



PELTON INTERACTIVE (PTON) STOCK INVESTMENT SURVEYS AND CASE STUDIES

3 Reports: 2022 - 2024

Abstract

The Peloton stock investment surveys and case studies that follow are written for investors who may be looking at Peloton as an undervalued stock with significant appreciation potential over the coming years, or as a trading stock, or short sale candidate.

Fall 2022: Peloton (PTON) Stock Investment Opinion and Case Study:

AVOID for significant long-term appreciation

CONSIDER as a trading stock by the day, week, or month

CONSIDER for short sale

The Media Controversy Behind Peloton Interactive's Large Workforce Reduction

The big news in the business headlines and most other news outlets nationwide is the number of people being laid off from their jobs. The two major factors we hear repeatedly is layoffs are due to increased inflation and the Federal Reserve raising interest rates on a regular basis into the foreseeable future to put the brakes on runaway inflation. Increased interest rates certainly do affect some industries more quickly and more dramatically than others. The housing market for new construction and existing home sales is affected by higher interest rates in a way that touches the average person's everyday experience in some way. The mortgage refinance boom is over and gone are the days when mortgage rates could be had for as little as 2.25% with good credit. As a consequence, a lot of mortgage brokers, real estate agents, and other downstream housing market related workers are now unemployed and must look for gainful employment in other areas of the U.S. economy. Unemployment consequences are playing out in many other industries to some degree or another across the United States. However, there are market gurus who strongly believe "we may be seeing a peak in what the Federal Reserve will

do to us and also a stabilization in hiring” (Cramer, 2022). The mainstream media’s treatment of unemployment as a controversy across America is not as extreme as they would have us believe. From 1995 to 2000 the federal funds rate fluctuated from 5.5% to 4.75% in 1998 back up to 6.5% in 2000 and the US economy operated smoothly (Tepper, 2022). The current Fed rate at 4.00% is historically low. Inflation, higher interest rates, job cuts, business cycles, and COVID-19 are the backdrop to the rise and fall of Peloton Interactive based in New York City.

It would come as a surprise if anyone in America hasn’t heard of Peloton exercise equipment seeing as how each person in this country was bombarded by Peloton advertising in print, radio, TV, and social media marketing no less than 30 times and maybe up to 100 times over the last two years. After 30 in your face Peloton ads coming from different directions who really keeps count anymore. Peloton had more than 6700 employees in June 2021 at the height of its glory which will become a little more than 3800 employees with the latest round of job cuts (Simonetti, 2022). A snapshot of Peloton Interactive as a company reveals an interesting upstart operation that flew to the moon only to come back crashing to earth.

Peloton has a lot of income streams. Peloton’s three key baseline products that are manufactured and marketed very well are the exercise bikes, treadmills, and rowing machines. Peloton offers subscriptions for workout classes and video gameplay. Four premium bike packages include bikes and bike workout gear that range from \$2495 to \$2875. Four basic bike packages include bikes and bike workout gear that range from \$1445 to \$1825. Treadmill package deals range from \$3495 to \$3820. Rowing machine package deals range from \$3195 to \$3570. Access to all video workout classes is offered for an upfront fee of \$295 plus \$24 per month. That’s a lot of classes when one considers Peloton makes an average of 19 workout

videos per day. Peloton sells dumbbell workout sets. Peloton has a subscription app for \$12.99 per month for people who don't own Peloton products that Peloton hopes will become big ticket purchasers in the future as Peloton markets to them. Peloton has a long inventory list of workout gear costing anywhere from \$10 to \$620. Peloton offers apparel from \$56 to \$120 for each single piece. Peloton is even nice enough to offer out of fashion items on sale from \$10 to \$100 to reduce inventory (Peloton, n.d.).

Peloton has had a stratospheric, tumultuous, and sometimes controversial history that has included many lawsuits and government action. "A small child was dragged under a Peloton treadmill and died in addition to 39 incidents of which 23 small children were seriously injured" (Pisani, 2021). "Sex In The City actor Chris Noth died on the set after riding a Peloton bike in a scene of the Sex In The City reboot, And Just Like That" (Belam, 2019). Peloton received public criticism for belittling women throughout America by disparaging a wife in a commercial who was overjoyed by her husband's Christmas present with an unambiguous message for her to lose weight, tone up, and get sexy for her man (The Gift That Gives Back, 2019). It's not hard to imagine Peloton in its heyday most likely had a High School jock vibe going on as a big part of its company culture.

For a company that began in 2012 with \$400,000 in seed capital Peloton certainly went for a wild ride with an IPO in 2019 that raised \$1.16 billion valuing Peloton at \$8.1 billion. At the height of the COVID pandemic Peloton reached a market valuation of \$50 billion with a stock price at \$162. Peloton was in the right industry at the right time with ambitious management to take advantage of the home gym craze that swept across America during the worst stretch of COVID-19.

Nowadays Peloton's valuation is about \$2.65 billion with a current stock price in a range between \$7.00 and \$8.00. Details of line items and downtrends in business segments are clear to see in Peloton's 10-Q's for September 30, 2021, December 31, 2021, March 31, 2022, June 30, 2022, and fiscal year end 10-K 2022 that was submitted to the SEC on September 7, 2022 (United States Securities And Exchange Commission, 2022). Revenue streams are diminishing with some disappearing like the dumbbells because people are going back to the gym and fulfilling their needs at the health club. Peloton has little choice but to restructure company operations to meet new market conditions. While the business press and regular news outlets sensationalize Peloton's layoffs of 2900 workers in addition to other companies slashing payrolls in response to market conditions, it's not the same as corporate raiders and/or activist shareholders who purchase large equity stakes coming in to restructure companies to achieve economies of scale by planning a future acquisition or merger, stripping out pensions, and requiring workers who remain to do a whole lot more with a lot less. While a light recession may ensue to bring the U.S. economy back into equilibrium we certainly will not see a deep recession.

Peloton's reduction in workforce is not as controversial as some news organizations would have us believe. Job layoffs are a part of the business cycle. In this instance two cycles are occurring at the same time: Peloton's business cycle and the U.S. economic cycle as the Fed fights higher inflation. Higher inflation is an unintentional tax on wage earners. When employees are laid off some will receive severance benefits and others will file for unemployment. Displaced wage earners will later filter into other companies in the beginning or middle of their respective business cycles.

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Fall 2023: Peloton (PTON) Stock Investment Opinion and Case Study:

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AVOID for short sale in current trading range

Review of the Rise, Fall, and Longshot Resurrection of a Fitness Experience Company

The years 2020 through 2023 will be remembered as a time of tumultuous change throughout the business world. Most US companies were hit hard by the Covid-19 pandemic whether it was by needing to lay off a sizeable portion of its labor force or by sending them home to work, or lastly by reinventing their business structures to stay in business during this unprecedented time. While most businesses had moved past the government mandated lockdowns that so devastatingly lowered their bottom lines, by 2022 Peloton was seeing its margins continue to shrink due to increased inflation and the continuous increases of interest rates by the Federal Reserve to help curb inflation. Since March 2022, the Federal Reserve has raised rates a sharp 525bp to a 5.25-5.50% target range marking one of the steepest hiking cycles in four decades (Chambless, G, 2023).

Peloton has been described as a unicorn because at the time there was nothing on the market quite like it. Peloton is a fitness company that manufactures and produces high-end exercise equipment that includes stationary bicycles, treadmills, rowing machines, and accessories. Peloton was founded in 2012 by John Foley, Tom Cortese, Graham Stanton, and

Yony Feng who all wanted to create a better way for people to gain access to high quality indoor cycling classes. Their rationale was that live instructor-led workouts were better and more rewarding than trips to the gym working out alone on a stationary piece of equipment without an instructor. Each piece of equipment offers a high-definition monitor screen that offers its members classes on demand as well as live classes. They have enthusiastic well-trained instructors who offer a wonderful interactive fitness experience for each class. Classes include cycling, rowing, running, walking, yoga, Pilates, strength training and meditation. Peloton gained popularity and members quickly as fitness enthusiasts were searching for a more convenient way to take a spin (cycling) class (CyclingInspire.com, 2023).

Peloton has managed to build an extraordinarily strong brand that resonates with consumers and has a highly engaged community of over 6.5 million members as of June 30, 2023 and its marketing as a luxury fitness brand is communicated effectively. So, where did Peloton go wrong? Some say it began with a 2019 commercial released for the Holiday season where a woman is gifted a Peloton bike from her husband for Christmas. Unfortunately, many viewed the advertisement as being sexist and stated it portrayed a wrongful message that a woman's worth is only depicted by her physical appearance. Even though Peloton stated the message of the commercial was meant to be a "celebration of fitness and woman everywhere" the damage was done, and their stock took a hit (Cyclinginspire.com, 2023).

However, during the Covid-19 pandemic Peloton became a Wall Street phenomenon with its stock trading at \$171 per share and a market cap of approximately \$50 billion. With gyms all over the U.S. shutting down and people forced to stay at home orders for Peloton's bike and Tread far surpassed anyone's expectations. However, by 2022 Peloton was struggling with logistical issues in distribution of their equipment to consumers' homes on a timely basis, a

product recall, and diminishing stock value. This forced the company to lay off thousands of employees as well as replacing its CEO (Businessinsider.com, 2023).

Peloton's current monthly membership pricing structure depends on the type of fitness experience a person wants. You can go as far as purchasing all of their fitness equipment to create your own home gym with all the amenities or use your own equipment and follow along on their app with a Peloton instructor. An All-Access Membership is offered to members who own Peloton equipment for \$44/per month plus any applicable taxes. This plan allows a member to use up to two pieces of equipment with unlimited classes in addition to access to exclusive classes, programs and challenges. For the app only experience they offer two plans. The Peloton App One is a \$12.99 a month subscription and offers members no limits on strength, cardio, Pilates, meditation, outdoor running, plus more classes and up to three cardio equipment classes per month which includes cycling, running, walking, and rowing. The Peloton App+ will run you \$24 a month with no limits on any classes plus you also get access to exclusive classes, programs and challenges. These prices are significantly less expensive than the cost of gym membership and provide the convenience of getting a workout from the privacy of your own home.

The original Peloton bike which they call the cardio dream machine retails for \$1,445 new or refurbished for \$1,145. Consumers can finance from 0% APR with \$0 down or rent commitment free for \$89/month. The Bike+ which allows a rider to swivel the screen to be able to do floor and strength-training workouts retails for \$2,445 new or refurbished for \$1,995. Consumers can finance from 0% APR with \$0 down or rent commitment free for \$119/month. Peloton's other pieces of equipment, the controversial Tread, and the rowing machine both retail at \$2,995 and while you can finance both options neither is available for rent. Peloton's newest

addition is their AI-powered personal trainer, the Guide, a piece of innovative technology which has packages that range from \$195 to \$590 (Peloton.com, n.d.).

As of October 20, 2023, Peloton's current valuation is about \$1.71 billion with a current stock price in a range between \$4.50-\$5.50. Specific details of line items and downward trends in its business segments are clear to see in Peloton's 10-Qs for September 30, 2022, December 31, 2022, March 31, 2023, June 30, 2023, and fiscal year end 10-K 2023 that was submitted to the SEC on August 23, 2023 (United States Securities and Exchange Commission, 2023).

Additionally, on August 23, 2023, Peloton reported wider than expected losses sending shares down by 22%. They, however, did surpass sales expectations and its CEO warned the coming quarter would be its most challenging from a growth perspective and has projected a decline in new subscribers. They are blaming it on the recall of its Bike seat post and seasonality. The recall of the Bike's seat post impacted more than two million of the Bikes they had sold since January 2018 and cost them \$40 million in replacement costs for the quarter and far exceeded what Peloton had anticipated. The bike seat had a tendency to detach and break unexpectedly when being used which caused 15,000 to 20,000 people to pause their monthly subscriptions during the quarter while waiting for their seat to be replaced by Peloton.

To stay competitive and meet new market conditions Peloton unveiled a new marketing strategy and rebranded themselves as a "fitness company for all" focused more on the app and subscriptions than on the sale of its exercise equipment (YouTube, 2023). Their hope is this will capture a new customer base by introducing a tiered pricing structure for its digital application users. Tom Cortese, a Peloton co-founder and its Chief Product Officer was quoted, "[We're] now leaning in for the first time to the idea that OK, not everyone is going to bring premium Peloton

hardware into their home." Peloton's CEO, Barry McCarthy, has worked to transform Peloton into a company that is invested in improving its digital application features and the high-margin subscription revenue that digital application features bring (Fonrouge, 2023).

Although Peloton has experienced several arduous growing pains, as a Peloton consumer and owner of a Peloton bike myself I am confident Peloton will come out of this funk 5 to 10 years from now and be stronger for it. It is truly a great product that changes people's lives. It is a community where you can go improve yourself both mentally and physically. Peloton's CEO was quoted as saying, "I don't mean to sound like one of those CEO's who's completely disconnected from the stock price because it's not lost on me. But I have never been more optimistic and more excited about the future of the business" (Fonrouge, 2023).

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Fall 2024: Peloton (PTON) Stock Investment Opinion and Case Study:

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Peloton: End of the Road for PTON as a Serious Investment for Value Investors in the Near-Term and Medium-Term

Over the past year Peloton has traded in a band between roughly \$7 per share and \$3, but the more common range PTON trades in is between \$5 and \$3. About 91% of the stock is held by institutions so there is little room for more institutional ownership. More likely, institutions will exit their PTON equity positions, write-off the losses, and the stock will see lower lows as time goes on. This stock will continue to languish as a penny stock for many years to come.