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Exeter Student Investment Fund

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Learn. Network. Invest.

# Peloton Interactive, Inc [PTON]

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# Recommendation



## Why you should buy this stock?

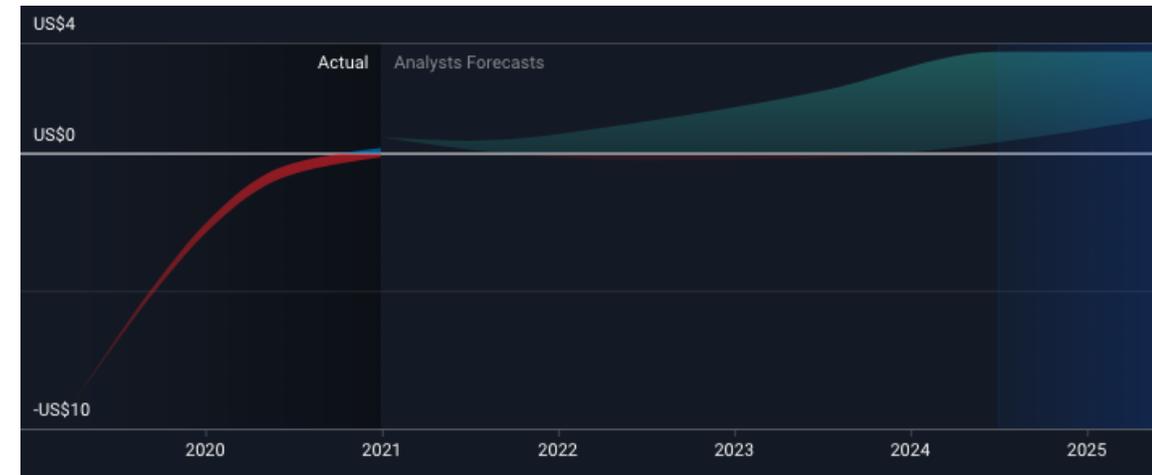
- Successfully built a solid brand cachet through the pandemic
- Compelling financial profile
- Disrupted the fitness industry by developing a first-of-its-kind subscription platform that seamlessly combines the best equipment, proprietary networked software, and world-class streaming digital fitness and wellness content
- Peloton found success even before COVID-19, and its gains in 2020 have only solidified the allure and reach of its platform.



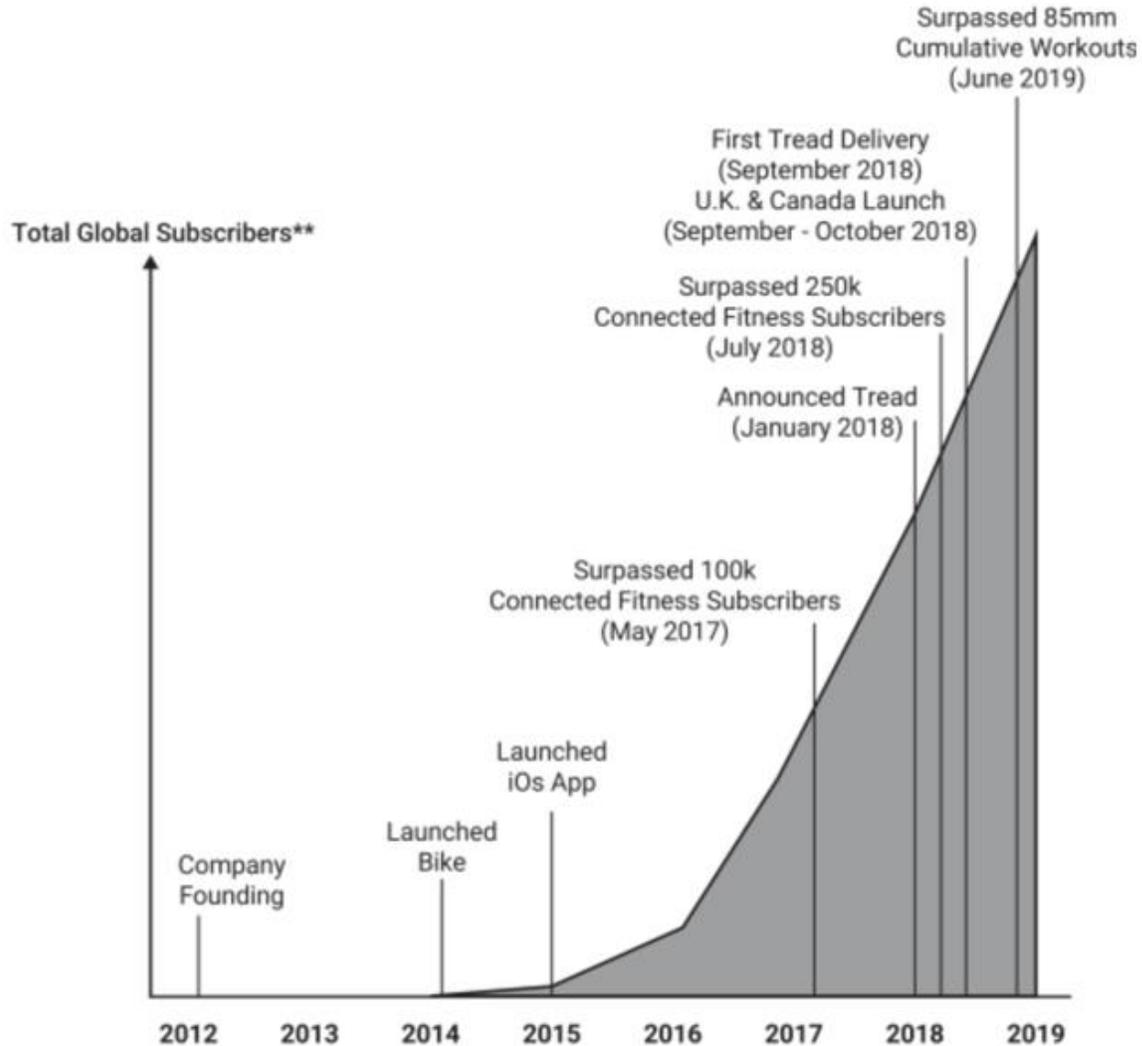
## Risks

- Decline in the public's interest in indoor cycling or running, or other fitness disciplines that Peloton has invested most heavily in
- Deteriorating general economic conditions or a change in consumer spending preferences or buying trends
- Reopening of gyms post pandemic

Earnings per Share growth



# Company Overview - Background



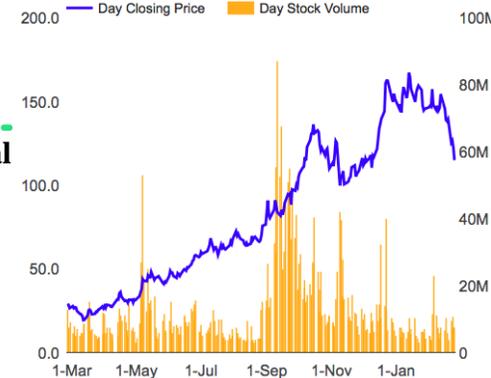
Origin

- Established in February 2012
- Officially launched in the UK in September 2018
- Founders; Graham Stanton, Hisao Kushi, John Foley, Tom Cortese, Yony Feng



Historical Data

Price-Volume Over the Past Year



- **LTM Financials:** \$1.826 billion revenue; \$117.7 million Adjusted EBITDA
- **Market Cap:** \$35.48 billion; Enterprise Value \$33.99 billion
- **LTM Multiples:** 11.50 EV/Revenue; 130.77 EV/EBITDA



Aims

- To bring immersive and challenging workouts into people's lives in a more accessible, affordable and efficient way
- To 'sell happiness'



## John Foley – CEO (& Co-founder)

- Previous CEO of Evite.com
- Previous Co-founder and CEO of Pronto.com
- President of Barnes & Noble
- Leveraged his tech and business experience to create Peloton

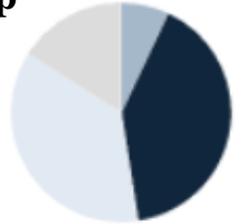


## William Lynch – President, Director

- President since January 2017
- Previous CEO of Barnes & Noble
- Lynch held leadership and executive positions at HSNi, IAC, and Palm Computing

## Institutional Ownership

Individual stakeholders	6.97%
Other institutional	40.56%
Mutual fund holders	36.48%



## Top 5 Owners of Peloton Interactive Inc

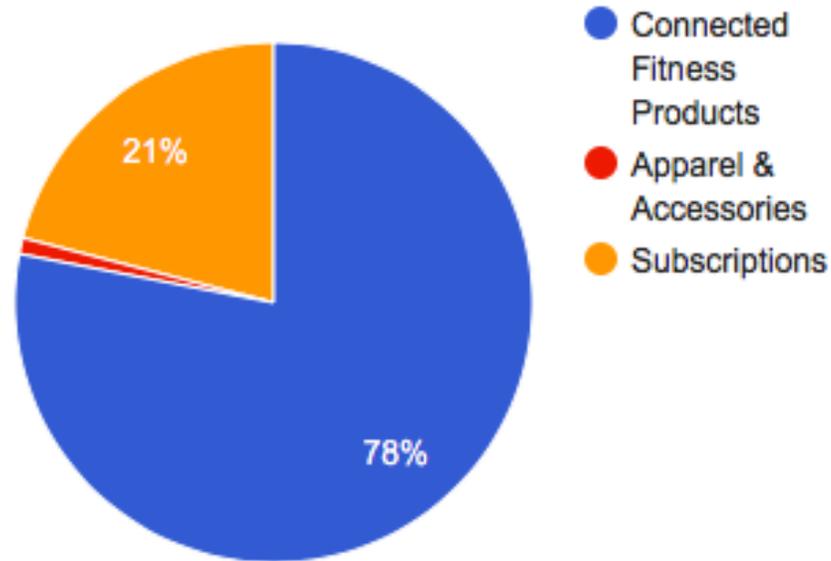
- The Vanguard Group, Inc. – 8.19%
- Baillie Gifford & Co. – 6.26%
- Jennison Associates LLC – 4.82%
- Capital Research & Management Co. – 4.55%
- BlackRock Fund Advisors – 3.82%

## Top 5 Mutual Funds holding Peloton Interactive Inc

- American Funds Growth Fund of America – 7.02%
- Vanguard Total Stock Market Index Fund – 2.68%
- Vanguard Mid Cap Index Fund – 2.15%
- Vanguard Extended Market Index Fund – 1.41%
- Invesco QQQ Trust – 1.25%



## Revenue

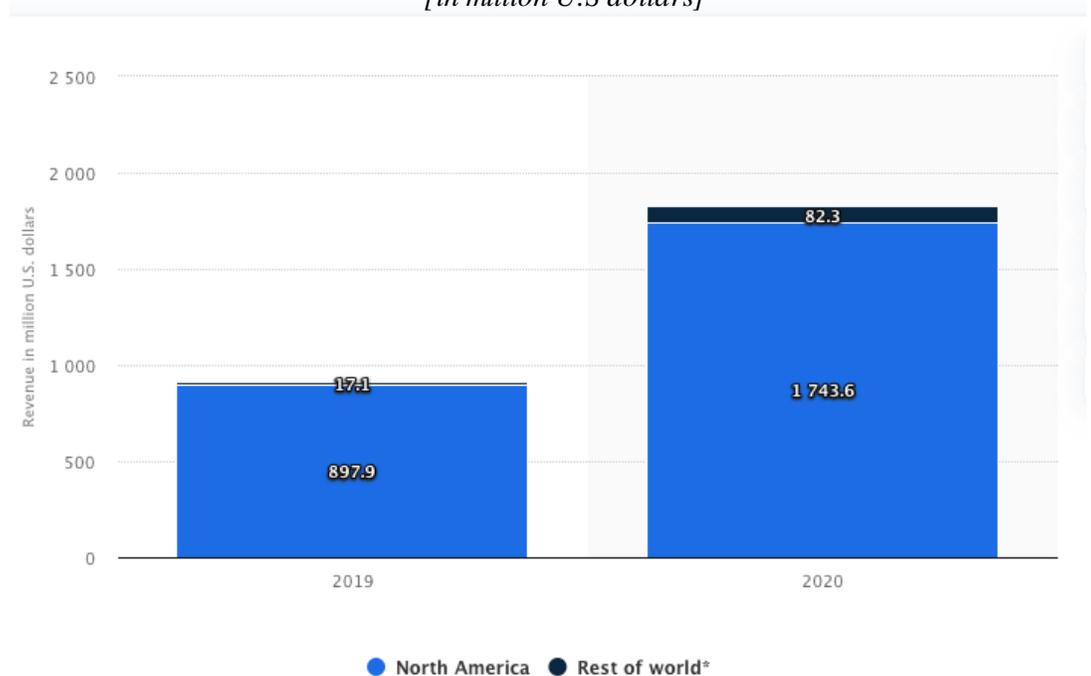


## Geographies

- Available in the US, Canada, UK and Germany

## Revenue of Peloton worldwide in 2019 & 2020, by region

[in million U.S dollars]



## Funding

- Launched with the help from a Kickstarter funding campaign in 2013
- Publicly filed for IPO in 2019
- Goldman Sachs & Co. and J.P. Morgan Securities are managing the IPO as lead underwriters



## Network effect

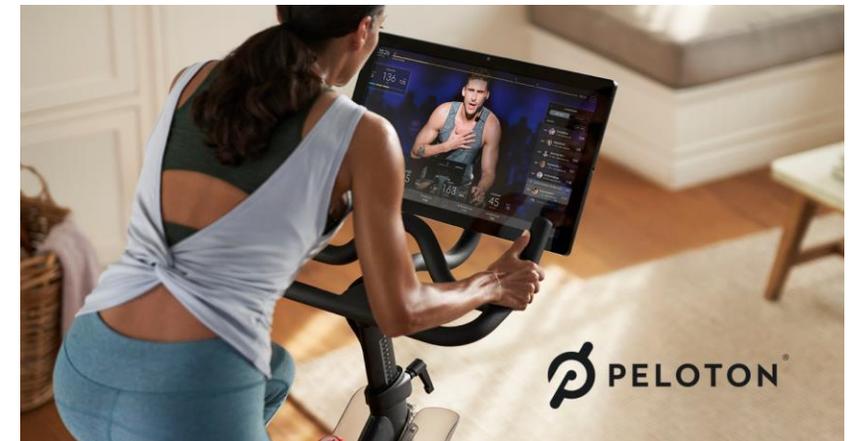
- ‘Engaging-to-the-point-of-addictive’
- 43% of peloton buyers in FY 2019 first heard about it from a family member or a friend – up from 23% in 2017
- Attracts some some of the best fitness instructors in the industry

## Variation

- 12 live cycling classes are filmed per day
- Members can find a class that fits their interests based on class type, instructor, music genre, length, available equipment, area of physical focus, and level of difficulty

## Innovative Technology

- Bikes have 2 sensors that collect data and resistance data
- Users can see their performance on a leader board
- Instructors can see user’s data in real time





## Manufacturer

- Third-party manufacturers in Taiwan were used until the acquisition of Precor
- The acquisition will allow the building of devices closer to Peloton's customer base



## Patent

- Prevents cheaper models being created that could damage the demand surrounding Peloton
  - Sued Flywheel Sports Inc. for patent infringement
  - Sued Echelon Fitness LLC for ripping off its patents and trade dress



**Peloton's stock has gained about 5x over the last year making the at home fitness company one of the biggest winners through Covid 19.**

- Strong set of Q2 FY'21 Revenue grew 128% year-over-year to \$1.06 billion
- Connected fitness subscribers grew to 1.67 million at the end of the quarter
  - **Peloton crushes estimates as sales surge 172%, expected for strong demand to continue into 2021**
- Peloton recently raised about \$875 million in capital
- Will not pay any interest on the notes until they mature in 2026
  - Conversion price stands at approximately \$239

## Key financial metrics

*[in USD DOLLARS]*

- |                                     |                      |                            |
|-------------------------------------|----------------------|----------------------------|
| ▪ <b>Price</b> 120.47               | ▪ <b>Open</b> 118.21 | ▪ <b>Prev close</b> 115.21 |
| ▪ <b>52 Wk Range</b> 17.70 - 171.09 | ▪ <b>High</b> 121.78 | ▪ <b>P/E ratio</b> 240.64  |
| ▪ <b>Market Cap</b> 35.479B         | ▪ <b>Low</b> 114.61  |                            |



## Acquisition of Precor

- Peloton can expand its reach to gyms, fitness centres and hotels
- Integrate its digital and connected fitness capabilities with Precor equipment to keep up with demand
- Leverage Precor's expertise and expand beyond its offerings of bikes and treadmills to other equipment like ellipticals and climbers
- Precor has 625k square feet of manufacturing space

## New Releases

- Peloton bikes can now be financed for \$49 a month
- Peloton bike has been available since 9<sup>th</sup> September 2020 in the U.S., Canada, UK, and Germany for \$
- Peloton Bike+ has been available form September 9, 2020 in the U.S., Canada, UK and Germany for \$2,495
- Peloton Tread will be available in the UK on December, early 2021 in the U.S. and Canada, and Germany later inn 2021, priced at \$2,495

➤ **Not many catalysts for sudden burst of growth or decline making it a healthy long term investment**

# Valuation - Overview



## Revenue

- For FY 2020, 2019, and 2018, Peloton generated a total revenue of \$1,825.9 million, \$915.0 million, and \$435.0 million, respectively
- Significant year-over-year growth of 100% and 110%
- In Peloton's fiscal 2021 first quarter [the three-month period ended Sept. 30] its revenue spiked 232% year over year to \$757.9 million

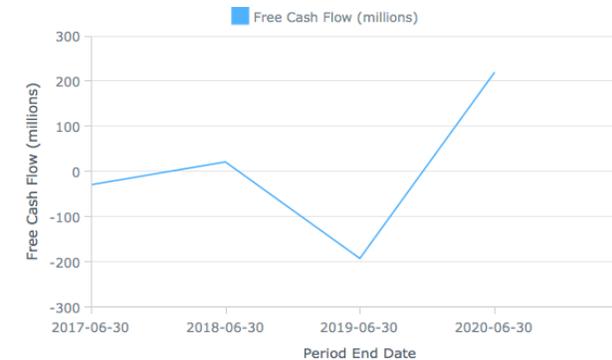
## Earnings Growth and Return on Equity

- Despite lower ROE than industry average, net income grew at a rate of 36%
  - Implies the company has a low payout ratio or is being managed efficiently
- Net income growth is higher than industry average



## Free Cash Flow

- \$220 million of cash flow in 2020
- Heavily reinvests into its business
  - CEO announced \$100 million would be invested into speeding up delivery times



# Valuation – Bull Case vs Bear Case



## Bull Case

- Peloton entered 2021 with a huge backlog
- Growth in 2020 could've been much stronger
- This revenue growth just now pushes to 2021

➤ Predicted Revenue for 2021 and 2022:  
\$181,353,000; \$175,665,000 respectively

## Bear Case

- Peloton is limited in comparison to gyms so people may lose interest when gyms open
- Over the next few years, cheaper options could become available

➤ Predicted Revenue for 2021 and 2022:  
\$164,081,000; \$168,096,000 respectively



## Environmental

- Switched to airfreight
  - Produces more CO<sub>2</sub> emissions/tonne kilometer than transport by rail or by sea

## Social

- Customer Satisfaction
  - Biggest strength with 97% customer satisfaction
- The 12-month retention rate was 93%. It seems that once a new member tries a Peloton device for the first time, he or she becomes hooked.
- Gender and Diversity
  - Non binary option
  - Highly supportive of LGBTQ+ and BLM
- Employee engagement
  - Free classes at Peloton
  - Workout at onsite gym
  - Corporate discounts from both health and fitness brands
  - Education reimbursement

## Governance

- Peloton currently expanding their operations to other countries, requires resource and management attention and subjects them to risks:
  - Compliance with anti-bribery laws (which definitely comes as a benefit)
  - Tariffs and other non-tariff barriers
  - Political or social unrest or economic instability



- Stock is up by 50% since the drop in November 2020
- Work out from home trend has continued to rise
- The trend will remain intact due to convenience
- Peloton was recently added to the Nasdaq 100 stock index