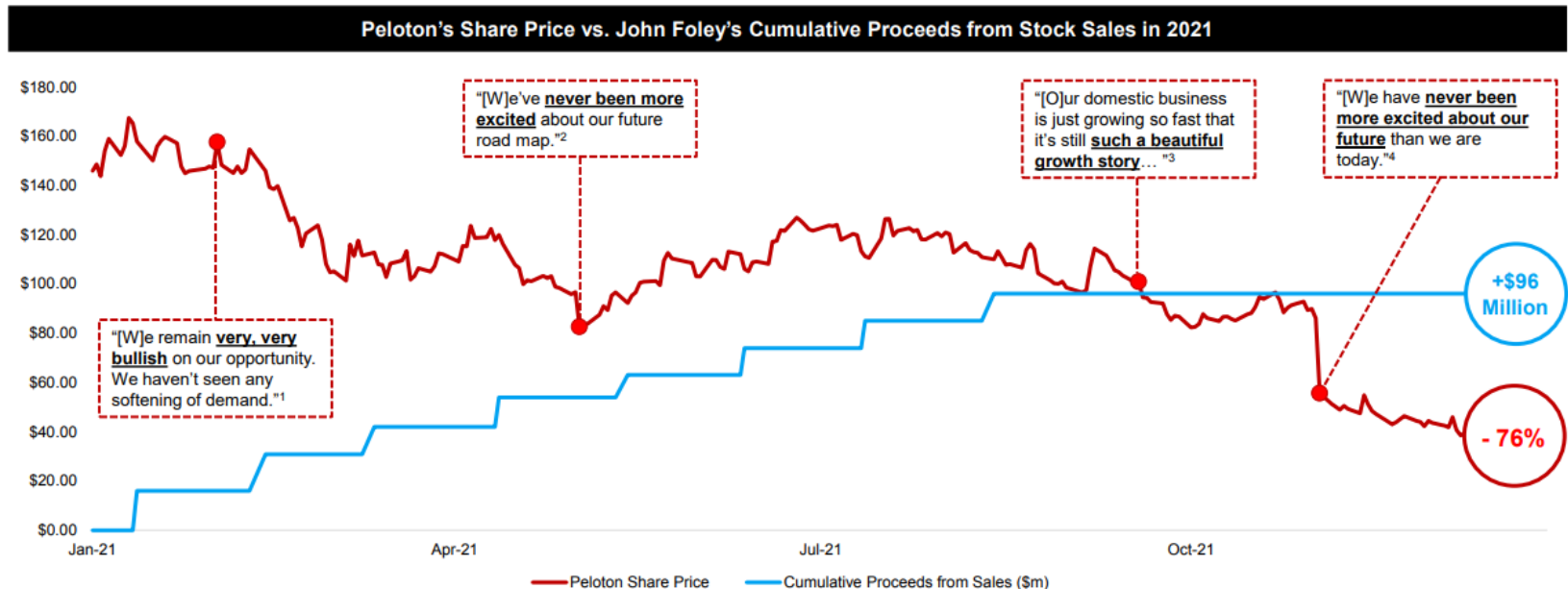
- Lack of Financial Discipline?
 - ▶ Lack of financial discipline and ineffective internal controls
 - ▶ Out-of-control employee and SG&A expenses reflect a lack of discipline



Key risks associated with its business model

- Misalignment of Interests?

- ▶ John Foley put his wife in charge of the Peloton apparel business
- ▶ Recent results in the apparel line have been disappointing and it appears internal projections have been cut
- ▶ Mr. Foley sold nearly \$100 million in Peloton shares in 2021



Key risks associated with its business model

- Loss of Credibility?
 - ▶ On Peloton's first quarter 2022 earnings call on November 4, 2021, CFO Jill Woodworth reiterated that Peloton did not need any additional capital.
 - ▶ Just twelve days later, on November 16, 2021, Peloton announced a new \$1.1 billion public stock offering
 - ▶ Peloton's stock declined to a new 17-month low on the news
 - ▶ Estimates of lofty growth are at odds with the current demand environment and further erode investor trust

Key risks associated with its business model

- Loss of Credibility?
 - ▶ Peloton has an overall Governance Quality Score of 9/10 and a 10/10, the worst score possible, for Shareholder Rights from ISS
 - ▶ Peloton's governance provides very few mechanisms to hold the Board accountable (e.g., dual class supervoting shares, no proxy access provision, classified board structure)

Should Board Consider A Sale of the Company?

- Peloton's board should compare the risk-adjusted standalone value to a sale
 - ▶ A stand-alone Peloton may not achieve its full potential given a stressed balance sheet and ongoing significant cash burn
- It will take years of operational restructuring, organizational redevelopment and positive results for the company to regain investor confidence and multiple expansion
- Peloton would be extremely attractive to several technology, streaming, media, metaverse and sportswear companies interested in extending into the rapidly growing health and wellness category

Should Board Consider A Sale of the Company?

Potential Acquirors Could Include

Types of Acquirers

Examples

Media and Content



VIACOMCBS



Technology and Devices



amazon

Google

Sporting Goods



Online Subscriptions

NETFLIX

