

Peloton Interactive: Growth Strategy

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JANUARY 2021

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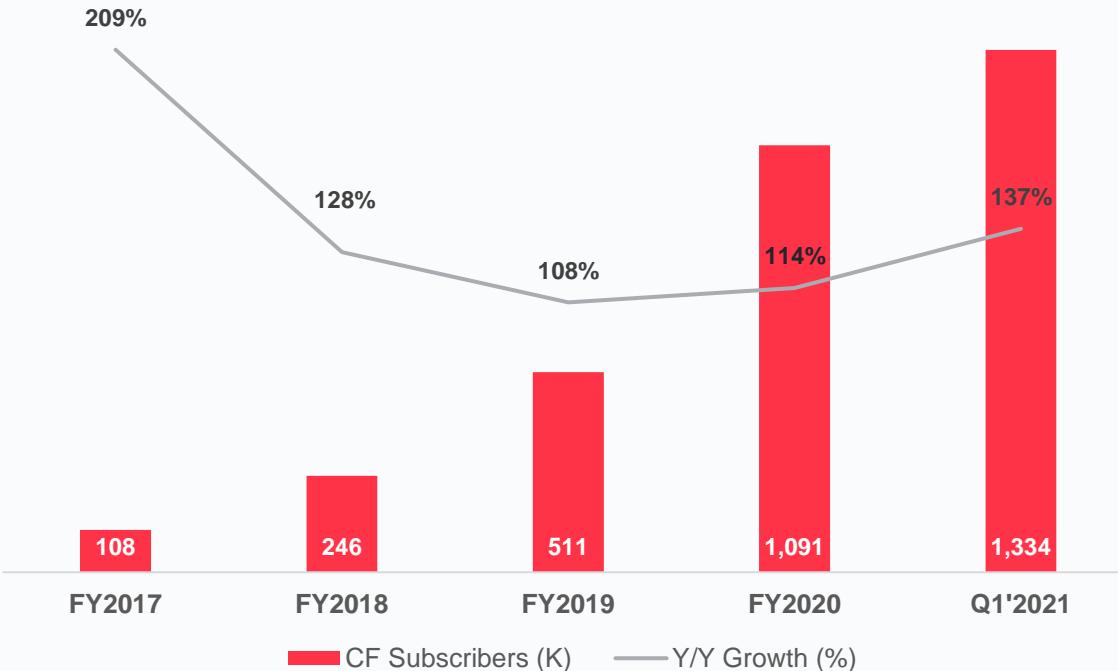
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Peloton's Success – Over the past several years, Peloton has seen extraordinary success growing and serving its customer base.

Peloton has been phenomenal at growing its subscriber base...



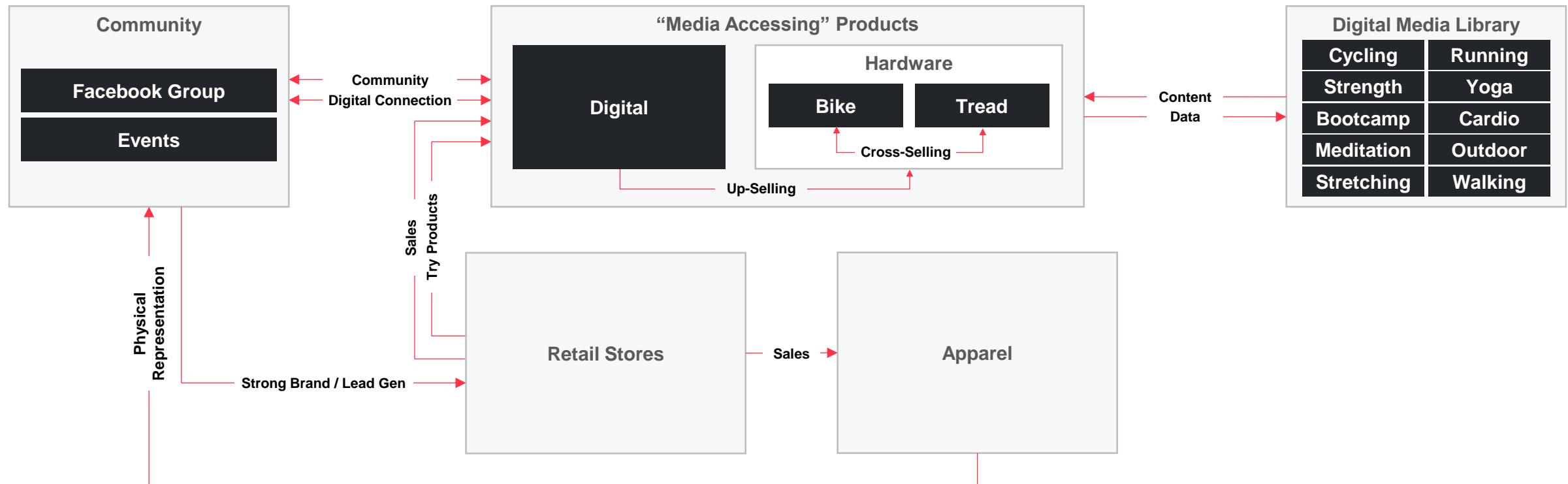
... and has had tremendous success delighting those subscribers.

94

NA BIKE OWNER NPS

Source:
Company data; Peloton November 2020 Investor Presentation

The Strategy – What makes Peloton successful is not just any one product, but rather a robust ecosystem.



The Task at Hand – Growth must be a priority to improve Peloton's leadership position through scale economies and network effects.

1. Economies of Scale

Scale helps Peloton generate operating leverage by spreading content creation costs over a large user base, improving subscriber economics.

2. Network Effects

Peloton's network effects will improve its value prop in areas like content production/curation and social networks that competitors cannot replicate due to the increasing relative scale.

3. Market Opportunity

Peloton has captured just 2% of the TAM and 9% of its SAM¹, leaving most of the market still up for grabs.

Growth Must Be The Priority

The quicker Peloton captures the remaining market opportunity and increases its relative scale, competitors will be increasingly disincentivized to make investments that would erode value for Peloton.

Source:

¹ TAM and SAM size from Peloton November 2020 Investor Presentation; Penetration updated with Q1 2021 numbers

Approach – In this presentation we identify, evaluate, prioritize, and roadmap the strategies that will catalyze subscriber growth.

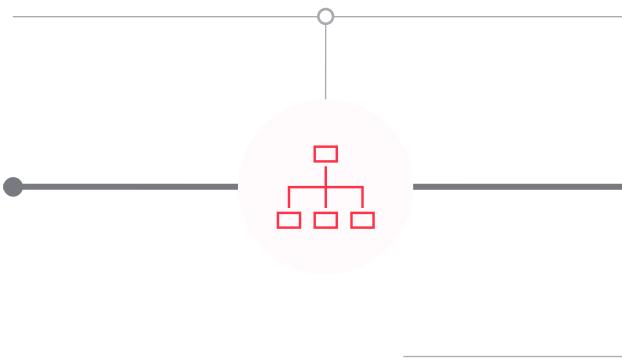
OBJECTIVE

Maximize Connected Fitness subscriber growth.

APPROACH

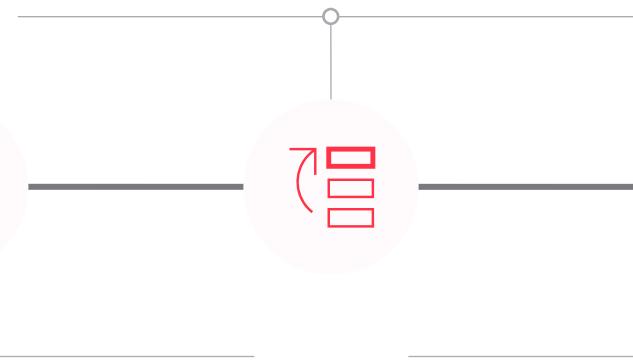
Structure.

Identify growth categories and associated growth levers.



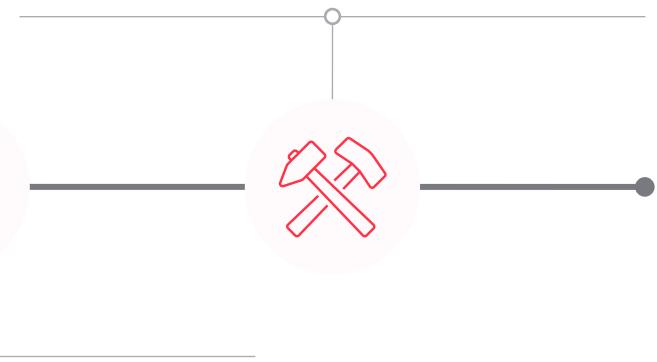
Prioritize.

Evaluate and score the opportunities against each other.



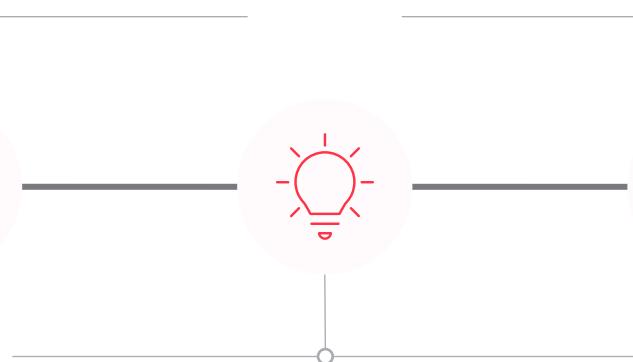
Plan, Build, and Scale.

Create the “unmade future” and turn ideas into reality.



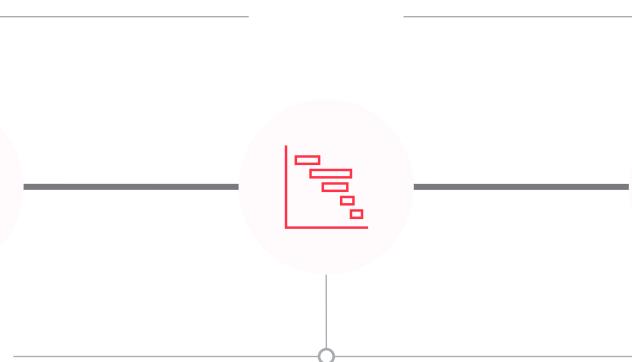
Ideate.

Propose different opportunities to grow the CF subscriber base.



Roadmap.

Sequence and timeline the prioritized opportunities.



Growth – Peloton can achieve growth by expanding TAM, expanding SAM, and increasing market penetration.

The Growth Framework: Peloton can increase its subscriber count by expanding TAM, expanding SAM, and increasing market penetration. To use an analogy, if your goal is to collect as much water as possible, you can benefit from sourcing the water from multiple oceans instead of a single pool (TAM expansion), using a larger bucket (SAM expansion), and scooping water out more frequently (market penetration increase).

Growth Categories

A. Total Addressable Market

Definition:

Households with broadband internet that own or are open to purchasing subscription fitness.

Expansion Analogy:

Getting water from multiple oceans instead of a single pool provides much more opportunity.

B. Serviceable Addressable Market

Definition:

Households that are interested in purchasing one or more current Peloton products at the current price.

Expansion Analogy:

Collecting more water is easier if your bucket is bigger.

C. Market Penetration

Definition:

Proportion of subscriber base to market size.

Expansion Analogy:

Dipping the bucket in the water more frequently collects more water.

TAM Expansion – To expand TAM, Peloton can educate current markets on the importance of fitness or operate in more markets.

A. Total Addressable Market

Definition: Households with broadband internet and that own or are open to purchasing subscription fitness.

Growth Levers

1 Getting more people to be open to purchasing a fitness subscription

Objective: Educate audiences about the benefits of fitness, health, and wellness and why they should care about fitness memberships.

2 Expanding the markets that Peloton operates in

Objective: Increase the household count by operating in more markets (i.e., international expansion).

SAM Expansion – To increase SAM, Peloton must increase the magnitude and scope of its value proposition relative to competitors.

B. Serviceable Addressable Market

Definition: Households that are interested in purchasing one or more Peloton products at the current price.

Growth Levers

1 Increasing the value Peloton offers

Objective: Deliver happiness through the intersection of fitness, health, & wellness results, entertainment, and community.

2 Increasing affordability of Peloton

Objective: Find ways to make Peloton more affordable to customers through business models and partnerships.

3 Expanding Peloton's suite of fitness offerings

Objective: Bring additional fitness SKUs to market to attract those that may not be interested in Bike or Tread specifically.

Market Penetration – To increase penetration, Peloton must acquire customers by establishing a phenomenal end-to-end sales funnel.

C. Market Penetration

Definition: Proportion of subscriber base to market size.

Growth Levers

1 Improving sales & marketing efficacy

Objective: Better leverage selling & marketing to improve lead generation and nurturing efforts.

2 Improving distribution channel efficacy

Objective: Increase the reach and effectiveness of distribution channels (i.e., e-commerce and retail) to convert customers.

3 Improving supply chain to meet demand

Objective: Improve manufacturing capabilities to be able to meet customer demand.

Largely addressed by the opening of Shin Ji in Taiwan and the US-based manufacturing that the Precor acquisition brings

Opportunities – Within the growth categories, Peloton has several opportunities to add connected fitness subscribers.

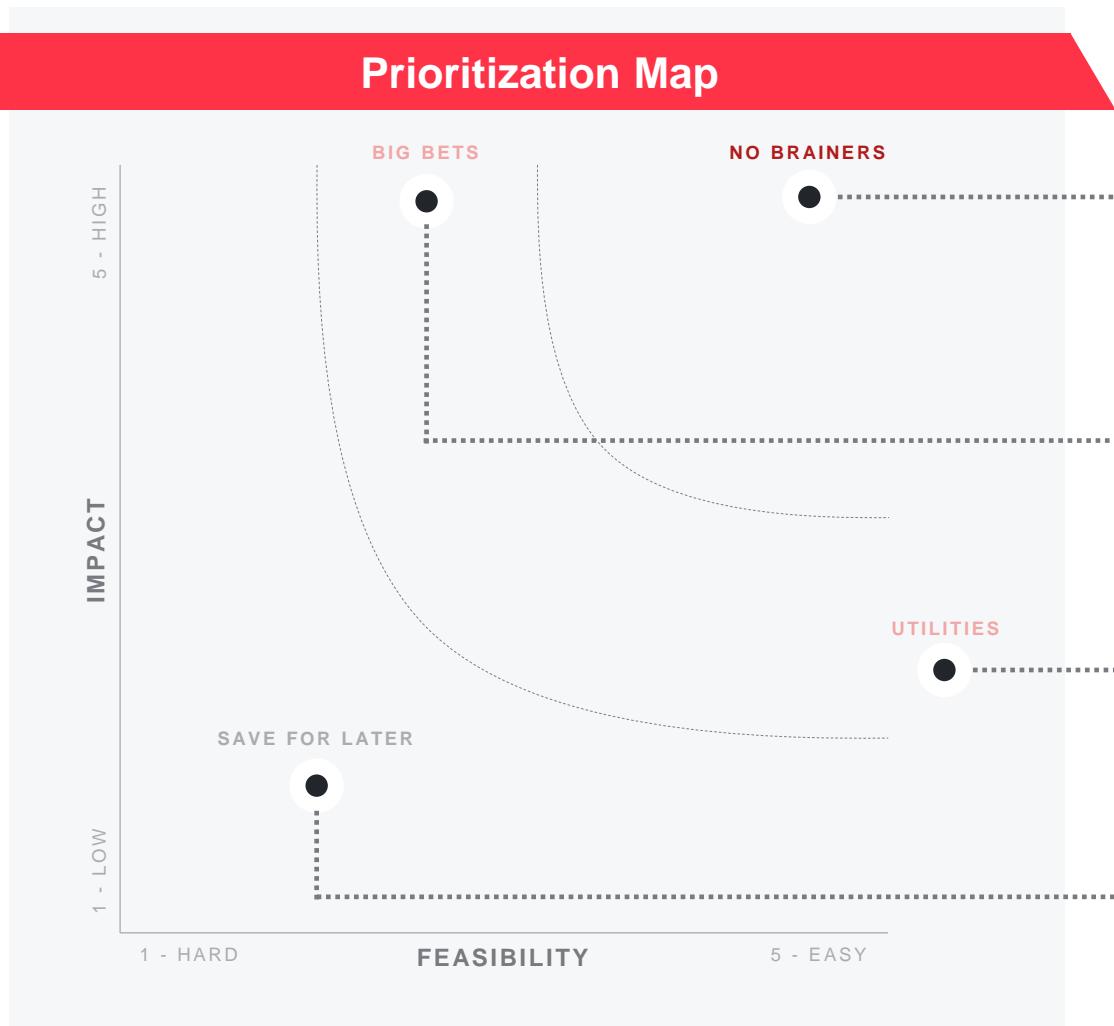
ID	Opportunity	Description	Growth Category	Growth Lever
1	Producing Spanish content	<i>Expanding language offerings to gauge international expansion value in Mexico & Spain</i>	▪ TAM Expansion	▪ Market Expansion
2	Producing French content	<i>Expanding language offerings to gauge international expansion value in France</i>	▪ TAM Expansion	▪ Market Expansion
3	Offering health and wellness analytics via wearable	<i>Offering analytics via wearable to grow into a broader fitness, health, and wellness player</i>	▪ SAM Expansion	▪ Increasing Value
4	Partnering with health insurers to subsidize memberships	<i>Increasing affordability of Peloton at no sacrifice via subsidizing health insurance partnerships</i>	▪ SAM Expansion	▪ Increasing Affordability
5	Refurbishing used hardware through a certified pre-owned (CPO) program	<i>Increasing affordability by selling used connected fitness products at a lower price point</i>	▪ SAM Expansion	▪ Increasing Affordability
6	Positioning a rower to create a reverse pyramid product portfolio	<i>Offering a rower to attract new market segments and provide a low-cost ecosystem entry point</i>	▪ SAM Expansion	▪ Increasing Affordability ▪ Expanding Offerings
7	Bringing connected strength and panel hardware to market	<i>Expanding hardware offerings beyond cardiovascular fitness</i>	▪ SAM Expansion	▪ Expanding Offerings
8	Having retail stores double as community hubs	<i>Offering in-person community options and improving conversion via better retail experiences</i>	▪ Penetration Improvement ▪ SAM Expansion	▪ Improving Distribution ▪ Increasing Value
9	Increasing selling & marketing spend / customer acquisitions costs	<i>Accelerating scaling efforts by increasing CAC, while preserving healthy overall economics</i>	▪ Penetration Improvement ▪ TAM Expansion	▪ Improving S&M Efficacy ▪ Fitness Education

■ TAM Expansion ■ SAM Expansion ■ Penetration Improvement

Prioritization Approach – To maintain focus, Peloton must prioritize these efforts according to their potential impact and anticipated feasibility.

Category	Criteria	Considerations	Low	Medium	High
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Peloton's strategic direction ▪ Contribution to CF subscriber growth ▪ Improvement to competitive positioning 	<ul style="list-style-type: none"> ▪ Inconsistent with Peloton strategy ▪ Minimal contribution to CF subscriber growth ▪ Minimal impact to competitive positioning 	<ul style="list-style-type: none"> ▪ Aligned with Peloton strategy ▪ Moderate contribution to CF subscriber growth ▪ Improves competitive positioning 	<ul style="list-style-type: none"> ▪ Aligned with Peloton strategy ▪ Significant contribution to CF subscriber growth ▪ Creates a competitive advantage
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	<ul style="list-style-type: none"> ▪ Minimal revenue impact ▪ Minimal CoR / OpEx efficiencies ▪ Minimal FCF efficiencies 	<ul style="list-style-type: none"> ▪ Moderate revenue impact ▪ Moderate CoR / OpEx efficiencies ▪ Moderate FCF efficiencies 	<ul style="list-style-type: none"> ▪ Significant revenue impact ▪ Significant CoR / OpEx efficiencies ▪ Significant FCF efficiencies
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	<ul style="list-style-type: none"> ▪ Does not require Peloton to undertake R&D / IP accrual ▪ Implementation does not impede business continuity ▪ Implementation does not require new competencies 	<ul style="list-style-type: none"> ▪ Requires Peloton to undertake some R&D / IP accrual ▪ Implementation causes minor disruption to business continuity ▪ Requires Peloton to build some new minor competencies 	<ul style="list-style-type: none"> ▪ Requires Peloton to undertake significant R&D / IP accrual ▪ Implementation causes a disruption to business continuity ▪ Requires Peloton to build new major competencies
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	<ul style="list-style-type: none"> ▪ Requires minimal investment to implement 	<ul style="list-style-type: none"> ▪ Requires moderate investment to implement 	<ul style="list-style-type: none"> ▪ Requires significant investment to implement

Prioritization Map – Mapping the opportunities groups the opportunities by risk-reward profile, providing better relative understanding.



NO BRAINERS

Opportunities that will deliver **tremendous impact** to the business **without significant risk**.

BIG BETS

Opportunities that carry some **risk** and **degree of uncertainty** but can also deliver **tremendous impact**, resulting in an **attractive risk-reward profile**.

UTILITIES

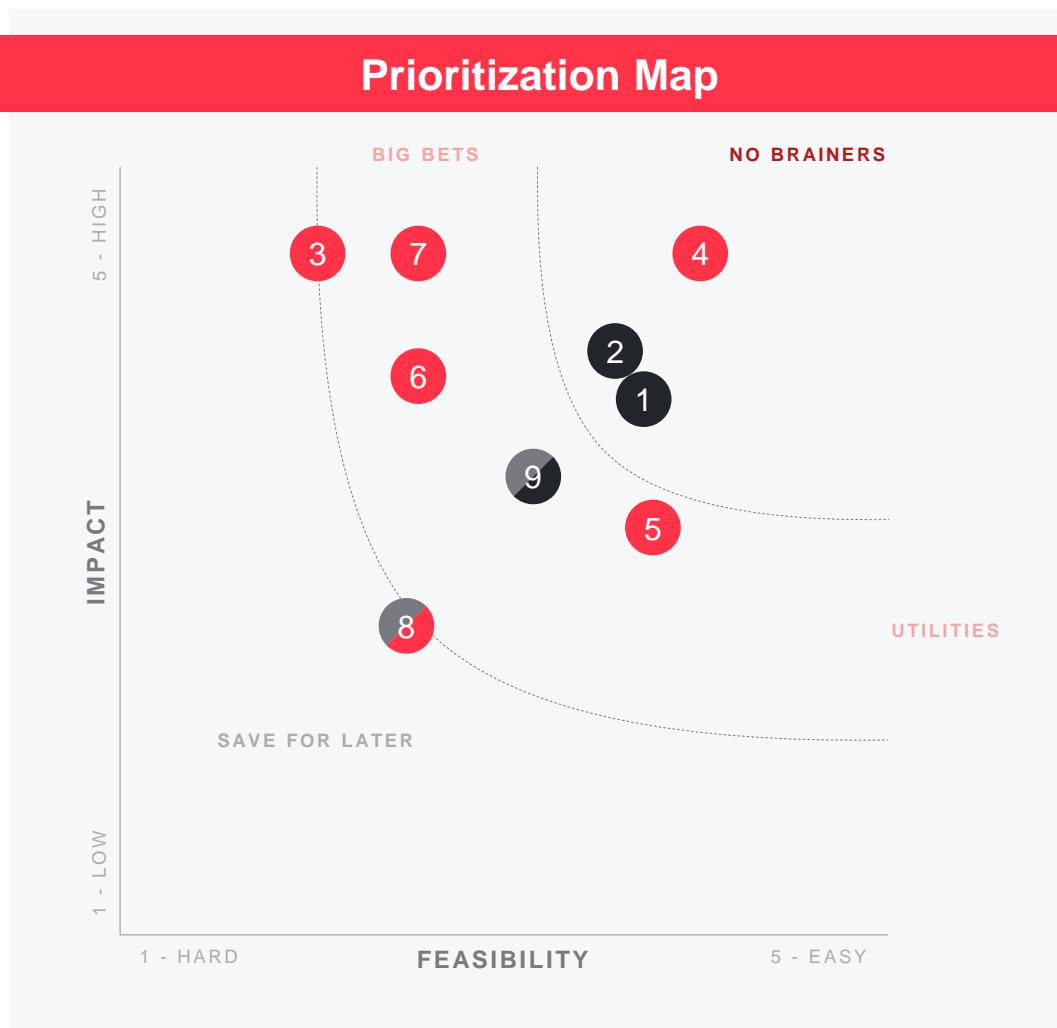
Low hanging fruit that can provide “**quick and easy wins**” for the business.

SAVE FOR LATER

Interesting opportunities that **are not a good fit** with current business priorities and contexts **at present**.

■ TAM Expansion ■ SAM Expansion ■ Penetration Improvement

Prioritization Results – Peloton's highest ranked opportunities are health insurer partnerships, strength hardware, and language expansion.



Note:

Full scoring breakdown available in the Appendix

■ TAM Expansion ■ SAM Expansion ■ Penetration Improvement

Roadmap – With opportunities prioritized, Peloton can roadmap the opportunities to stagger resource allocation.

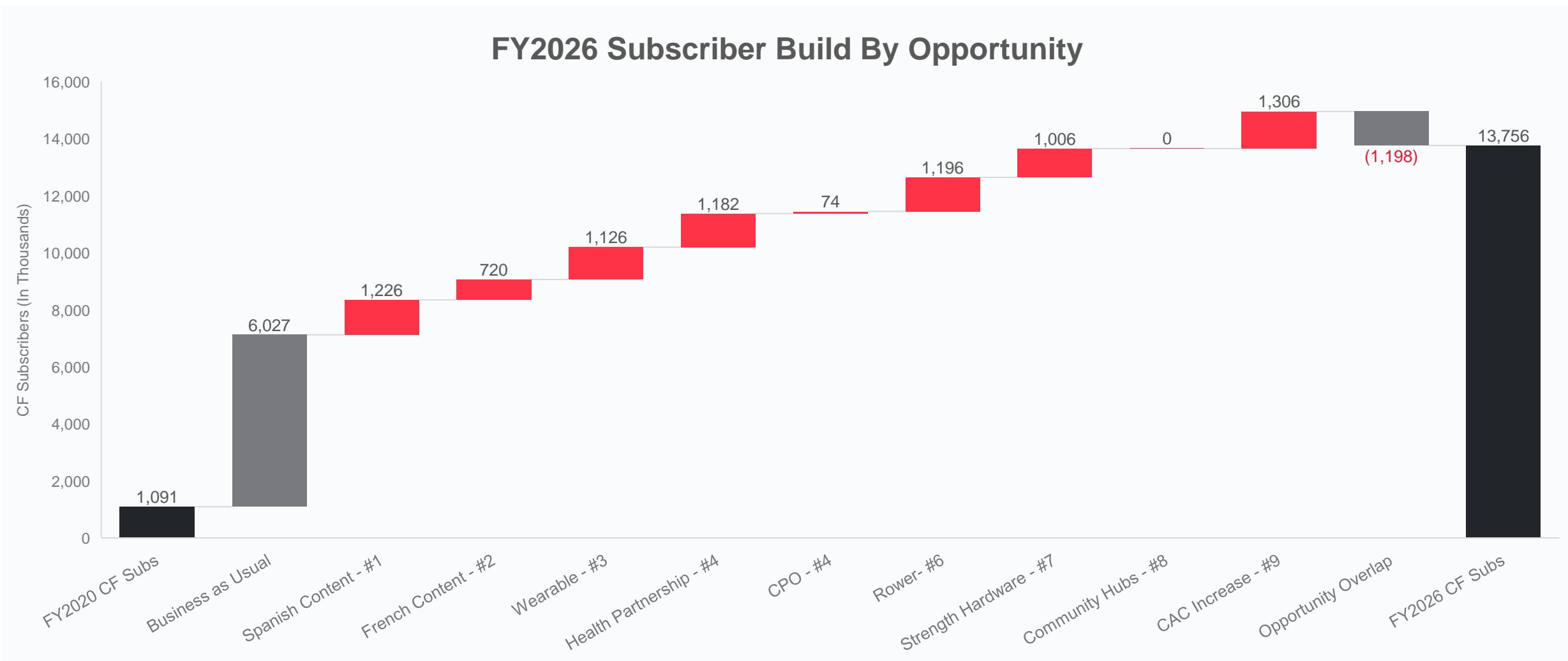
ID	Opportunity	Impact / Feasibility	Function	FY2021		FY2022				FY2023				FY2024			
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Producing Spanish content	4.0 / 3.6	• International	Plan	Build	Scale											
2	Producing French content	4.0 / 3.6	• International	Plan	Build	Scale											
3	Offering health and wellness analytics via wearable	4.6 / 2.0	• Product • R&D	Plan	Build	Scale											
4	Partnering with health insurers to subsidize memberships	4.6 / 4.2	• Strategic Partnerships	Plan	Build	Scale											
5	Refurbishing used hardware through a CPO program	4.0 / 3.6	• Logistics • IT	Plan	Build	Scale											
6	Positioning a rower to create a reverse pyramid product portfolio ¹	4.0 / 2.6	• Product • R&D	Build	Scale												
7	Bringing connected strength and panel hardware to market	5.0 / 2.6	• Product • R&D	Plan	Build	Scale											
8	Having retail stores double as community hubs	2.6 / 3.0	• Retail • Membership	SAVE FOR LATER													
9	Increasing selling & marketing spend / customer acquisitions costs	4.0 / 3.2	• Sales and Marketing	Plan	Build	Scale											

JUNE 30, 2021 JUNE 30, 2022 JUNE 30, 2023 JUNE 30, 2024

Note:

¹ Assumes Peloton has been working on a rower, completing “Plan” and halfway through “Build”; If this is an incorrect assumption, then Peloton should prioritize strength hardware and a wearable

Potential Results – The roadmap has the potential to bring in over 6M CF subscribers above and beyond business as usual by end of FY2026.



Source:
Company data; Ian's high-level estimates

Note:

- Spanish Content and French Content assume hardware expansion into Mexico, Spain, France, Switzerland, and Belgium in FY2023, FY2024, FY2024, FY2025, and FY2026, respectively.
- Full financial model available [here](#)

Key Takeaways – Peloton wins by sticking to its core values, being patient as it expands its reach, and executing exceptionally well.

- Peloton's priority should be **growth** to take advantage of and improve its **leadership position** and the scale economies and network effects that come with it.
- To grow, Peloton can pull on the different levers associated with **TAM expansion**, **SAM expansion**, and **increased market penetration**.
- The most promising opportunities are ones that provide the market with **more and better access** to Peloton and double down on Peloton's core principle that **connected fitness hardware improves fitness, health, and wellness experiences**.
- While there are many exciting opportunities, Peloton must be **patient** enough to roadmap the opportunities to **avoid spreading too thin**.
- Peloton should view this as a **starting point** and be **nimble** enough to alter the strategy and roadmap as business priorities and competitive landscapes **evolve**.
- Everything here merely sets the stage for **potential value creation** - without **exceptional execution**, these opportunities will not yield meaningful results for Peloton.

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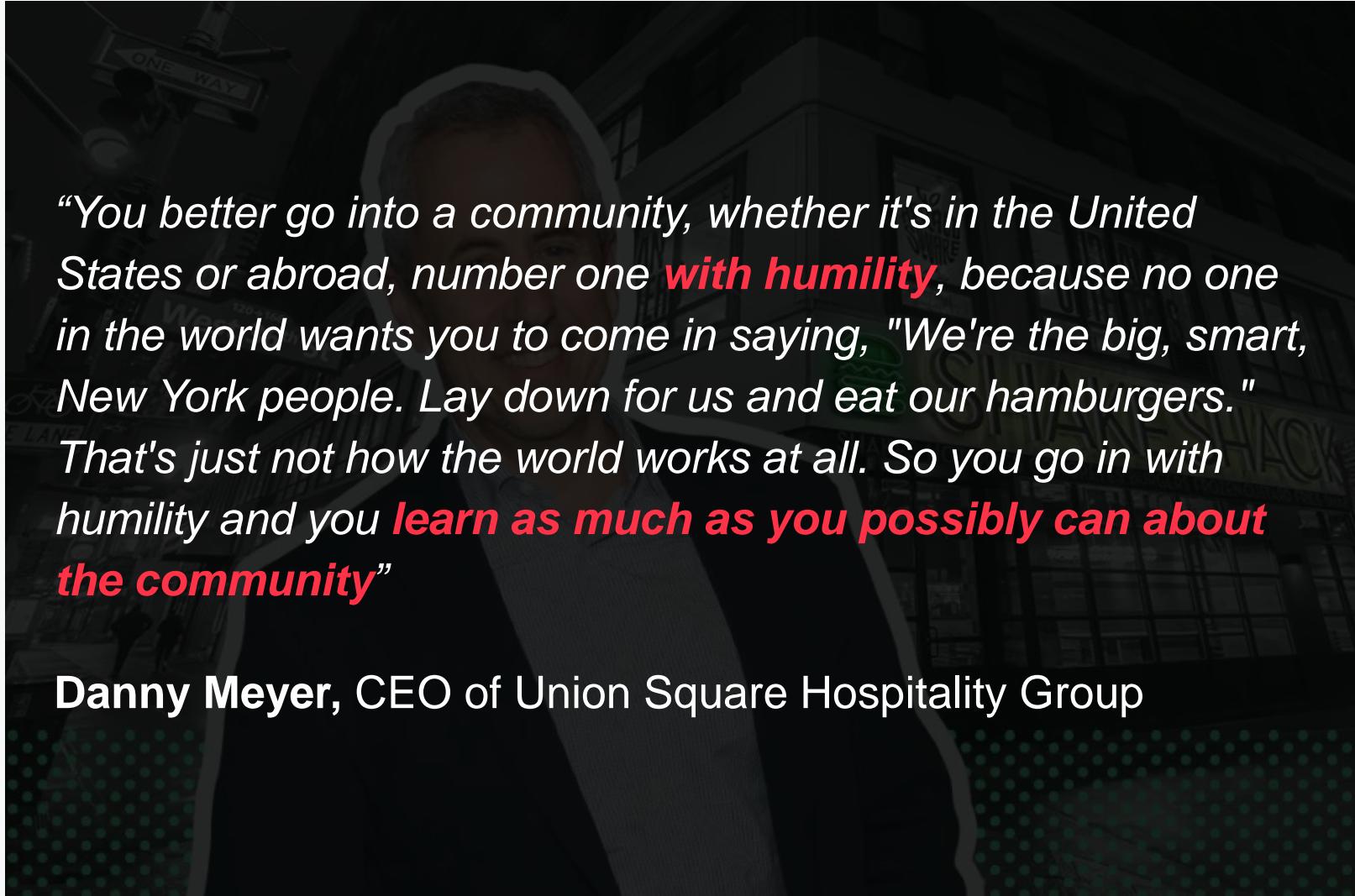
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A Lesson from Shake Shack – The last thing that the world wants is Americans telling them how to think about exercising and lifestyle.



*"You better go into a community, whether it's in the United States or abroad, number one **with humility**, because no one in the world wants you to come in saying, "We're the big, smart, New York people. Lay down for us and eat our hamburgers." That's just not how the world works at all. So you go in with humility and you **learn as much as you possibly can about the community**"*

Danny Meyer, CEO of Union Square Hospitality Group

Source:

Danny Meyer on the Invest Like the Best Podcast, December 2020

Scaling a Culture – Peloton's edge, offering more than just workouts, makes scaling a more deliberate, thoughtful, and intensive process.



[John Foley at Recode's Code Commerce event in 2017](#)

*Peloton launching in Canada, the UK, and Germany proposes an exciting opportunity to grow the TAM, but it must **be careful in approaching expansion because Peloton offers much more than fitness experiences** - it also offers community and even ritual, spirituality, reflection, and lifestyle. It is not only scaling a fitness platform but is also attempting to **scale its culture across many different cultures**.*

1. Invest the time to **build trust and integrate into the culture** instead of pursuing rapid, mass-scale expansion.
2. Be **thoughtful in international expansion** because entering a new market can take a lot of time, energy, and resources to do successfully.

A Language-First Approach – Peloton must find expansion opportunities where the investment is right-sized for the opportunity.

Two Fundamental Questions

1. How much investment would this require?
2. How much opportunity for growth is there?

A De-Risked Approach For Answers

*To understand where the best opportunities are, Peloton should **test markets by expanding its Digital language offerings.***

*This de-risks international expansion significantly for Peloton as it allows them to **gauge a market's receptiveness without the upfront costs** that come with establishing a physical presence (retail stores, warehouses, delivery vans, service capabilities, etc.).*

The Spanish Opportunity – Spanish content will help position Peloton to not only expand but also grow in core markets.



EXPANSION MARKET
Spain

KEY FEATURES

- Spain is the fourth largest fitness market in the EU at €2.5B in annual fitness revenue¹.
- If the market is receptive, Peloton can leverage some of the existing physical infrastructure like the London studio to more easily stand-up operations.



CORE MARKET
U.S. Spanish Speaking Households

KEY FEATURES

- In the United States, there are 8.7M Spanish speaking households that earn more than \$50K², representing a ~9% increase in Peloton's target demographic.
- This is a core market, requiring minimal additional investments beyond content.



EXPANSION MARKET
Mexico

KEY FEATURES

- Mexico has a \$2.1B health club market.
- Peloton could leverage the New York studio and its North American distribution infrastructure to carve out opportunity.

Source:

¹ See appendix for European market breakdown

² data.census.gov

Scoring – Peloton can expand its TAM by offering Spanish content, setting up international expansion in Mexico and Spain.

ID	Opportunity	Description	Growth Category	Growth Lever
1	Producing Spanish content	<i>Expanding language offerings to gauge international expansion value in Spain & Mexico</i>	<ul style="list-style-type: none"> TAM Expansion 	<ul style="list-style-type: none"> Market Expansion
Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> Enablement of Peloton's strategic direction Contribution to CF subscriber growth Improvement to competitive positioning 	4	<ul style="list-style-type: none"> Provides Peloton access to a new set of customers in both new and existing markets Stepping stone to a full connected fitness product roll out by country Drives CF subscriber growth in core markets
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> Revenue impact Cost of Revenue & OpEx efficiencies FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> Drives subscriber growth and connected fitness product sales
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> Amount of R&D / new IP required Disruption to business continuity Competencies needed to develop 	3	<ul style="list-style-type: none"> Requires production of content in new languages, which requires finding new instructors Requires understanding cultural resonance, which may be difficult since languages span many markets
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> Cost of implementation 	4	<ul style="list-style-type: none"> Only requires the development of new content Can leverage the New York and London studios, reducing costs

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The French Opportunity – Like with Spanish, French content will help Peloton not only expand but also grow in core markets.



EXPANSION MARKET
France

KEY FEATURES

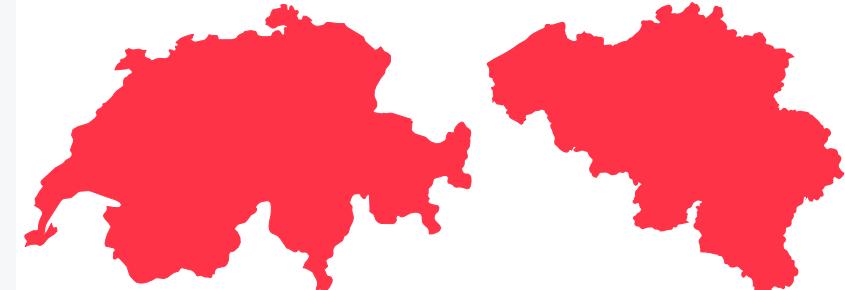
- France is the third largest fitness market in the EU at €2.6B in annual fitness revenue¹.
- If the market is receptive, Peloton can leverage some of the existing physical infrastructure like the London studio to more easily stand-up operations.



CORE MARKET
Canada

KEY FEATURES

- In Canada, there are 7.3M French native speakers² (~22% of population), offering the opportunity to drive demographic expansion.
- This is a core market, requiring minimal additional investments beyond content.



EXPANSION MARKETS
Switzerland and Belgium

KEY FEATURES

- ~60% of the Swiss population speaks German and ~20% speak French (~6.4M in total) and there are approximately 4.5M French native speakers in Belgium (~40% of population)³.
- If the market is receptive, Peloton can leverage some of the existing physical infrastructure like the London studio to more easily stand-up operations.

Source:

¹ See appendix for European market breakdown

² Statistics Canada

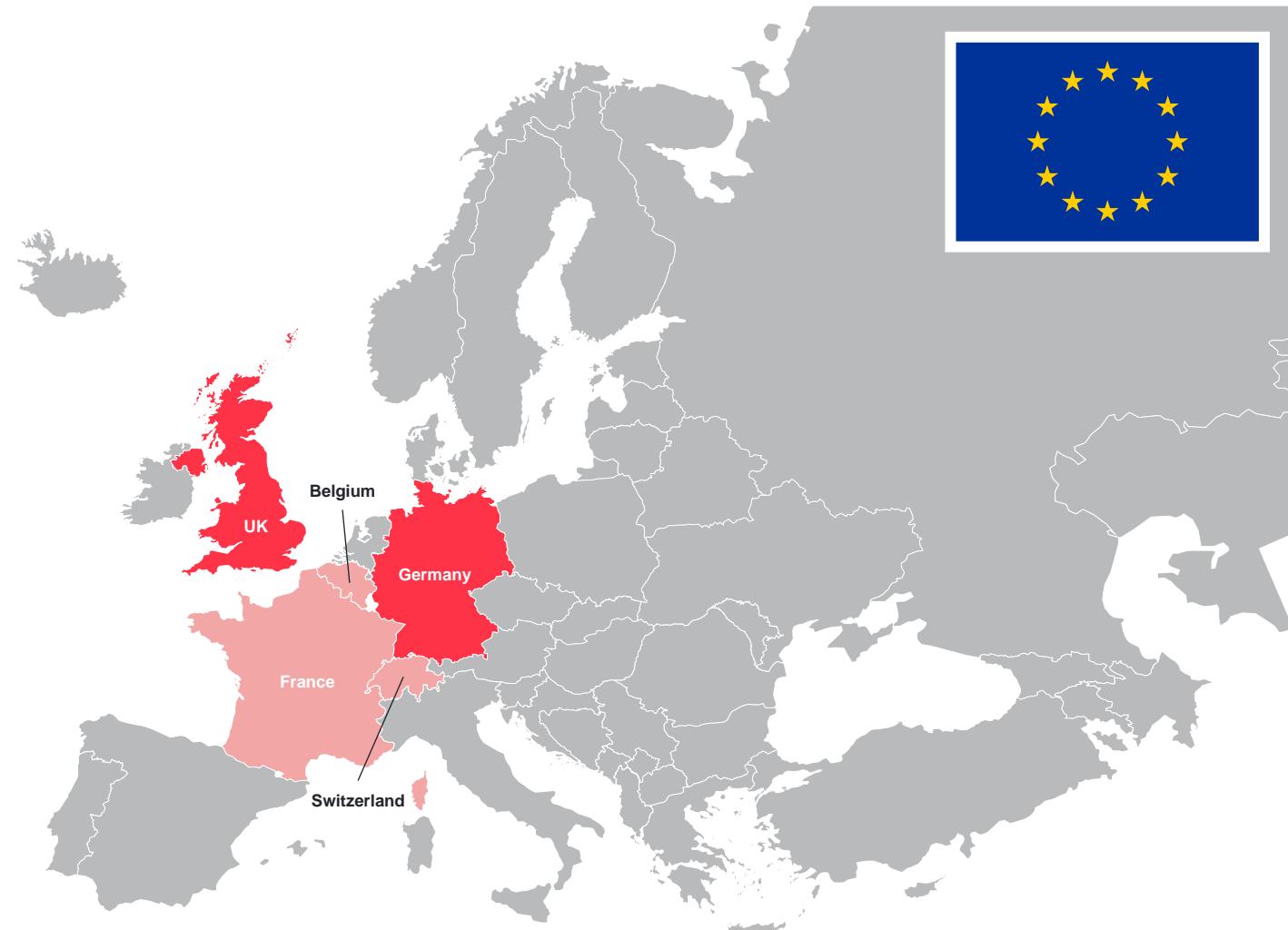
³ data.census.gov

Proximity – France, Switzerland, and Belgium are natural extension points to realize physical footprint synergies due to geographical location.

*Expanding into France, Switzerland, and Belgium are **merely an extension effort**.*

Peloton can leverage the London studio and major distribution centers, as well as extend its last-mile delivery network, rather than build one from scratch.

*Furthermore, France is a good **intermediary step** before expanding into its neighbor Spain.*



Scoring – Peloton can expand its TAM by offering French content, setting up international expansion in France, Switzerland, and Belgium.

ID	Opportunity	Description	Growth Category	Growth Lever
2	Producing French content	<i>Expanding language offerings to gauge international expansion value in France</i>	<ul style="list-style-type: none"> TAM Expansion 	<ul style="list-style-type: none"> Market Expansion
Category	Criteria	Considerations	Score	Rationale
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The Opportunity – Peloton can play a larger role in its members' lives by becoming a true 24-Hour health and wellness partner.

**Health and
wellness is a 24-
hour activity.**

Peloton provides phenomenal health and wellness experiences; however, a member's time is mostly spent away from Peloton Digital, Bike, and Tread.

Short-Term Solutions – Peloton's heart rate monitor and Apple GymKit are not long-term solutions for Peloton.



Peloton Heart Rate Tracker

The heart rate monitor that Peloton currently sells is only worn during workouts and thus is of no value for members when away from Peloton products.

And it isn't even included with the subscription!



Apple GymKit Integration

Apple GymKit is a step in the right direction, but this is not the best long-term solution for Peloton as:

- Peloton still doesn't get access to the data when away from a Peloton;
- they are limited in the analytics they can run because Apple owns the data;
- not everyone has an Apple Watch, so this value proposition only applies to a select few;
- this is not a Peloton offering, it's an integration, so this will not meaningfully drive sales for Peloton

Lessons from WHOOP – A long term solution demonstrates value, provides motivation, and offers data on good workouts for all members.

RESULTS ORIENTED

After only 4 months, WHOOP members improved significantly across these categories.



REDUCED RHR
Reduce Resting Heart Rate (RHR)
by 4.4 BPM



INCREASED HRV
Increase Heart Rate Variability
(HRV) by 8 milliseconds



BETTER SLEEP
Dedicated an additional 41 minutes to sleep per night



FEWER INJURIES
Experienced injuries 60% less often



LESS BOOZE
Consumed alcohol 79% less often before bed



SMOOTHER TRAVEL
Minimized the symptoms of exhausting travel

WHOOP's Demonstration of Results

In this spirit, wearable company WHOOP provides analytics on its members' sleep quality, recovery, and strain — how your body is reacting to things like stress, travel, and work.

The company can demonstrate health improvements across various metrics like resting heart rate. Bear in mind that WHOOP has done this just by *tracking* metrics.

What if Peloton could complement workout experiences with such metrics?

Peloton, which would have the capability to track biometrics and offer fitness activities, could deliver even better outcomes and increase consumption of content as members will be further motivated to improve their health.

Health & Wellness Analytics – By offering health and wellness analytics, Peloton provides around the clock health and wellness services.

A Peloton Wearable

Offering a wearable allows Peloton to provide 24-hour value to members through health and wellness analytics. In addition to highly entertaining workout experiences, a wearable gives Peloton tangible proof of health results.



Qualitative Results

"I feel great – my Peloton bike was a great purchase!"



Qualitative Results

"I feel great – my Peloton bike was a great purchase!"

AND



Quantitative Results

"I've lowered my resting heart rate by 4 bpm thanks to 200 Peloton workouts this year!"

The Elephant In the Room – Apple has a leading market share of the wrist, but forgoing a wearable limits Peloton's potential.

Apple and the Apple Watch: Skeptics would cite Apple's increasingly dominant ownership of the wrist and focus on health as a deterrent to a Peloton wearable. However, many Peloton users are not wearing an Apple Watch, but more importantly ***the Apple Watch limits Peloton's potential as a health player***. Blocking this expansion area reduces Peloton to the fitness hardware space. Peloton can still be a successful company just in this space, but the health opportunity is much larger. Peloton is taking the fitness world by storm, but ***is Peloton's ambition great enough?***



Apple Watch Usage

- The Apple Watch is regarded as a highly successful product, so much so that some people might argue that Apple "owns the wrist". But while the Watch has had tremendous commercial success, does that eliminate opportunity for Peloton to put out a wrist wearable or even any wearable?
- It is estimated that 35% of iPhone owners wear an Apple Watch¹. With a ~50% market share of phone shipments in the US², approximately 17.5% of the US population is wearing an Apple Watch. Even if a Peloton member is 3x more likely to own an iPhone, half of users are not wearing an Apple Watch.



Apple Watch's Influence

- The Apple Watch limits Peloton's potential as a health player. Blocking this expansion area reduces Peloton to the fitness hardware space.
- That's not to say that Peloton cannot still be a very successful company in the fitness hardware space, differentiating with phenomenal media experiences, but it's a smaller pie and its moat is not as deep. Apple already has its eyes peeking at the fitness content space with Fitness+.
- While Peloton does not have to defeat the Apple Watch, it does help that the product can be focused on just health and wellness.



The Health Opportunity

- Peloton's mission is to turn people into the best version of themselves. In the short-term, this means being fit, so they can take on bigger and better challenges. However, in the long-run, what helps people be the best version of themselves is good health. This is tied to fitness, but the difference is nuanced.
- By focusing on health, Peloton can better develop a long-term relationship with members and serve as a health and wellness partner.
- Peloton is taking the fitness world by storm, but is its ambition great enough?

Source:

¹ [Above Avalon](#)

² [Counterpoint Research](#)

Conversion – Health and wellness analytics would not only bring in net-new customers, but also convert “hidden” Peloton users into members.

As of June 30, 2019, we had over 1.4 million Members and the average Connected Fitness Subscription was used by 2.0 Members.

Net-New Subscribers

A further differentiated and better value proposition will improve market penetration.



Member to Subscriber Converts

Some Peloton bikes are shared by many. By adding benefits beyond the bike, Peloton can convert these members into subscribers.



Tremendous Opportunity

Peloton's Options – An R&D acquisition is optimal to increase speed to market and avoid overpaying for the target company's user base.

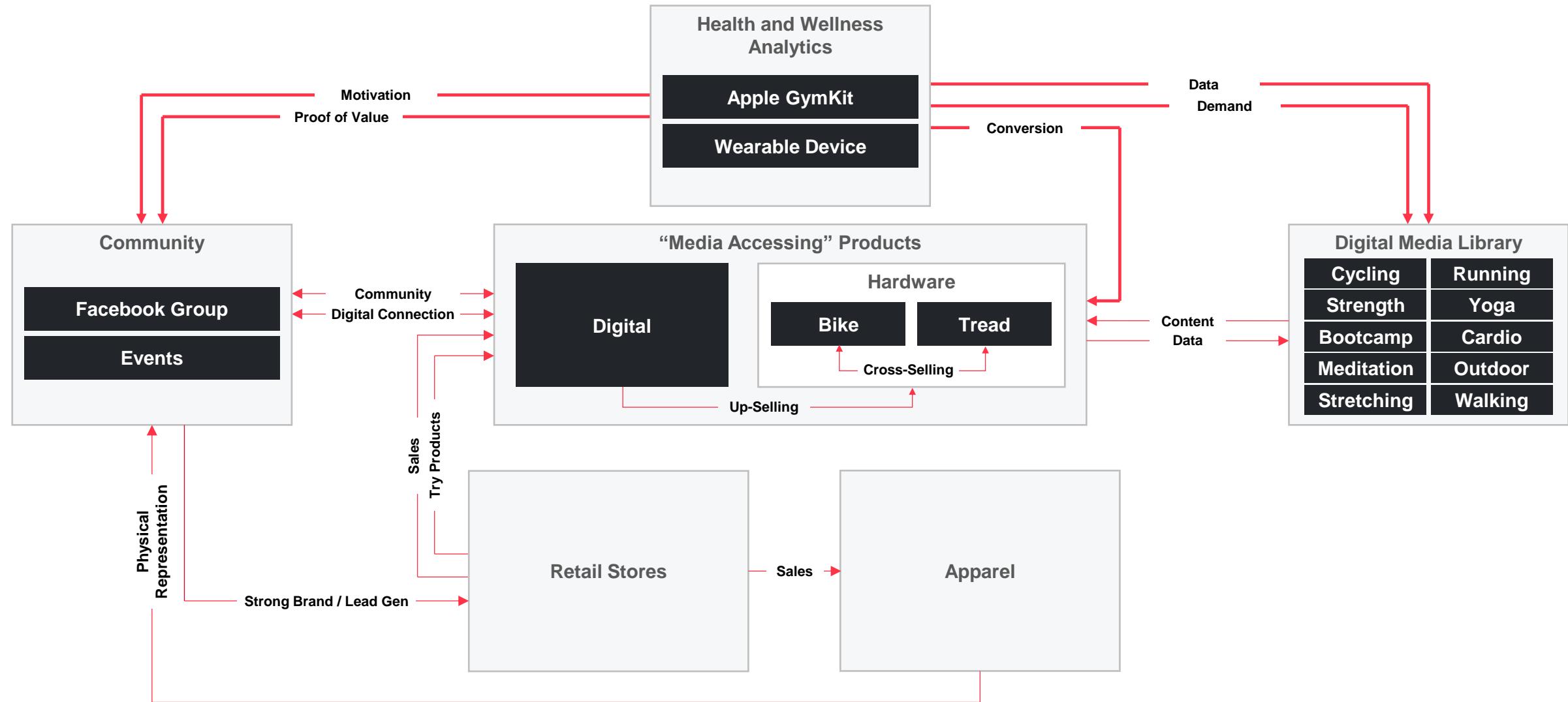


Recommended Choice				
	PELTON® RESEARCH AND DEVELOPMENT	R&D Acquisition	WILHOOP®	OURA
Pros	<ul style="list-style-type: none"> • Cheaper investment cost • Fit for purpose development 	<ul style="list-style-type: none"> • Does not pay a premium for users – Peloton has distribution covered. • Speeds up time to market with biometric R&D capabilities and IP • GTM flexibility 	<ul style="list-style-type: none"> • Strong customer base • Emphasis on sleep, recovery, and strain to optimize training recommendations can pair well with Peloton content recommendations 	<ul style="list-style-type: none"> • Less competitive with the Apple Watch as the wearable is located on a finger
Cons	<ul style="list-style-type: none"> • Slower time to market • Execution risk, given capability doesn't exist internally 	<ul style="list-style-type: none"> • Target may be difficult to identify – Peloton must pursue in-house R&D in the meantime. 	<ul style="list-style-type: none"> • Large investment cost • Premium paid for users 	<ul style="list-style-type: none"> • Contrarian wearable location could potentially present biometric limitations • Premium paid for users
NPV / IRR	\$488M / 32%	\$732M / 39%	(\$31M) / 10%	\$411M / 19%
Investment Cost	\$325M	\$250-500M	\$2,000M	\$830M

Notes:

- NPV estimates based on an R&D acquisition cost of \$375M
- NPV discount rate of 10% used

Increased Value – Offering health & wellness analytics enables the Peloton ecosystem to offer true 24-hour value for members.



Scoring – Peloton can improve its competitive position by expanding more broadly into “non-medical” health and wellness via wearable.

ID	Opportunity	Description	Growth Category	Growth Lever
3	Offering health and wellness analytics via wearable	<i>Offering analytics via wearable to grow into a broader fitness, health, and wellness player</i>	<ul style="list-style-type: none"> SAM Expansion 	<ul style="list-style-type: none"> Increasing Value
Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> Enablement of Peloton's strategic direction Contribution to CF subscriber growth Improvement to competitive positioning 	5	<ul style="list-style-type: none"> Better positions Peloton as a fitness, health, and wellness player Opens the door for Peloton to cover “non-medical” health and wellness (e.g., cardiovascular fitness, mental fitness, nutrition, sleep, etc.). Indirectly brings in new CF subscriptions through an increased value proposition.
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> Revenue impact Cost of Revenue & OpEx efficiencies FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> Will bring in net new subscribers due to a superior value proposition over other offerings Increases customer-lock in / reduces churn through a more robust ecosystem that increases switching costs
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> Amount of R&D / new IP required Disruption to business continuity Competencies needed to develop 	2	<ul style="list-style-type: none"> Need to build biometric research and development capabilities Must expand data analytics capabilities Navigation of personal health considerations
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> Cost of implementation 	2	<ul style="list-style-type: none"> Would require significant in-house development or acquisition costs

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Greater Affordability – To reach 100M members, Peloton can leverage greater affordability without any sacrifice.

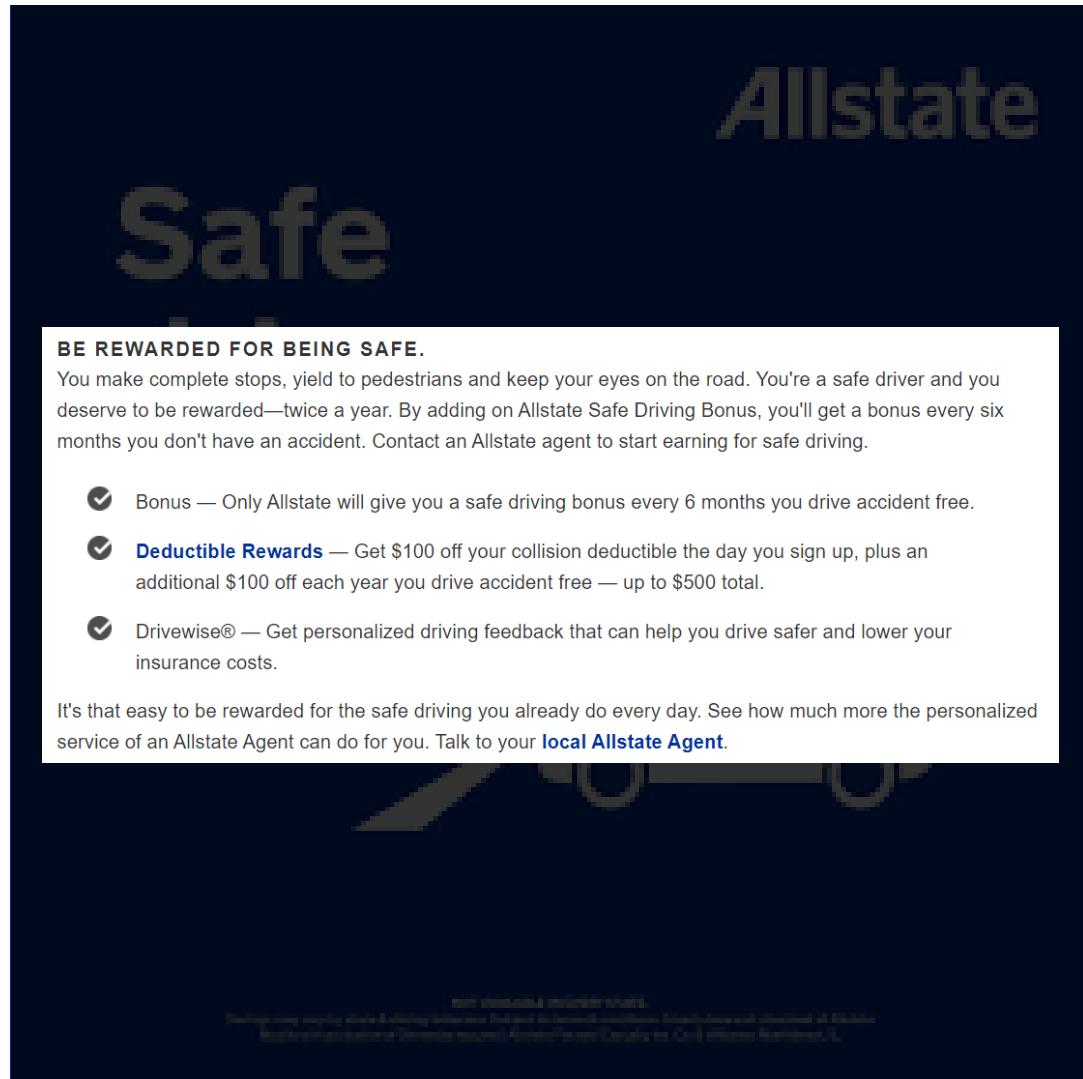
Our Plan for 100 Million Subs

1. Core U.S. Growth
2. Product Innovation
3. Geographic Expansion
4. Greater Affordability
5. Digital Expansion
6. Create the Best Place to Work in the World

From market expansion to better penetration, Peloton has a plan to reach 100M subs.

*One piece is greater affordability and there is a way to achieve this **without any sacrifice**.*

A Lesson From Car Insurance – Drivers are rewarded by car insurers like Allstate for driving safely, thereby taking costs out of the system.



Just like one can take a defensive driving course to save money on car insurance and “Safe drivers save 40% with Allstate”, why can’t “Exercisers save 40% with UnitedHealth Group or Aetna”?

Target Partners – Peloton should look to form partnerships with disruptive, next-gen health insurers like Oscar Health.



Next-Gen Health Insurers

Peloton should initially target disruptors to prove the concept to incumbents. Oscar Health offers \$1 per day when you meet their daily step goal through a fitness tracker.

A partnership rewarding Peloton members would lower the effective cost of a membership, enticing a larger population.

Key Implications – The prospect of a health insurance partnership increases importance of the breadth of content offerings and wearables.

AREAS OF FOCUS



Increased Importance In Breadth of Content Offerings

If Peloton is able to work with health insurers, the company should prioritize its efforts to expand its offerings to cover more health and wellness areas like sleep and nutrition to deliver even better health results.



Increased Importance of Wearables

This also further highlights the need for results-oriented and around-the-clock data analytics capabilities discussed in the wearable opportunity. The more proof in health improvements that Peloton can demonstrate, the more value it can show health insurers to further reduce costs.

RESULTS



Lower Effective Cost of a Peloton Subscription

By lowering the effective cost of a membership, the value of a subscription is appealing to a larger audience. This would help them better penetrate the 32M households interested in Peloton products, but not at the current price. The greater the subsidy, the greater share of the 32M households the SAM is expanded by.

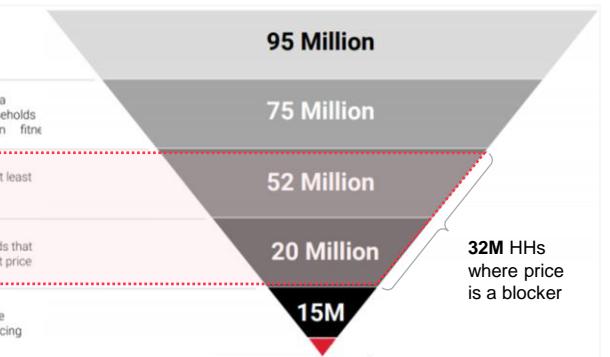
Peloton Demographic: Households aged 18-70 with \$50k or more in household income (or equivalent)

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 equipment.

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



Source:

Peloton November 2020 Investor Presentation

Value Creation – Despite providing no competitive edge, this opportunity would create tremendous value.

EXHIBIT 7.2 **Value of Major Types of Growth**

Value created ¹	Type of growth	Rationale
Above average ↑ ↓	<ul style="list-style-type: none">Create new markets through new productsConvince existing customers to buy more of a productAttract new customers to the market	<ul style="list-style-type: none">No established competitors; diverts customer spendingAll competitors benefit; low risk of retaliationAll competitors benefit; low risk of retaliation
Average ↑ ↓	<ul style="list-style-type: none">Gain market share in fast-growing marketMake bolt-on acquisitions to accelerate product growth	<ul style="list-style-type: none">Competitors can still grow despite losing share; moderate risk of retaliationModest acquisition premium relative to upside potential
Below average ↑ ↓	<ul style="list-style-type: none">Gain share from rivals through incremental innovationGain share from rivals through product promotion and pricingMake large acquisitions	<ul style="list-style-type: none">Competitors can replicate and take back customersCompetitors can retaliate quicklyHigh premium to pay; most value diverted to selling shareholders

¹ Per dollar of revenue.

Source:

Valuation: Measuring and Managing the Value of Companies by McKinsey & Co.

A Strategy Where Everyone Wins.

- Because such a move benefits everyone, there will be **minimal harmful retaliation from competitors**, resulting in unobstructed profit generation for Peloton.
- Ultimately, Peloton's goal is not necessarily to defeat SoulCycle or Apple, but rather to **generate economic profit**.
- This is a particularly **value-creating due to the high contribution margins**, as incremental revenue comes at cheaper cost.

Scoring – Peloton can expand its SAM by subsidizing memberships through health insurer partnerships.

ID	Opportunity	Description	Growth Category	Growth Lever
4	Partnering with health insurers to subsidize memberships	<i>Increasing affordability of Peloton at no sacrifice via subsidizing health insurance partnerships</i>	<ul style="list-style-type: none"> SAM Expansion 	<ul style="list-style-type: none"> Increasing Affordability
Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> Enablement of Peloton's strategic direction Contribution to CF subscriber growth Improvement to competitive positioning 	5	<ul style="list-style-type: none"> Increases affordability of Peloton without any sacrifice
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> Revenue impact Cost of Revenue & OpEx efficiencies FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> While this provides no competitive edge, because such a move benefits everyone, there will be little harmful retaliation from competitors Results in unobstructed value creation for Peloton (and everyone else) Only impacts those with participating partners
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> Amount of R&D / new IP required Disruption to business continuity Competencies needed to develop 	3	<ul style="list-style-type: none"> Relationships with next-gen and incumbent health insurers need to be developed May be difficult to convince health insurers of the opportunity because, due to inefficiencies of the healthcare system, there are other priorities before aligning incentives
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> Cost of implementation 	5	<ul style="list-style-type: none"> No associated costs

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The Opportunity – Peloton can improve affordability of its bikes by refurbishing used products and selling them for a lower price.

Sourcing

Peloton purchases a used connected fitness product from a churned subscriber.

Refurbishing

Peloton refurbishes the product to return it to “like-new” condition.

Selling

Peloton sells the connected fitness product to a customer that is willing to pay a lower price for a refurbished product.



***Peloton replaces a churned subscriber
with a new one.***

The Problem – Peloton's trade-in and upgrade program is not generating enough inventory to supply a CPO program.



View this page in iOS Safari to see it in your home

PELOTON BIKE+

Complement your cardio with the holistic workout you crave. Move from cardio to the floor with strength,

Do you have a Peloton Bike to trade in?

Yes, I would like to trade it in for a \$700 rebate and a Yoga & Toning accessories package.
[See how it works](#)

Trade-in Eligibility Requirements

- You must be the current owner of the Bike
- It must be a Peloton Bike and screen—we will not accept equipment from any other manufacturer
- The Bike frame functions normally
- The Bike frame and screen must be free of adhesives, paint or cosmetic markings, cracks, dents, rust or other major damage. The screen must power on

If any above eligibility requirements are not fulfilled, Peloton may reject the customer's trade-in. If no trade-in Bike is received by Peloton, Peloton will not issue the rebate or deliver the Yoga & Toning accessories package offered as part of the Bike Trade In Program.

CPO is not a business that we can build without supply. It's not, we can't manufacture certified pre-owned. We need to get them back from our members and at this point the velocity that our members are interested in coughing up bikes is anemic at best.

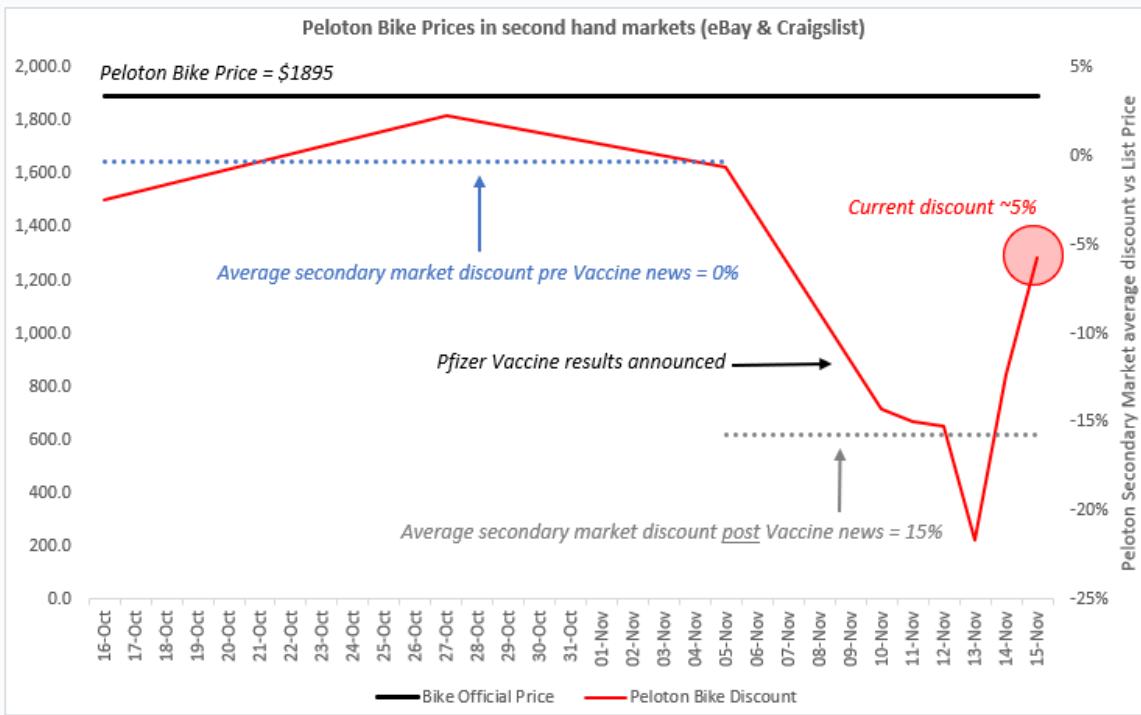
John Foley
Q1 2021 Earnings

Source:
John Foley, Peloton Q1 2021 Earnings Call

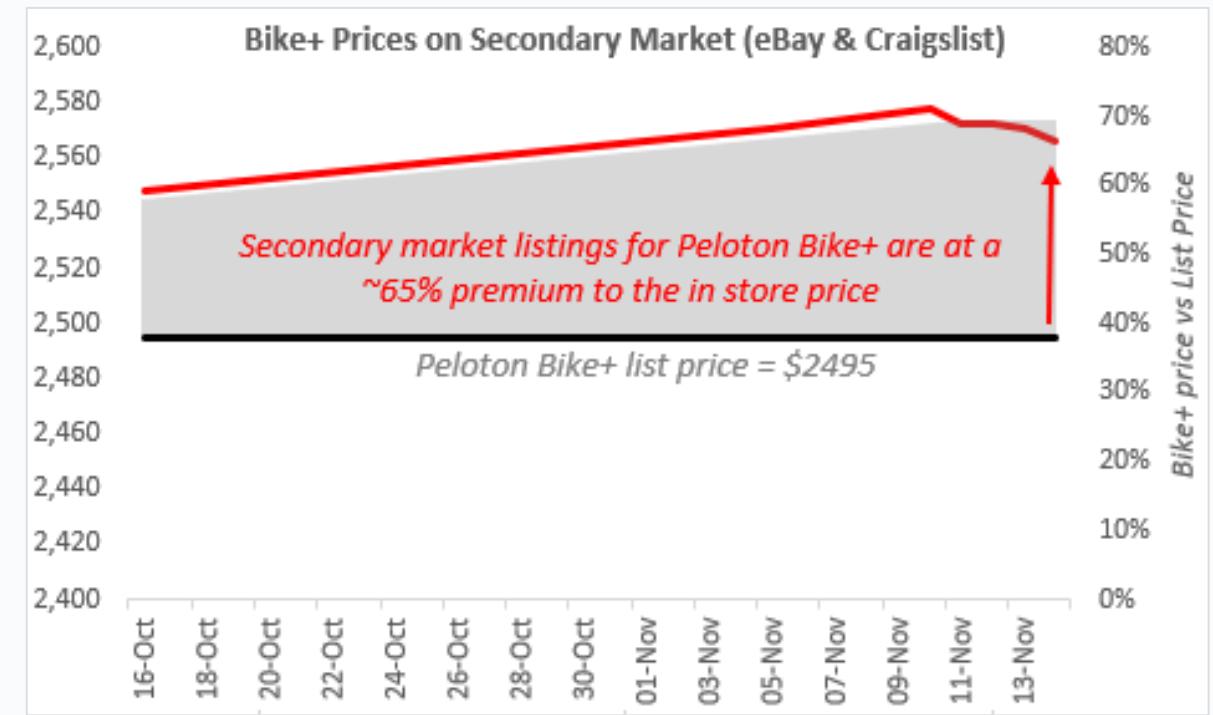
The Reason – Peloton's trade-in and upgrade program is not generating enough inventory to supply a CPO program.

Because of long delivery times, third-party marketplaces offer better prices for sellers than Peloton.

A used Bike is selling at a 5% discount compared to a new Bike.



A used Bike+ is selling at a 60% premium compared to new a Bike+.



Source:
@SiddharthKapo on Twitter

Peloton's Value Add – Peloton can increase trust and quality in the process so new members from used products do not feel second-class.

Question: If third-party marketplaces are replacing churned subscribers with new ones, what additional value does Peloton have to offer?

Answer: One of the biggest reasons Peloton has invested in its logistics infrastructure is to make sure that it manages every touchpoint of their product and service offerings. Used product buyers are still new subscribers to Peloton and the delivery experience matters. Thus, Peloton should facilitate it.

Thus, Peloton can provide value in the resale process by:

1 *leveraging its reverse logistics capabilities to manage shipping and handling of the product*

2 *refurbishing the product and increasing trust in the marketplace with a quality product*

3 *providing insurance through fresh warranties to cover any issues with the product.*

Potential Value – While this will provide better experiences for Peloton members, this will not move the CF subscriber growth needle.

Peloton's value add over third-party marketplaces is not significant enough to move the needle.

Peloton's low churn means this has a ceiling of growing the subscriber base by <10%.

Ultimately, the question is how many people will opt for Peloton's program over third-party marketplaces and how many new transactions will this create?

Fundamentally, the third-party marketplaces will continue to have compelling economics for sellers for taking on extra work.



Source:
Company data; Peloton S-1

Scoring – A CPO program would build brand equity by controlling more touchpoints but does not significantly contribute to CF subscriber growth.

ID	Opportunity	Description	Growth Category	Growth Lever
5	Refurbishing used hardware through a certified pre-owned (CPO) program	<i>Increasing affordability by selling used connected fitness products at a lower price point</i>	<ul style="list-style-type: none"> SAM Expansion 	<ul style="list-style-type: none"> Increasing Affordability
Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> Enablement of Peloton's strategic direction Contribution to CF subscriber growth Improvement to competitive positioning 	4	<ul style="list-style-type: none"> Improves service experiences and relationship quality with members who have used products Contributes towards making products more affordable
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> Revenue impact Cost of Revenue & OpEx efficiencies FCF (capex, working capital, etc.) efficiencies 	2	<ul style="list-style-type: none"> Reduces subscriber base leakage by replacing churned subscribers Does not move the needle for subscriber growth
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> Amount of R&D / new IP required Disruption to business continuity Competencies needed to develop 	4	<ul style="list-style-type: none"> Requires reverse logistics, already a competency of Peloton
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> Cost of implementation 	3	<ul style="list-style-type: none"> Requires Peloton to increase utilization of its logistics network Requires warehouses and last mile hubs to keep spare parts and refurbishing labor on site Increase capital intensity of the business by carrying additional used inventory

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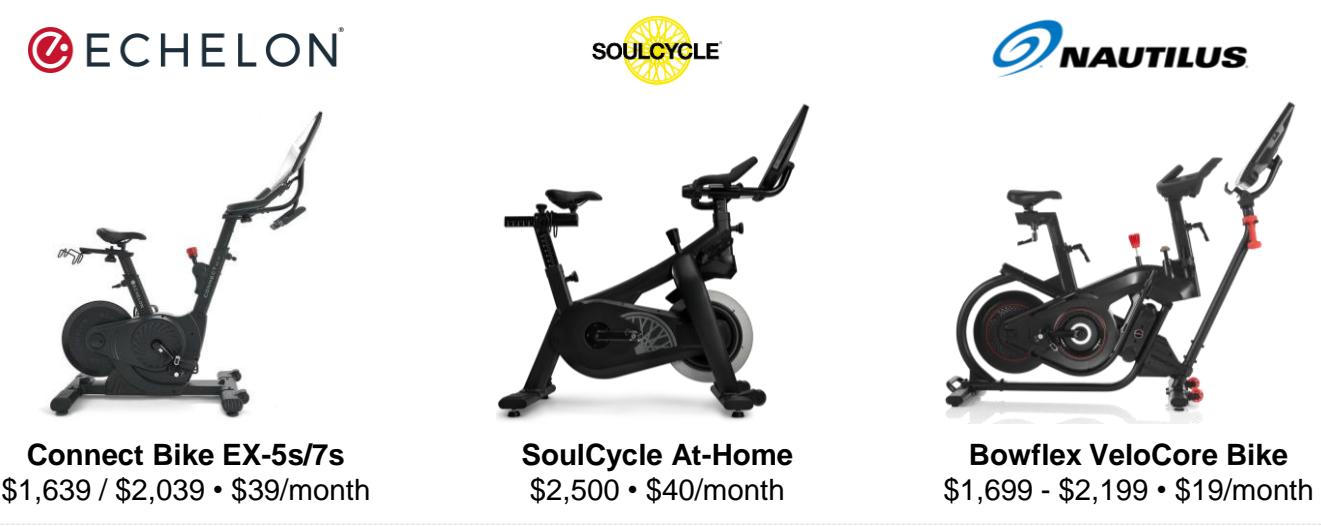
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Connected Fitness Landscape – In Bike and Tread, Peloton is priced at a premium and the cheapest product is nearly \$2,000.

Connected Bikes



Connected Treadmills



Source:

Company data from company websites

Peloton Interactive Growth Strategy / January 2021

A New SKU – Long rumored to release a rower, Peloton can position the product with entry level and premium variations.

1

Rower

\$1,250 - \$1,500

RW600



BUY NOW

LEARN MORE

10" Smart HD Touchscreen
SpaceSaver® Design
Oversized Pedals that Pivot
Includes 1-Year iFit Membership

\$999

— OR —
0% APR FOR
36 MONTHS[†]

RW700



BUY NOW

LEARN MORE

14" Smart HD Touchscreen
SpaceSaver® Design
Oversized Pedals that Pivot
Includes 1-Year iFit Membership

\$1,299

— OR —
0% APR FOR
36 MONTHS[†]

RW900



BUY NOW

LEARN MORE

22" Smart HD Touchscreen
Oversized Pedals that Pivot
SpaceSaver® Design
Includes 1-Year iFit Membership

\$1,599

— OR —
\$47/mo for
39 mos at 0% APR
with TD Fit Loan

2

Rower+

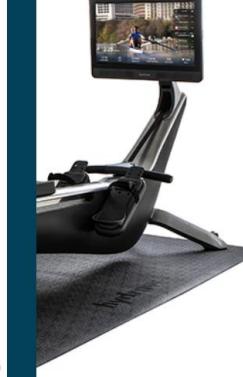
\$2,000+



Hydrow Rower

\$1,995 ~~\$2,245~~

[VIEW PACKAGE](#)



Hydrow Starter Package

\$2,270 ~~\$2,520~~

[VIEW PACKAGE](#)



Hydrow Pro Package

\$2,455 ~~\$2,705~~

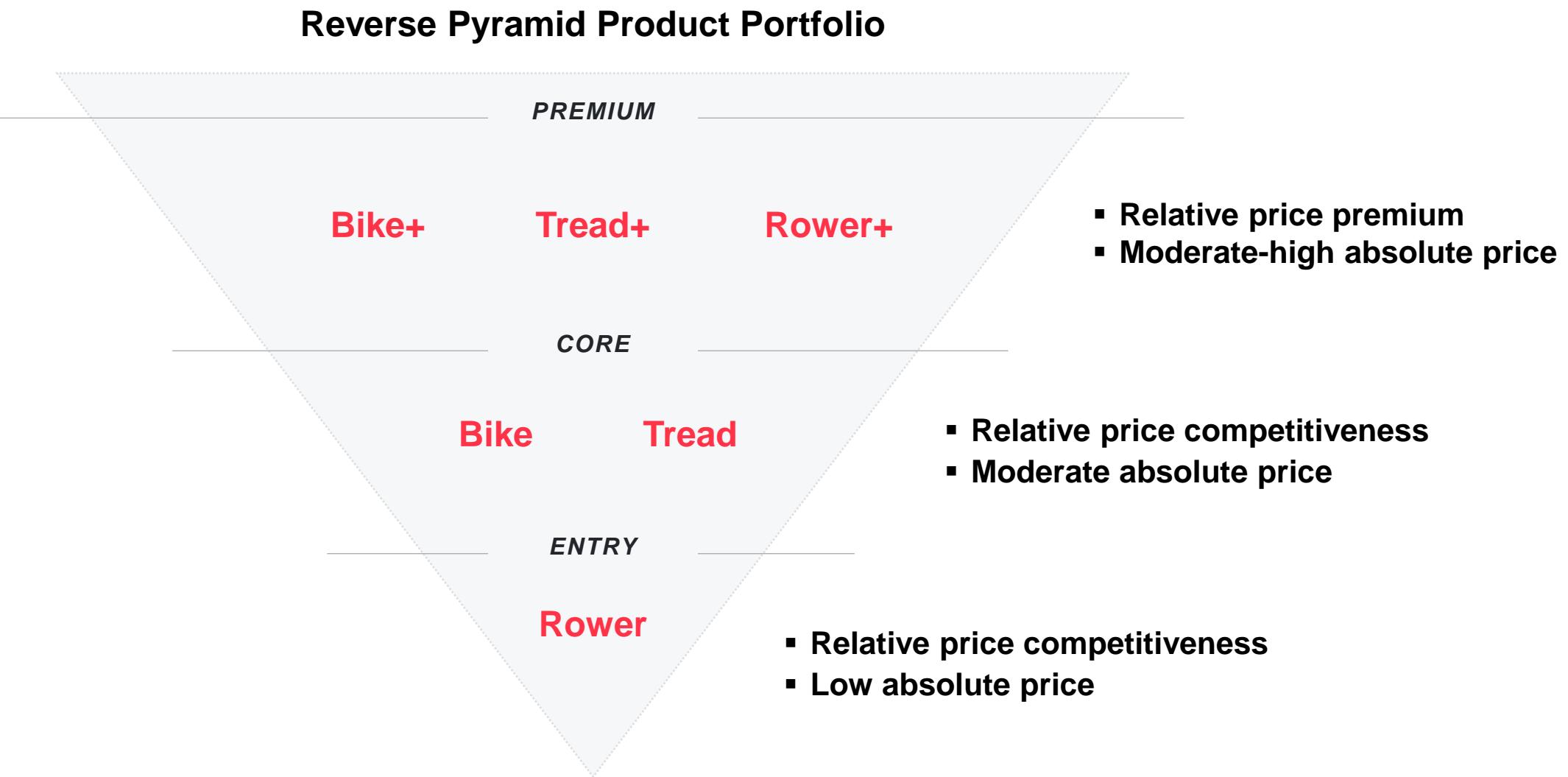
[VIEW PACKAGE](#)

Includes:
Hydrow, Machine Mat,
Heart Rate Monitor, Headphones

Includes:
Hydrow, Machine Mat, Heart Rate
Monitor, Headphones, Workout Mat,
Yoga Blocks, Foam Roller, and
Resistance Bands

Granted, the economics on this may not work out for a rower, specifically. But, NordicTrack's touchscreen rowers at \$999, \$1,299, and \$1,599 and Ergatta/Hydrow priced at ~\$2,200 suggest that a dual-tiered approach a la Bike and Bike+ could work for a \$1,000-1,500 Rower and \$2,000+ Rower+.

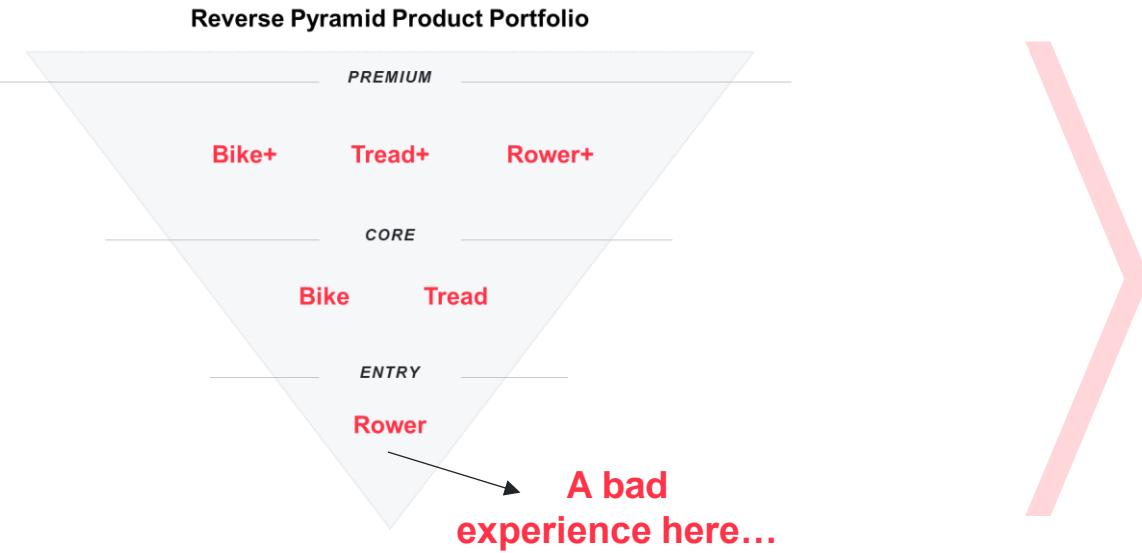
Product Portfolio – A lower priced rower would serve as an entry-level hardware product to the Peloton connected fitness ecosystem.



Brand Considerations – An entry-level SKU should not be pursued if it tarnishes the brand's promise for premium products at tremendous value.

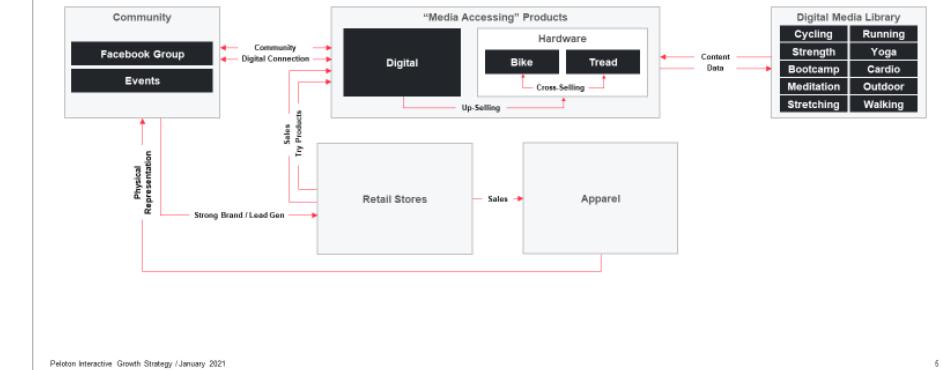
BUILDING A BRAND

A strong brand is created over a long period of reinforcing actions. One inconsistent action can destroy years of brand building.



...undermines the entire Peloton ecosystem, eroding brand equity

The Strategy – What makes Peloton successful is not just any one product, but rather a robust ecosystem.



THE IMPLICATION

With the entry-level rower Peloton must be **certain** that the product will still be viewed as a **premium, quality product** at an **affordable price point**, preserving Peloton's brand identity of premium products at tremendous value. If this is not achievable, Peloton should not pursue the entry-level variation.

Scoring – A rower would provide greater market coverage and greater affordability of connected fitness hardware for price sensitive segments.

ID	Opportunity	Description	Growth Category	Growth Lever
6	Positioning a rower to create a reverse pyramid product portfolio	<i>Offering a rower to attract new market segments and provide a low-cost ecosystem entry point</i>	▪ SAM Expansion	<ul style="list-style-type: none"> ▪ Increasing Affordability ▪ Expanding Offerings
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Peloton's strategic direction ▪ Contribution to CF subscriber growth ▪ Improvement to competitive positioning 	4	<ul style="list-style-type: none"> ▪ Increases Peloton's SAM with a new connected fitness offering ▪ Improves competitive positioning against connected rowing companies ▪ Increases affordability of Peloton hardware
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> ▪ Drives subscriber and growth and connected fitness product sales ▪ Smaller market than Bike, Tread, or Strength is offset by affordability increase
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	2	<ul style="list-style-type: none"> ▪ Requires R&D and new IP to launch a new mechanism for connected fitness ▪ Requires development of new connected fitness content ▪ Peloton needs to develop the capabilities to service a new product ▪ It may be difficult to develop a high quality, low-cost entry-level variation
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	3	<ul style="list-style-type: none"> ▪ Requires funding for research and development ▪ Increases manufacturing, inventory/warehouse, content production, and selling and marketing costs

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Peloton's Focus To Date – Peloton physical products are a step change improvement but are focused on cardiovascular fitness.



Cycling



Running

Peloton's products are predicated on the premise that connected hardware improves the workout experience. However, Peloton has only applied this to cardiovascular fitness.

Strength – While this principle likely applies for strength, its manifestation is not as clear.

Does this principle apply to strength?

Yes.

Intuitively, there is no reason strength is different from cardiovascular fitness in this regard.

What form should it take?

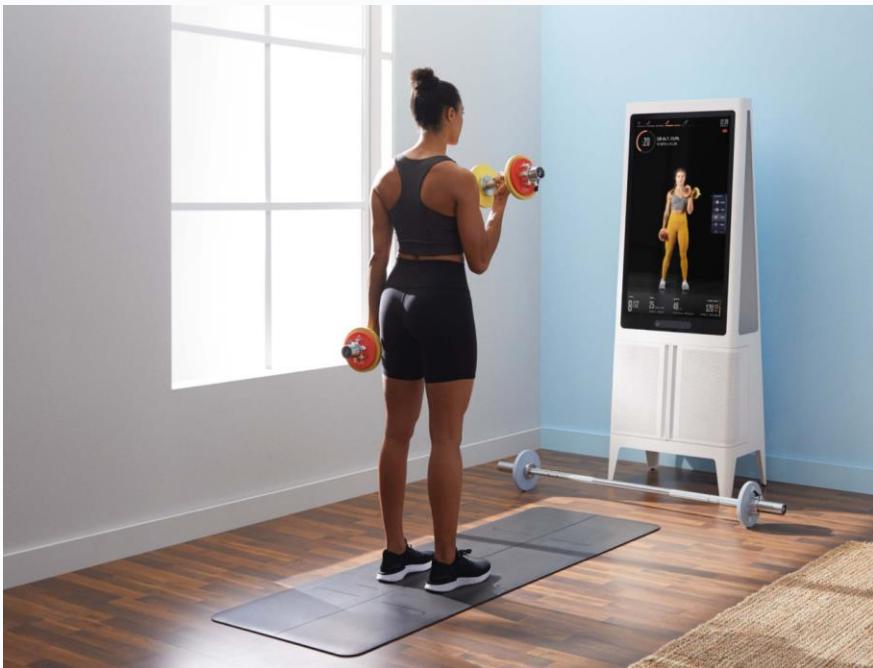
A bit more complicated.

Peloton's value proposition is centered around bringing fitness into the home, where space comes at a premium.

It is nearly impossible to be able to capture all of strength movements with a single machine, despite Bowflex's valiant efforts.

Innovation Focus – Peloton's focus should be on innovating strength tech and media, not new strength movements and mechanisms.

Tempo



Mirror



Instead of innovating on strength movements and mechanisms, Peloton should innovate by bringing tech and media to strength, as they did with fitness staples, the bike and treadmill. Peloton's best bet is probably to develop an offering like those of Tempo and Mirror - traditional strength equipment and movements with instruction and classes delivered via panel hardware – instead of one like Tonal's.

Beyond Strength – Beyond strength, a panel enables Peloton to improve AI capabilities and establish a true, fit-for-purpose centerpiece in the gym.

Panel enabled opportunities

1 Further building AI capabilities to provide more personalized workout classes.

Using its sensors, a panel would provide additional data to not just provide better **content recommendations** but also provide more **personalized experiences**.

Peloton can:

- Make recommendations to improve form,
- suggestions on what weight is best for you, and
- encouragement when you are struggling.

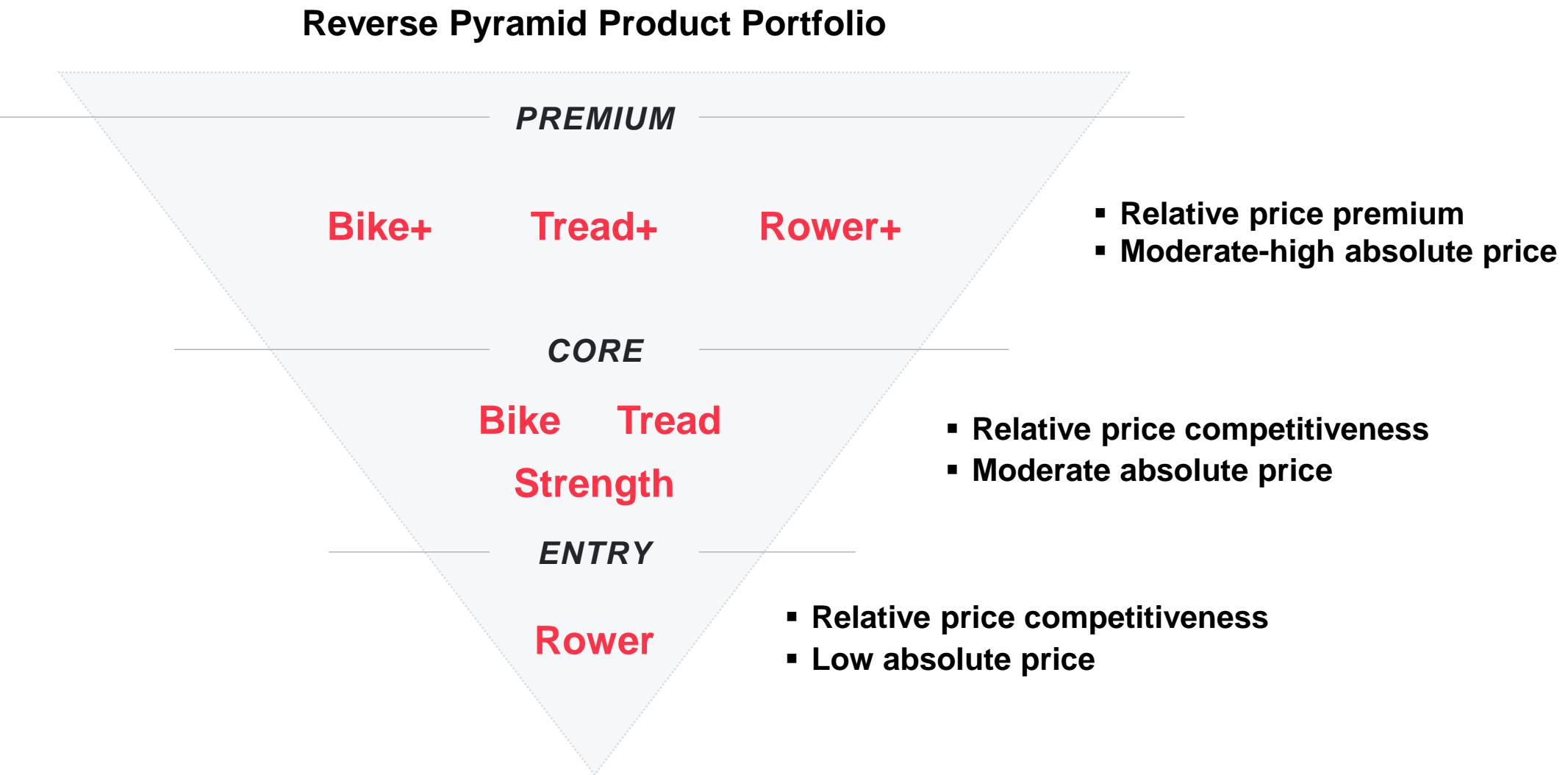
Subtle and minor tweaks can make all the difference in the quality of an exercise or stretch.

2 Giving Peloton a true, fit-for-purpose centerpiece for strength and floor workouts in the gym.

Peloton can use the panel as a **centerpiece** of the gym. iPhone, Apple TV, or a rotated Bike+ screen are fine ways to consume Peloton content off of hardware. But an iPhone screen is small, setting up a TV and Apple TV is not always sensible, and positioning a Bike+ to also offer an ideal floor space can be challenging. A panel would alleviate some of those considerations.

Furthermore, the panel can **integrate** with the Bike or Tread you have. For example, for bootcamps, the panel and Bike/Tread can work together to **provide seamless content delivery** when you are on and off the bike, or when you finish a workout, the panel could queue up and prompt a post-workout stretch.

Product Portfolio – Strength would slot in as core Peloton offering, with relative price competitiveness and a moderate absolute price.



Scoring – Strength and panel hardware would help Peloton win a key battleground and strategic priority in Strength.

ID	Opportunity	Description	Growth Category	Growth Lever
7	Bringing connected strength and panel hardware to market	<i>Expanding hardware offerings beyond cardiovascular fitness</i>	<ul style="list-style-type: none"> SAM Expansion 	<ul style="list-style-type: none"> Expanding Offerings
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> Enablement of Peloton's strategic direction Contribution to CF subscriber growth Improvement to competitive positioning 	5	<ul style="list-style-type: none"> Helps Peloton "win" in strength, a strategic priority and key fitness battleground Expands opportunity for Peloton members to become multi-product owners by integrating with other products in the ecosystem, thereby increasing value
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> Revenue impact Cost of Revenue & OpEx efficiencies FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> Drives subscriber and growth and connected fitness product sales
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> Amount of R&D / new IP required Disruption to business continuity Competencies needed to develop 	2	<ul style="list-style-type: none"> Requires R&D and new IP to launch a new connected fitness product Peloton needs to develop the capabilities to service a new product Peloton would benefit from improving technological capabilities for products to communicate with each other and to offer personalized workout recommendations
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> Cost of implementation 	3	<ul style="list-style-type: none"> Requires funding for research and development Increases manufacturing, inventory/warehouse, content production, and selling and marketing costs

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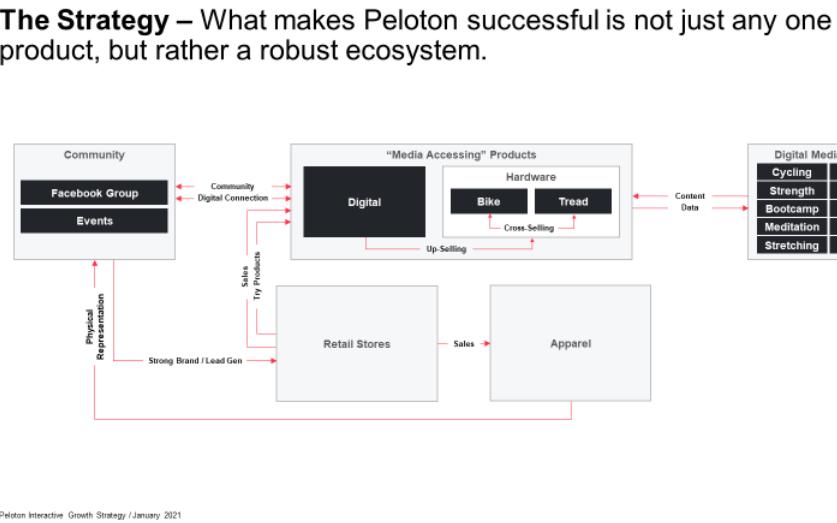
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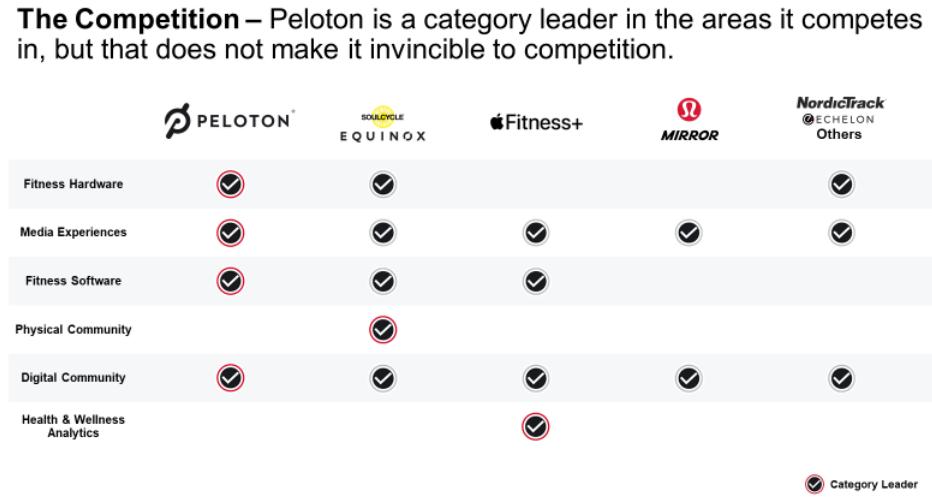
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Community Hubs – Peloton has the opportunity to take its community to the next level by sponsoring places that foster in-person community.

Community is a key part of the ecosystem...



... but while Peloton is a category leader, its competitive edge is vulnerable.



A bold and, on the surface, a little counter-intuitive approach:

Peloton should establish physical spaces where its members can meet in person.

*Peloton has obviously taken the world by storm by providing a fitness class experience outside of a gym and in your home. But, similar to how Peloton has retail stores because customers touching, feeling, and experiencing a Bike or Tread drives more sales, **in-person interactions, in tandem with digital experiences, drive a deeper sense of community than digital can alone.***

A Retail Pivot – Turning stores into social hubs not only increases value for members, but also provides a powerful converting retail experience.

From To

For Prospective Customers

Transactional retail stores	Retail spaces for community and Peloton experiences
Interaction with products	Understanding the Peloton experience
Physical retail presence	Physical brand presence

For Members

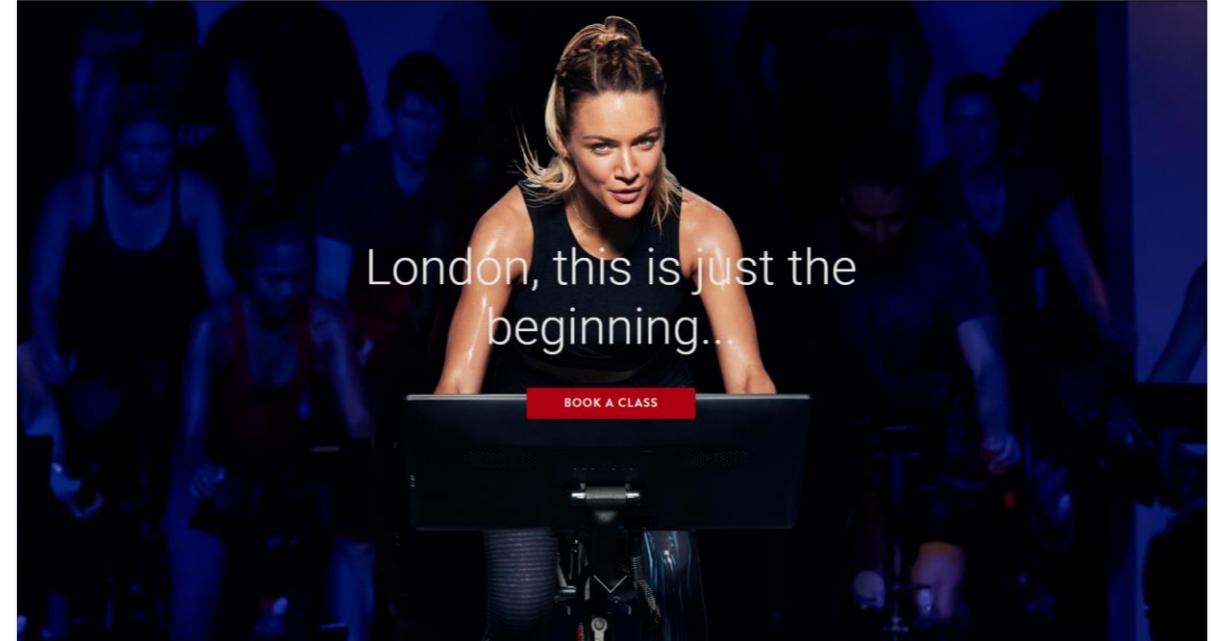
Workouts at home	Occasional workouts at a Peloton Studio with friends
Limited opportunity to diversify hardware	Opportunity to try other Peloton products
Digital community	Peloton sponsored omni-channel community

Offering an in-person experience allows Peloton members to try the hardware that they don't already have in their home. Touching, feeling, and experiencing a Tread can be just what a member needs to see the value of adding the Tread to their Bike at home. Furthermore, as Peloton Studios also serve as retail stores, potential customers can see and feel what was previously unobservable until after purchase, the Peloton community in action.

Test and Learn – Given the resource intensiveness, Peloton should use its studios in New York and London to pilot the approach.



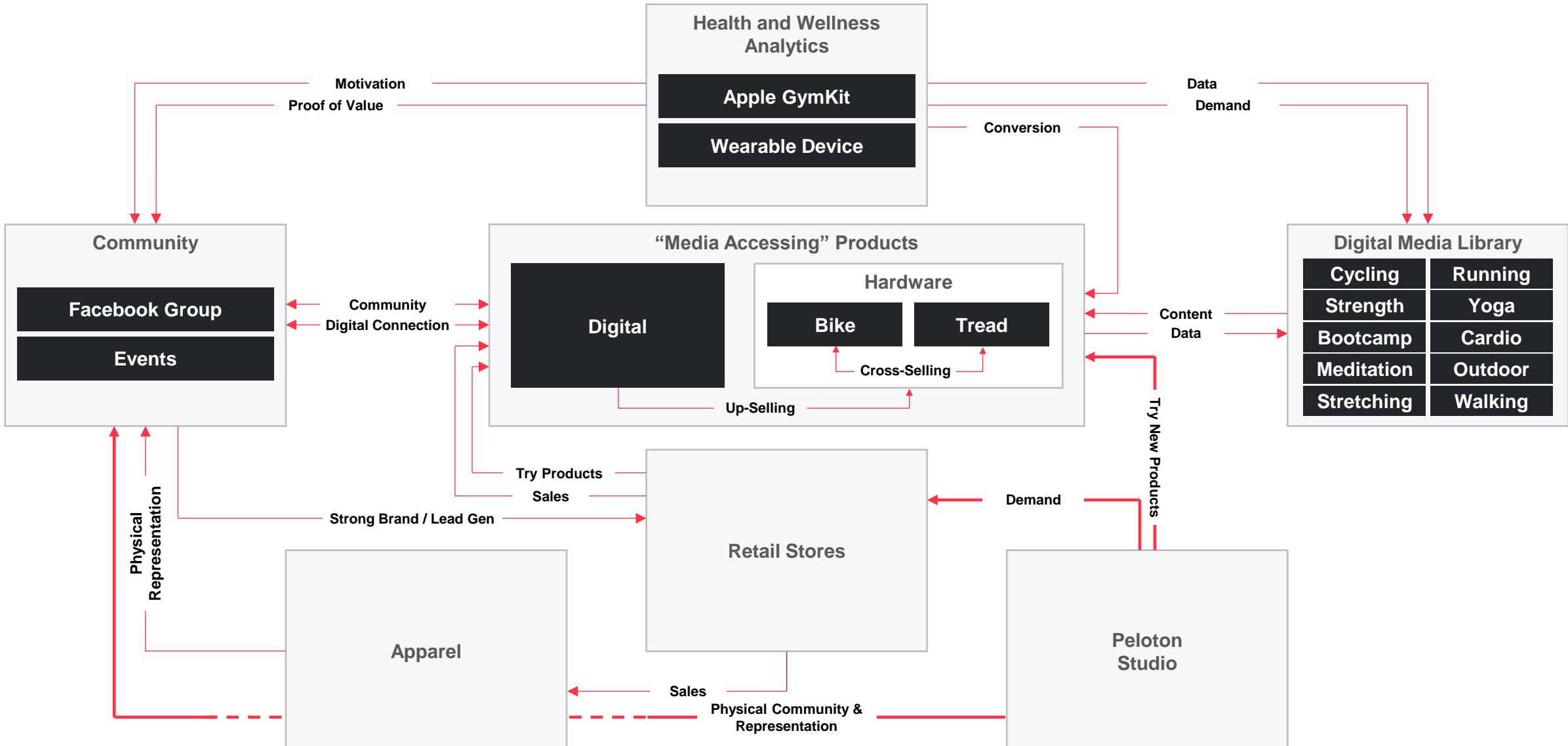
Peloton New York Studio Opening 2020



Peloton London Studio Coming 2021

With the launch of its flagship studio in New York and one coming to London in 2021, Peloton can test this strategy before unleashing significant capital and remodeling its entire physical footprint. The lift it brings may be surprising. This could be a game changer for Peloton and it should be investigated accordingly.

Increased Value – Members get physical community experiences and customers can see the value of the Peloton community before purchase.



Scoring – Peloton can improve conversion and value by offering physical community but will not move the CF subscriber needle meaningfully.

ID	Opportunity	Description	Growth Category	Growth Lever
8	Having retail stores double as community hubs	<i>Offering in-person community options and improving conversion via better retail experiences</i>	<ul style="list-style-type: none"> ▪ Penetration Improvement ▪ SAM Expansion 	<ul style="list-style-type: none"> ▪ Improving Distribution ▪ Increasing Value
Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Peloton's strategic direction ▪ Contribution to CF subscriber growth ▪ Improvement to competitive positioning 	3	<ul style="list-style-type: none"> ▪ Places emphasis on community and omnichannel buyer journeys ▪ Improves competitive positioning with in-person community ▪ Slightly counterintuitive to Peloton's mission of bringing fitness into the home and does not meaningfully drive CF subscriber growth
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	2	<ul style="list-style-type: none"> ▪ Modest improvements to top-line growth through better customer conversion and decreased churn.
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	2	<ul style="list-style-type: none"> ▪ A full implementation requires a full remodeling of Peloton's retail footprint ▪ Transition of retail stores disrupts business continuity ▪ Taking a test and learn approach reduces initial complexity
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	3	<ul style="list-style-type: none"> ▪ A full implementation requires complete redesign / renovation / overhauls of retail stores ▪ Taking a test and learn approach will help Peloton avoid investment costs without strong implication of financial return

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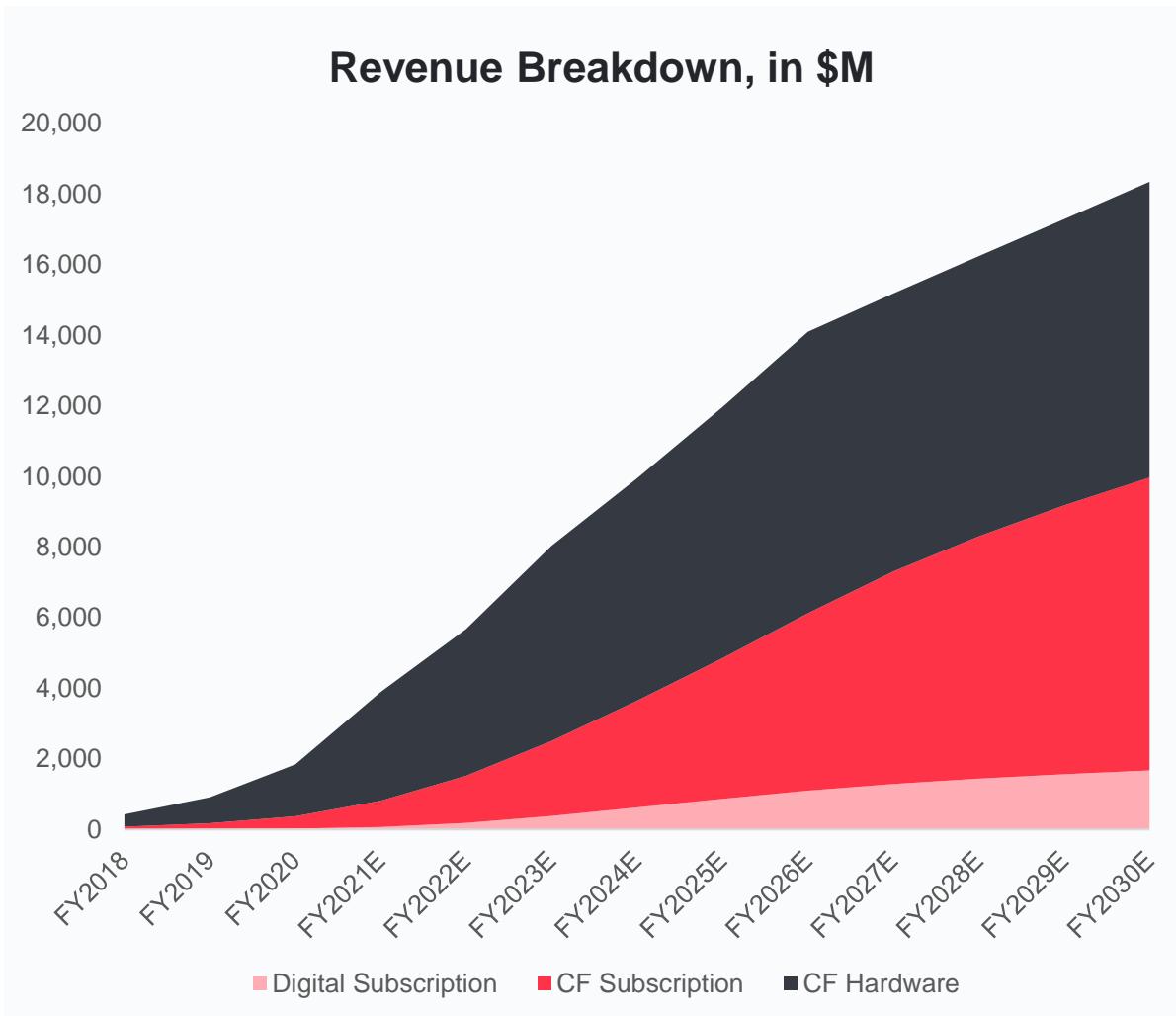
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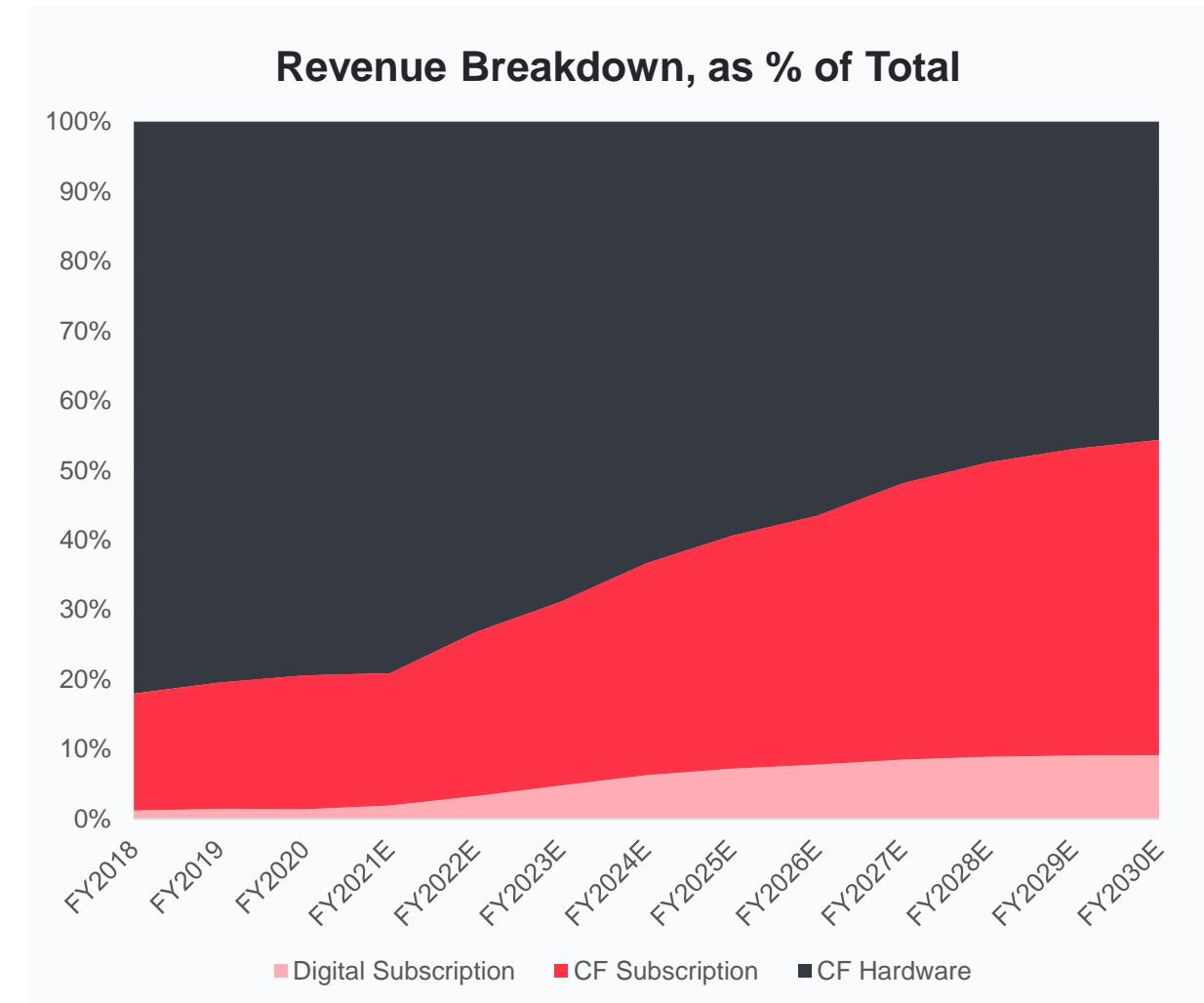
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Revenue Breakdown – Estimates suggest subscription revenue will exceed hardware revenue by FY2027 and reach nearly \$10B by FY2030.

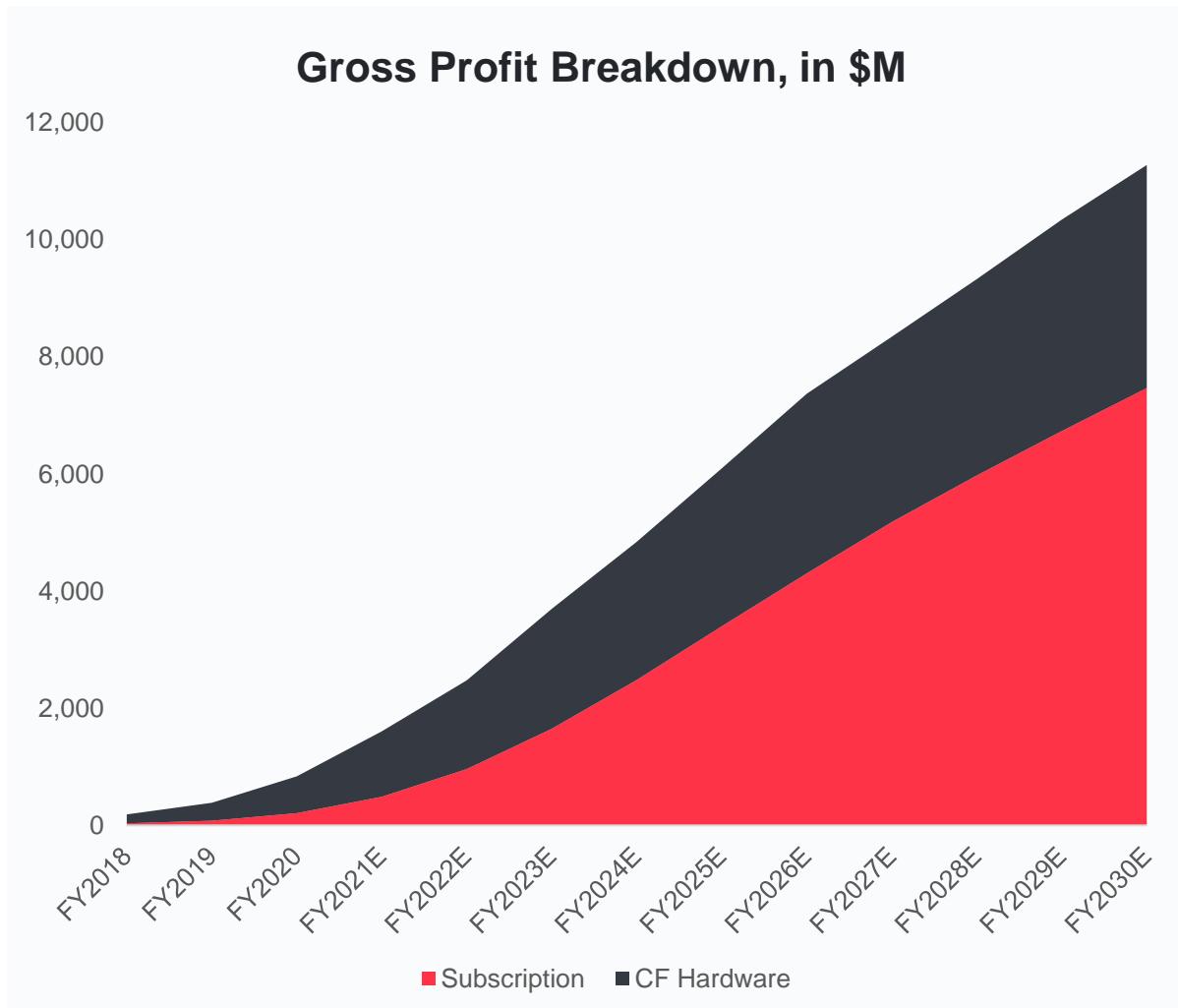


Source:
Company data; Ian's estimates

Note:
Full financial model available [here](#)

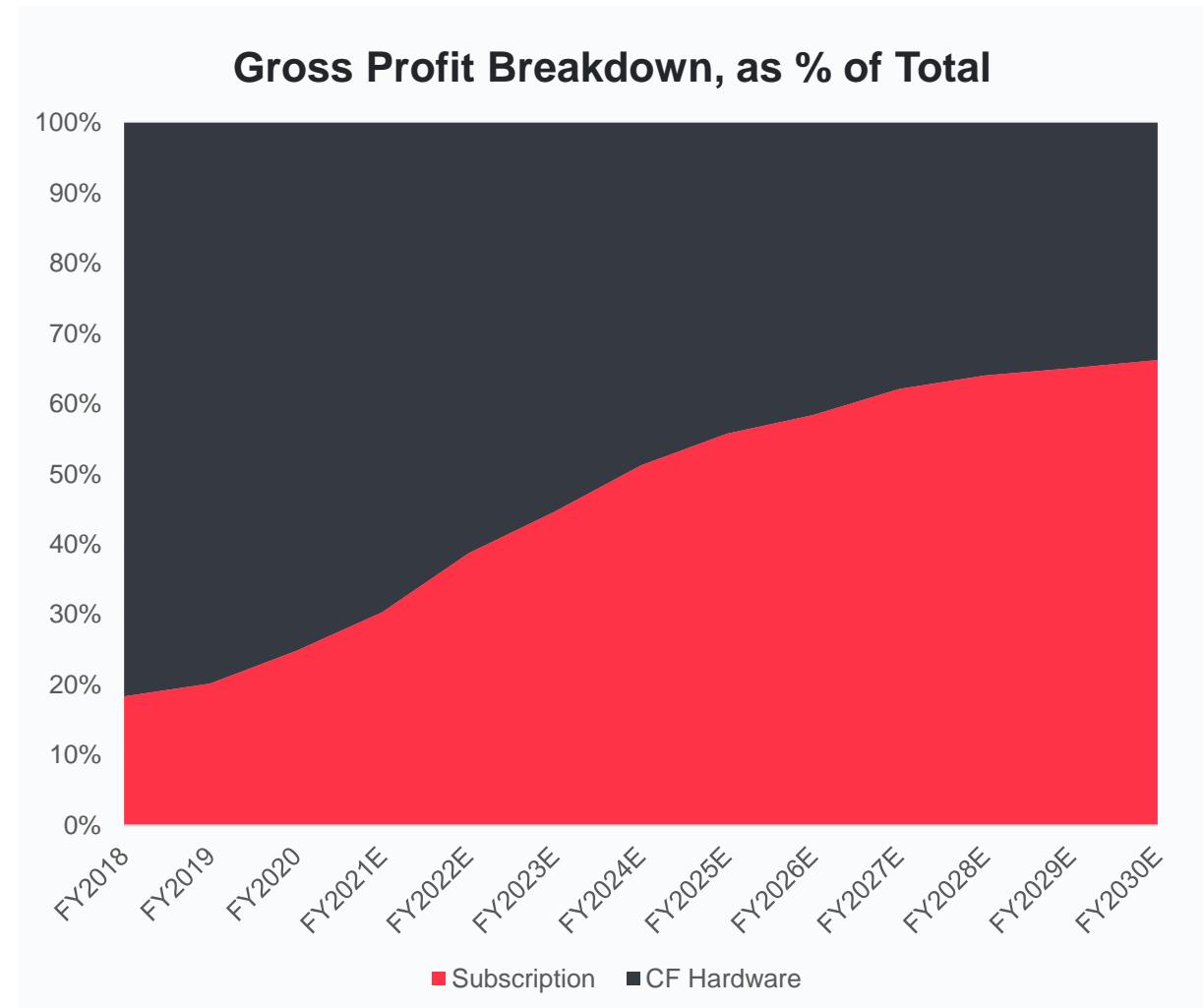


Gross Profit Breakdown – Estimates suggest subscription gross profit will exceed that of hardware by FY2024 and reach over \$7B by FY2030.



Source:
Company data; Ian's estimates

Note:
Full financial model available [here](#)



Subscriber Unit Economics – If evaluated as a subscription business, Peloton has “off-the-chart” unit economics that are only getting better.

Peloton Subscriber LTV Calculation		FY2020	Steady State
Monthly Subscription Price	\$39	\$39	
X	X	X	
Subscriber LTV months	150 ¹	135 ²	
X	X	X	
Subscription contribution margin ³	64.8%	70% ⁴	
LTV per Connected Fitness Subscriber	\$3,791	\$3,686	
PV LTV per Connected Fitness Subscriber	\$2,111	\$2,155	
Peloton Subscriber CAC Calculation		FY2020	Steady State
Sales and Marketing Expense (\$M) ⁵	\$452.4		
X	–		
CF Gross Profit (\$M) ⁶	\$635.1		
X	/		
New CF Subscribers Added	~637,500 ⁷	➤	Remain Positive
NCAC per Connected Fitness Subscriber⁹	(\$287)	➤	Negative NCAC

Negative LTV:NCAC Ratio!

Notes:

¹ 1 / (1 – Annual Retention Rate) * 12; Annual Retention Rate based on Peloton Q4'2020 12-month retention rate

² To be conservative, assumes a 10% reduction in subscriber lifetimes as the business matures

³ Subscription gross profit less subscription D&A and SBC

⁴ Management anticipates long-term subscription contribution margin to exceed 70%

⁵ Excludes Selling and Marketing D&A and SBC

⁶ Excludes CF D&A and SBC

⁷ Ian's estimates

⁸ Assumption: CF gross profit growth will exceed sales and marketing expense growth

⁹ Illustrative; Gross margin payback comes several months after CAC is expensed

Increasing S&M Expense – Peloton should seek to keep selling and marketing expense equal to connected fitness gross profit for a few years.

	Fiscal Year Ending June 30,									
	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Estimated selling and marketing expense ¹ , as-is (\$M)	518	962	1,148	1,398	1,665	1,950	2,084	2,219	2,358	2,501
► Estimated CF gross profit ² , as-is (\$M)	1,109	1,486	1,980	2,258	2,551	2,862	2,826	2,848	2,911	3,005
► Min. selling and marketing expense increase (\$M)	591	524	833	860	887	912	743	628	553	504
PV Customer LTV, including hardware (\$)	2,765	2,871	2,784	2,840	2,896	2,892	2,921	2,937	2,947	2,953
► Implied CAC (\$)	893	866	852	859	861	864	909	947	978	1,001
► Implied LTV/CAC Ratio	3.1x	3.3x	3.3x	3.3x	3.4x	3.3x	3.2x	3.1x	3.0x	2.9x

This scenario implies no additional subscriber growth beyond as-is estimates. Thus, this represents the minimum increase in selling and marketing expense and the worst-case LTV/CAC ratio.

Healthy overall unit economics even in worst case scenario

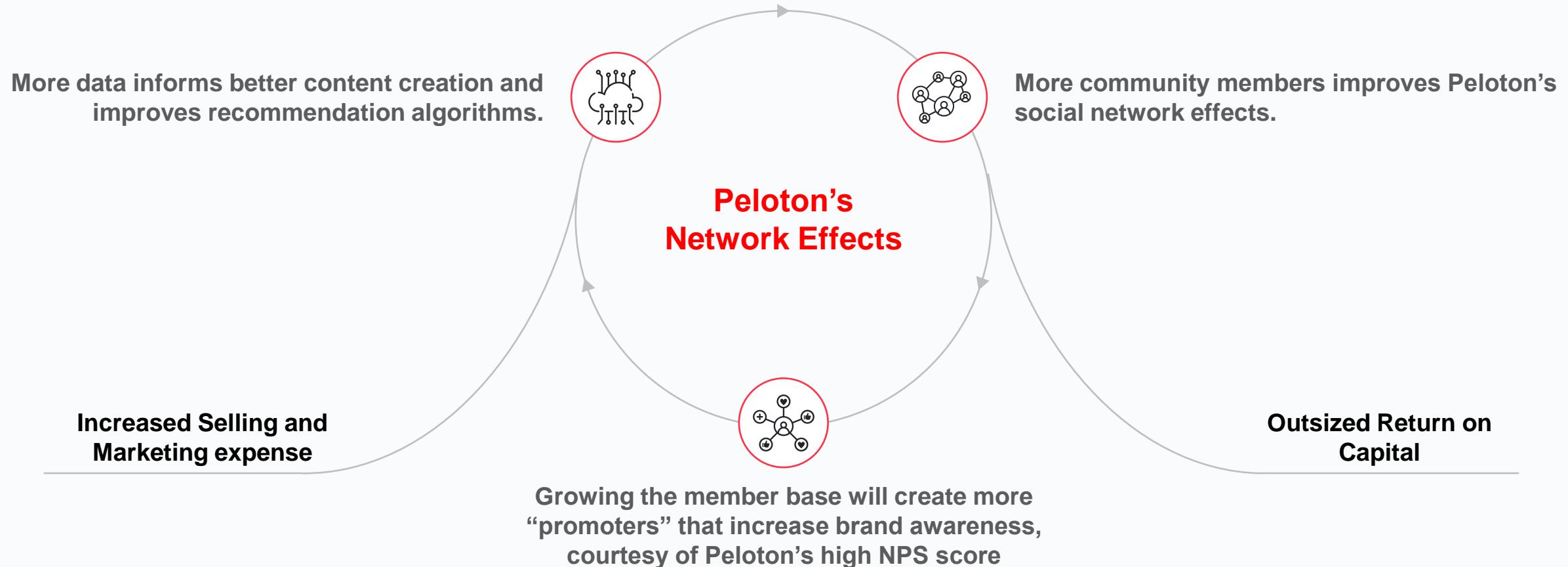
Source:
Company data; Ian's estimates

Notes:

¹ Selling and marketing expense, excluding SBC and D&A

² CF gross profit, excluding SBC and D&A

Benefits – Increasing selling and marketing expense will expand its leading position and accelerate scaling.



Scoring – Peloton can more aggressively pursue customer acquisition to scale faster than competitors and increase install base.

ID	Opportunity	Description	Growth Category	Growth Lever
9	Increasing selling & marketing spend / customer acquisitions costs	<i>Accelerating scaling efforts by increasing CAC, while preserving healthy subscriber economics</i>	<ul style="list-style-type: none"> ▪ Penetration Improvement ▪ TAM Expansion 	<ul style="list-style-type: none"> ▪ Improving S&M Efficacy ▪ Fitness Education
Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Peloton's strategic direction ▪ Contribution to CF subscriber growth ▪ Improvement to competitive positioning 	5	<ul style="list-style-type: none"> ▪ Focused strongly on driving subscriber growth for the business ▪ Increases the brand awareness of the company ▪ Accelerates scaling, providing associated benefits ranging from better data to increased word of mouth marketing
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> ▪ Drives revenue growth
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	5	<ul style="list-style-type: none"> ▪ Requires understanding the decreasing marginal benefit to marketing spend – a current core competency of the sales and marketing function
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	2	<ul style="list-style-type: none"> ▪ Significantly increases costs

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Scoring Summary – Each initiative was independently scored for strategic importance, business value, complexity, and cost.

ID	Opportunity	Strategic Importance	Business Value	Impact	Complexity	Cost	Feasibility	Score
1	Producing Spanish content	4	4	4.0	3	4	3.6	3.86
2	Producing French content	4	4	4.0	3	4	3.6	3.86
3	Offering health and wellness analytics via wearable	5	4	4.6	2	2	2.0	3.69
4	Partnering with health insurers to subsidize memberships	5	4	4.6	3	5	4.2	4.46
5	Refurbishing used hardware through a CPO program	4	2	3.2	5	3	3.8	3.41
6	Positioning a rower to create a reverse pyramid product portfolio	4	4	4.0	2	3	2.6	3.51
7	Bringing connected strength and panel hardware to market	5	4	4.6	2	3	2.6	3.90
8	Having retail stores double as community hubs	3	2	2.6	2	3	2.6	2.60
9	Increasing selling & marketing spend / customer acquisitions costs	4	4	4.0	5	2	3.2	3.72

■ TAM Expansion ■ SAM Expansion ■ Penetration Improvement

Determining Priorities – Initiatives can be compared on relative impact and feasibility in context of business needs to determine priority.

ID	Opportunity	Growth Category	Growth Lever	Impact (1L-5H)	Feasibility (1L-5H)	Score (1L-5H)
1	Producing Spanish content	▪ TAM Expansion	▪ Market Expansion	4.0	3.6	3.86
2	Producing French content	▪ TAM Expansion	▪ Market Expansion	4.0	3.6	3.86
3	Offering health and wellness analytics via wearable	▪ SAM Expansion	▪ Increasing Value	4.6	2.0	3.69
4	Partnering with health insurers to subsidize memberships	▪ SAM Expansion	▪ Increasing Affordability	4.6	4.2	4.46
5	Refurbishing used hardware through a CPO program	▪ SAM Expansion	▪ Increasing Affordability	3.2	3.8	3.41
6	Positioning a rower to create a reverse pyramid product portfolio	▪ SAM Expansion	▪ Increasing Affordability ▪ Expanding Offerings	4.0	2.6	3.51
7	Bringing connected strength and panel hardware to market	▪ SAM Expansion	▪ Expanding Offerings	4.6	2.6	3.90
8	Having retail stores double as community hubs	▪ SAM Expansion ▪ Penetration Improvement	▪ Increasing Value ▪ Improving Distribution	2.6	2.6	2.60
9	Increasing selling & marketing spend / customer acquisitions costs	▪ TAM Expansion ▪ Penetration Improvement	▪ Fitness Education ▪ Improving S&M Efficacy	4.0	3.2	3.72

■ TAM Expansion ■ SAM Expansion ■ Penetration Improvement

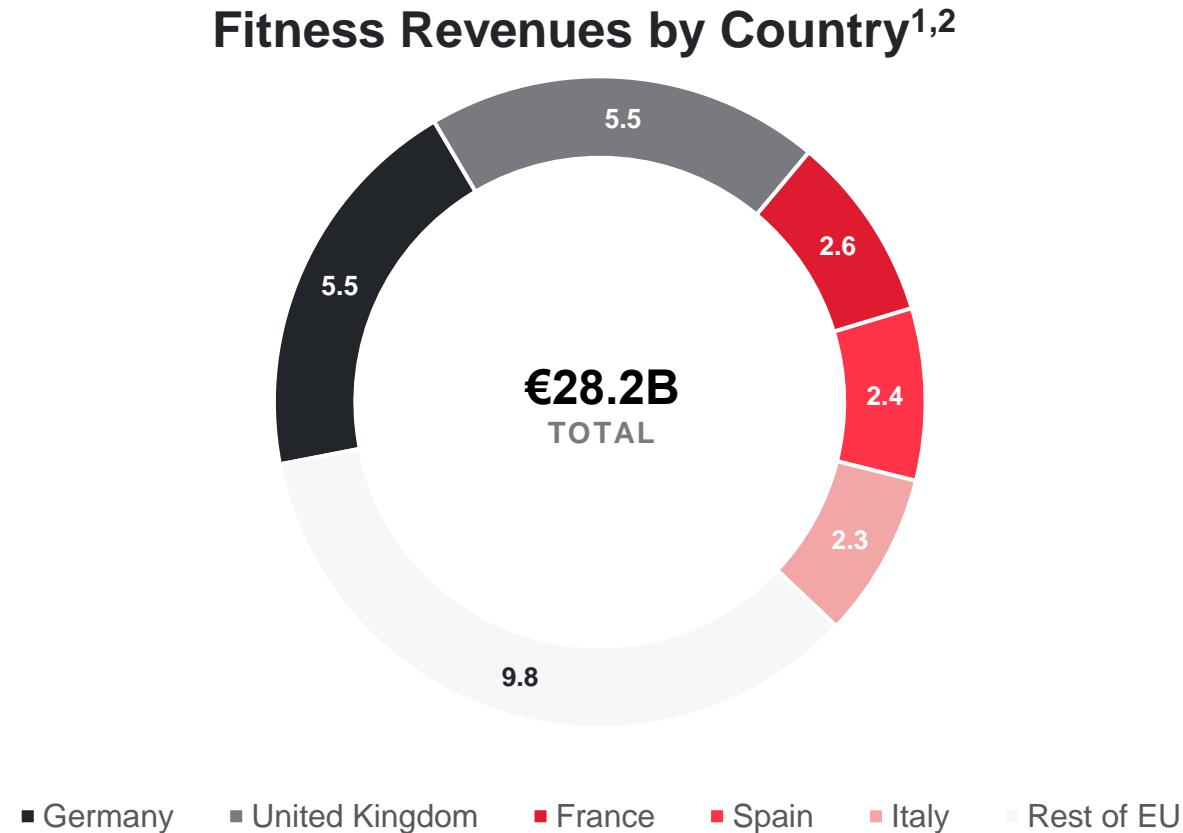
The Competition – Peloton is a category leader in the areas it competes in, but that does not make it invincible to competition.

	PELOTON®	SOULCYCLE EQUINOX	AppleFitness+	MIRROR	NordicTrack ECHELON Others
Fitness Hardware	✓	✓			✓
Media Experiences	✓	✓	✓	✓	✓
Fitness Software	✓	✓	✓		
Physical Community		✓			
Digital Community	✓	✓	✓	✓	✓
Health & Wellness Analytics			✓		

Note:
As seen in slide 67

✓ Category Leader

EU Fitness Market – Outside of Peloton's current markets, France, Spain, and Italy are the next largest markets.



Source:

¹ EuropeActive, Deloitte

² In billions of Euros



Researched and written by Ian D'Silva

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