



Peloton Interactive | Background & Analysis

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Executive Summary

Peloton Interactive, Inc. (PTON:US) is a publicly-traded tech company currently under pressure from investors, analysts and competitors, as well as outside forces. Company executives, including founders John Foley, Tom Cortese and Hisao Kushi, look to assess Finsbury's potential as a consulting firm. Their company recently experienced a significant increase in revenue, but is reporting loss that continues to draw unfavorable attention from key publics. It is also facing challenges related to both past and current litigation, with the risk of losing key patents being among the most noteworthy concerns. Concurrently, Peloton must navigate the effects of the novel coronavirus outbreak on its operations, as well as coronavirus-related impacts on the markets and consumer behavior.

Peloton operates in a complicated and evolving landscape, and holds a mixed reputation. While it is well-received by consumer media and digital audiences, it has notable opportunities for improvement among other publics, such as investors and analysts. The company must address expectations from all of its publics in order to reach the next level of success, particularly now, given the various situations at hand.

Company Profile

Peloton Interactive, Inc. (PTON:US) is a connected fitness company driven by two major business lines—advanced home exercise equipment, and interactive classes offered through a subscription-based streaming platform. The market leader in connected fitness, Peloton appeals to customers with its premium hardware, diverse programming and a coveted network of instructors. The company's latest quarterly filing reported more than 700,000 connected fitness subscribers, with a notable 12-month retention rate of 93 percent. This is currently Peloton's first year as a public company since its IPO in September 2019.

Leadership & Governance

Peloton is managed by a crowded leadership team, which consists of [60 senior-level personnel](#). The leadership team includes Peloton co-founders John Foley, Tom Cortese, Hisao Kushi, Yony Feng and Graham Stanton. The company board of directors consists of Foley, who serves as chairman; William Lynch, president; and six independent directors. These six independent directors lead three oversight committees: Audit; Compensation; and Nominating, Governance and Corporate Responsibility.

Meeting the Executives

We are expected to meet with Foley, Cortese and Kushi among other Peloton executives. In recent months, **Foley**, who serves as CEO, has seen his role rapidly shift from [reaffirming Peloton's value](#) in the wake of an underwhelming IPO to navigating new challenges and opportunities created by the novel coronavirus (COVID-19) outbreak. Meanwhile, **Cortese**, COO and head of product development, has been wrapped up in the increasing demand for new product lines, having to manage [various rumors/expectations](#). **Kushi**, chief legal officer, has been immersed in a space of his own, having recently overseen several major legal battles including [a key victory](#) over Flywheel, a surging competitor. Cortese and Kushi have presumably been given major roles in Peloton's organizational response to COVID-19.

Immediate Competition

Some of Peloton's most direct competitors are companies such as [Echelon](#) and [NordicTrack](#). These companies offer a connected fitness experience similar to that of Peloton, providing high-quality equipment and subscription-based fitness programs. Peloton currently leads the pack in price point, and is also the frontrunner in popularity.

Key Investor Information

Peloton (PTON) is relatively new to the NASDAQ, having completed its IPO in September of 2019. In its [latest earnings statement](#), the company reported quarterly revenue of \$466.3 million, a year-over-year growth of 77 percent. It also reported a quarterly loss of \$55.4 million, and [past comments](#) from John Foley suggest that Peloton may continue to see similar results as it prioritizes long-term growth. Peloton's cash on hand (as last reported) sits at \$532.8 million. As with many tech unicorns, investors are counting on Peloton's eventual path to profitability.

The Peloton IPO lock-up period on insider trading [recently ended](#) in late February, and to the surprise of analysts, there was no mass selloff of Peloton stock. Some analysts believe that [Peloton will now overperform](#) thanks in part to global quarantines forced by COVID-19. However, there have been reports of early investors [selling substantial equity](#), putting the stock's short-term outlook into question.

Criticism from Investors & Analysts

There have been no reports of substantial investor activism from within Peloton. However, Peloton has a notable pool of analysts who hold bearish expectations for the company. Prominent short-seller Andrew Left (Citron Research) has been among the most vocal. In a relatively [recent note](#), Citron pointed to Peloton's business model as flawed, overly promotional and too dependent on fitness fads, while suggesting that the company has not innovated in a meaningful way since its launch.

Significant Litigation

Peloton has been active in significant litigation with its competitors as well as with entities outside the connected fitness space. The company recently [ended a legal battle](#) with music publishers from the National Music Publisher's Association, choosing to settle for an undisclosed amount after a [countersuit fell short](#) and [complaints from users](#) grew louder and louder. Now that the settlement is complete, Peloton has an opportunity to at last get its product's music experience back on track.

Currently, Peloton's most significant legal battle is [a patent dispute](#) with its close competitor Echelon. Peloton has accused Echelon of imitating the Peloton Bike experience through the infringement of two patents. In [a similar case](#) that was recently settled, Peloton succeeded in forcing Flywheel to discontinue its respective product by citing patent infringement. However, that win came at high risk, and that same risk is apparent in this new battle with Echelon. Should Peloton emerge on the losing side of this dispute, or should any of its patents be struck down, it would have more to lose than just the case. A loss would set a new precedent for future disputes. Concurrently, a loss of patent protection would cause Peloton to give up a huge competitive edge. The company should be prepared to communicate appropriately in such an event in order to retain the loyalty of consumers and investors.

Other Threats to Corporate Reputation

Some segments of the general public still retain negative sentiment from Peloton's infamous holiday ad in Q4 2019. However, at this point almost all audiences have since shifted their focus to COVID-19. The company has responded to our public health crisis by closing its live studios and retail locations, [suspending delivery of its treadmill](#), and implementing safety measures for its employees among other actions. Both Peloton's corporate reputation and financial health over the next few months will be closely tied to how well it protects the health of its workforce while giving investors good cause to hold their investments despite a turbulent market.

Media Exposure

Peloton receives traditional media exposure from both business/financial news outlets and consumer outlets. It holds a mixed reputation within financial media; major outlets appear just as likely to report negative news and perspectives on Peloton as they are to yield positive coverage. Analyst opinions vary from some who call for a \$33 to [\\$37 price target](#) on Peloton stock, to those who expect shares to fall [as low as \\$5](#).

Meanwhile, the company enjoys a much better reputation within consumer media. Peloton's product is held in high regard, and even when the topic of media discussion shifts to alternatives, Peloton is almost always positioned as the brand to beat by both the [tech space](#) and the [health space](#). If Peloton is to keep its distance/separation from the competition, maintaining this high level of media advocacy will be key.

On social media, Peloton has largely shaken the negative sentiment from last year's ad controversy. While some audiences now come back to it for comedic value, much of the social media discussion has moved toward Peloton's increased relevance in the midst of new quarantine situations. Overall sentiment is mixed, but among influential voices, the Peloton brand has generally received more positive exposure than negative. There is also a segment of Peloton's social media audience that has been vocal about the company's underwhelming delivery performance, which was to be expected considering COVID-19's current impact on the company's operations.

Reputation Summary

Peloton's overall reputation is solid among consumer media outlets and most social media influencers, as well as among users of its product. Its reputation among investors, analysts and financial media remains questionable. Meanwhile, whatever existing reputation the company had among its employees is likely being put to the test by COVID-19, and its internal response to the virus will certainly have a lasting impact on employee sentiment.

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Appendix

[A COVID-19 Update from Peloton's CEO](#)

[Early Peloton Investor Sells a Big Block of Stock](#)

[Elika Sadeghi on Twitter: "Not such an insensitive gift now, was it?... "](#)

['Head scratcher' — Peloton CEO admits he doesn't understand why shares sank after initial pop](#)

[Is Echelon's Economical Home Spin Bike As Good As The Peloton?](#)

[Peloton alternatives: 4 great indoor exercise bikes that cost less](#)

[Peloton Announces Settlement Of Litigation Against Flywheel Sports, Inc. | Peloton Interactive, Inc.](#)

[Peloton's countersuit against music publishers over song copyrights just got thrown out](#)

[Peloton is 'clearly benefiting from global quarantines,' new data show](#)

[Peloton Is Not a Fad: James Hardiman](#)

[Peloton just IPO'd—So we interviewed Co-founder & COO Tom Cortese - Robinhood Snacks](#)

[Peloton - Meet Our Team](#)

[Peloton's 'Moat' Depends on Patent Challenges It May Not Win](#)

[Peloton Settles Music Publishers' Lawsuit](#)

[Peloton shares plunge 6% after short-seller note warns of more-affordable competition](#)

[Peloton Stock Is Up on a Dreadful Day for the Market. Here's Why.](#)

[Peloton temporarily suspends sales and deliveries of its treadmill](#)

[Peloton to cycling rival Echelon: Stop following the leader](#)

[Peloton to Sell Cheaper Treadmill and Rowing Machine in 2020](#)

[Peloton users complain about terrible '80s music in wake of \\$300 million lawsuit](#)

[SHAREHOLDER LETTER](#)