Badger Consultants, LLC
Report Date: September 21 , 2021
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Peloton Interactive, Inc.
PTON - $102 NasdaqGS

Recommendation: Sell Short

Reasons For Short Sale Recommendation

- **Revenue growth slowing.**
- **Workout growth slowing.**
- **Margins declining.**
- **Massive increase in inventories.**
- **Had to cut the price of their exercise bike $400, or 21%.**
- **Still expensive, $31 billion enterprise value?**
- **Covid was a godsend to their business, and yet they were still only profitable for 3 quarters before returning to unprofitable.**
- **Has never made an annual profit.**
- **Tough comparisons ahead.**
- **Fad element of exercise equipment rearing its head again, as it always does.**
- **Churn increasing.**
- **Will no longer disclose Average Monthly Churn number?**
- **Subscriber Acquisition Cost (SAC) was $1,322 in FY 2021.**
- **Takes 7 years to recoup SAC.**
- **Insider selling.**

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Financials

Market Capitalization	**$30.27B**	Revenue/Shr (TTM)	$13.69
Enterprise Value	$30.98B	**EBITDA (TTM)**	**-$89.9M**
Trailing P/E	N/A	**Diluted Earnings/Shr mrq)**	**-$0.64**
Forward P/E	N/A	Total Cash (MRQ)	$1.61B
PEG ratio (5 Yr Expected)	7.53	Total Cash/Shr (mrq)	$5.35
Price/Sales (TTM)	**7.53**	Total Debt (MRQ)	$1.51B
Price/ Book (MRQ)	17.23	Current Ratio (MRQ)	2.27
Enterprise Value/Revenue	**7.7**	Book Value/Share (MRQ)	$10.56
Enterprise Value/ EBITDA	-344.64%	**Operating cash Flow (TTM)**	**-$239.7M**
Profit Margin %	**-4.70%**	Levered Free Cash Flow(TTM)	**-$521.28M**
Operating Margin (TTM)	**-3.60%**	52 Week Change	9.09%
Return on Assets (TTM)	**-2.43%**	**Shares Short**	**2.9.81M**
Return on Equity (TTM)	**-11.01%**	**% of Float Short**	**11.19%**
Revenue (TTM)	$4.02B	Short Ratio	4.42

(TTM) = Trailing 12 months, (MRQ) = Most recent quarter, M = Millions, B = Billions, m = Thousands

Short Thesis

We have always viewed PTON as another in a long line of fad exercise equipment makers. We have successfully shorted CML, Nautilus (The Bowflex) in the past. We have seen this movie before. It always ends the same. A fast rise. Then, Wall Street extrapolates the success out for years. Valuations become ridiculous. Then the novelty wears off &/or a new exercise/fitness product comes along and the stock crashes and burns. **Valuations decline 90%!**

It is never different this time! Bulls claim that this time is different. That **people love the bikes and classes and instructors and that it is not a fad**. We disagree. Yes, some customers absolutely love the bike/classes/instructors and use it almost every day. That does not change the fact of HUMAN NATURE. We humans get bored with the same old, same old. Especially, with exercise and diets. We are lazy and are always looking for an easier/better way to exercise &/or diet. This is a cycle (pardon the pun) that lasts about two years in the home exercise equipment arena. There are simply not enough diehard exercise enthusiasts to support a $31 billion valuation. Not everyone exercises. Of those that do, many will not/can not afford to spend over $1,000 on an exercise bike or $39/mo. Some people prefer to go to a gym. Some people prefer to exercise outside. Exercise fads come and go all the time. **It is silly to pay extremely high valuations for fleeting success**. CML, Nautilus, Cross Fit, Aerobics, SoulCycle all were very popular at one time. **ALL of them crashed and burned**.

Before Covid in 2019, PTON was estimated to be unprofitable for the next three years. Then Covid hit and fitness clubs had to close, so people could only workout at home. PTON sales exploded and they briefly became profitable, for 3 quarters, before reverting back to being unprofitable. **We believe that Covid pulled forward years worth of consumer demand.** We are closer to the end of Covid than the beginning. Fitness clubs are opening back up. The peak in working out from home has passed. Yes, people will still work out at home, I do three times per week. But the peak for PTON has passed.

We have been around long enough, 34 years in the shorting business, that we have seen this movie several times before. We know how it ALWAYS ends - badly!

1st Movie feature: CML Goup

We were around in 1993 and were short a company called CML Group, they made the NordicTrack cross country ski machine: NordicTrack TV commercial (1993) The machine cost $1,200. That was a lot of money in 1993. CML's investment in new advertising and product development for NordicTrack had paid off handsomely by 1991. Compound annual sales growth at the subsidiary for the five years since its acquisition in 1986 was an impressive 53 percent. **Sales during the same period rose by more than 500 percent** to $135 million, providing about 40 percent of CML's sales. With a 42 percent operating margin, however, earnings on these sales accounted for a stunning 86 percent of CML's operating income.

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By 1992, it was estimated that up to 55 million households were willing to spend $300 or more on in-home exercise equipment and NordicTrack sales represented only three percent of this potential market.
As the growth in direct order sales began to taper off, NordicTrack **looked to its retail outlets** to provide a higher percentage of sales (PTON has opened retail outlets). By the end of 1992, the company had opened 18 "NordicTrack Fitness At Home" retail outlets.
By 1994, in addition to 60 "NordicTrack Fitness at Home" outlets the company was operating 12 high-end stores called "Nordic Sport," two family- and youth-oriented locations dubbed "Fitness for Fun," and a larger format "Factory Direct" showroom which featured all NordicTrack lines as well as discounted equipment.

NordicTrack's impressive performance continued into the early 90s. **Sales almost doubled to $265 million in 1992 only to climb to $378 million the following year.** Largely on the basis of NordicTrack's success, **CML stock became a darling of Wall Street, soaring to a high of $41 per share in June 1993** and spurring the Boston Globe to name CML "company of the year" for 1993. Even as new products and retail outlets kept sales rising, however, the costs involved in these new ventures caused operating margins to shrink alarmingly from a high of 42 percent in 1990 to only 26 percent in 1993. (**PTON has negative operating margins**).

Concerns about the performance of NordicTrack began to surface in mid-1993 when management imposed a one-week layoff on all office and manufacturing employees. When copies of the memo circulated on Wall Street CML stock sunk to $26 a share, down 36%. NordicTrack was particularly vulnerable to a downturn in the number of people actively participating in fitness activities because, unlike such products as running shoes, the company's exercise machines did not require frequent replacement (neither does a bike or treadmill).

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By the second half of 1995, it became clear that CML was in trouble. **NordicTrack had been providing** the bulk of CML's sales and an even greater **percentage of earnings**, reaching almost 70 and **96 percent**, respectively by 1994. **NordicTrack's phenomenal growth, however, could not be sustained.** NordicTrack sales were up for the year overall, thanks to the opening of 26 new retail stores, but comparable store sales and **sales generated through the company's direct-response ads decreased significantly**. Even more alarming was an abrupt drop in **operating income which, at $46 million, had been cut almost in half** from the previous year. (PTON has just had an abrupt drop in operating income, from +$90 million to negative $300 million 4Q/4Q, same movie). **CML stock fell 60 percent** over the course of the fiscal year as management was forced to continually downgrade earnings estimates. (**Keep in mind that the stock declined 60% even though they were still profitable, PTON is unprofitable)!**

If 1995 was a poor year for NordicTrack, 1996 was a disaster. **Riders,** a combination stationary bike and upper-body exerciser, **had replaced the skier as the new exercise equipment fad.** Sales for the year fell for the first time since NordicTrack's acquisition by CML, dropping by 27 percent to only $368 million. Most of this decrease was caused by a 50 percent decline in direct response sales, resulting in a net loss of $73 million for the year. NordicTrack sales continued to decline through 1997, dropping to only $268 million for the fiscal year. The NordicTrack **cross-country skiers** that had been responsible for building the company **had lost their appeal to the fad-driven fitness market.**

From top to bottom the stock declined over 80%. Every rally was a shorting opportunity.

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2nd Movie feature, same as the first: The Nautilus Group.

In 1996 we were short the Nautilus Group, the maker of the **fad fitness product The BowFlex** BowFlex TV commercial 1996
They sold their cable-based weight system on TV infomercials, it allowed for a versatile series of workouts to be performed in a relatively small space.
The Power Rod technology uses a pulley/cable system, with resistance coming from long, flexible "rods" that extend up from the rear of the Bowflex machine. Prices started at $650 and went up to over $1,500. **The fad peaked in 1998**.

It was the exact same story as the Nautilus. Sales skyrocketed, the stock took off and it ended the same. It turns out that the total addressable market (TAM) for these products is far smaller than people and investors think. It is about 2 million units for a fad fitness product. PTON management is claiming 12 million for their bike. **The problem with these products is that not everyone will buy one. They take up space in your house. People ALWAYS stop working out after awhile, or switch to a new fad**. I know, I have quit working out several times.

The initial sales for a new fad fitness product are the EASY sales. It is a year or two later (where we are now with PTON) when the easy sales have already occurred and now you have to convince people who have already seen your TV ads for over a year and still have not bought one, to buy. Worse, right when their sales start to become harder, new competition comes in with similar products at lower price points. To maintain sales, they have to cut prices (PTON just cut their bike by $400) and margins and earnings follow lower, the stock gets killed when management lowers guidance several times.

25 biggest fitness fads of all time
(Stretching, Vibrating belt, Jazzercise, Aerobics, Tae Bo, Spinning, Zumba, total gym, etc...). Why did these all stop? Because, IT IS HUMAN NATURE. PTON can not change human nature.

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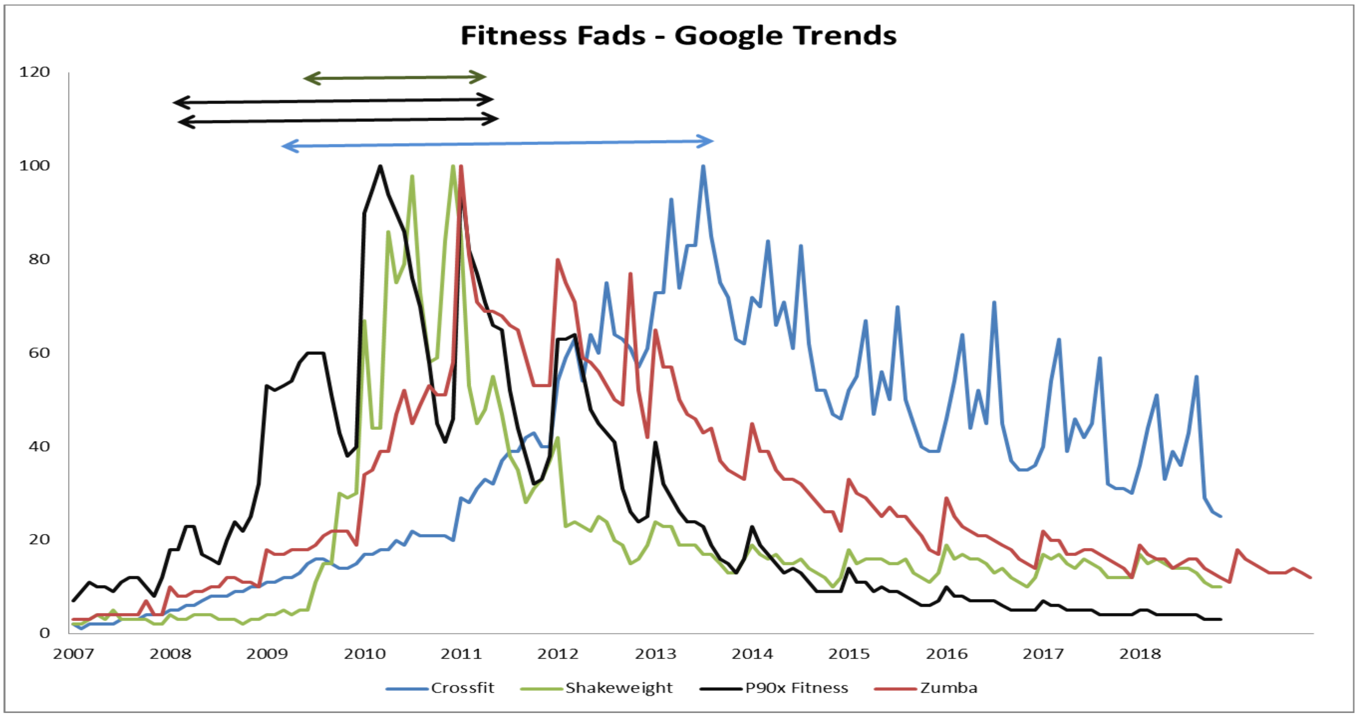
Fitness fads are notorious for short-lived successes, and **generally peak within 5 years (PTON is at 5 Years)**. People become tired with their fitness routines and quickly move on to the next fad. Even gyms, like Planet Fitness, have 20% + churn rates.



We had a Cross Fit and a SoulCycle store near our house in Madison, WI. There were times you could not even get into the SoulCycle spinning classes because they were so popular. You had to make an appointment online, and the class would fill up in minutes. The instructors were popular. What happened? **Both stores went out of business within 3 years!** Why, they were immensely popular? Because it's HUMAN NATURE. They all became fads! Even though at the time, people said they would do it forever, they loved it, yada, yada, yada. Guess what, they didn't. Sure, the diehards would still go, but the class that used to have 30 people, would now only have 6 people.

PTON is showing ALL THE WARNING SIGNS. Workouts have started to decline, inventories are building up massively, they are cutting the price of the equipment, digital subscribers declined. (Re-read that sentence).

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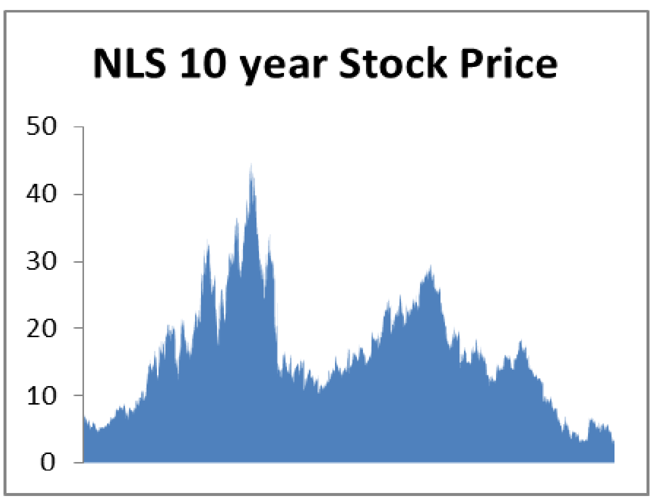
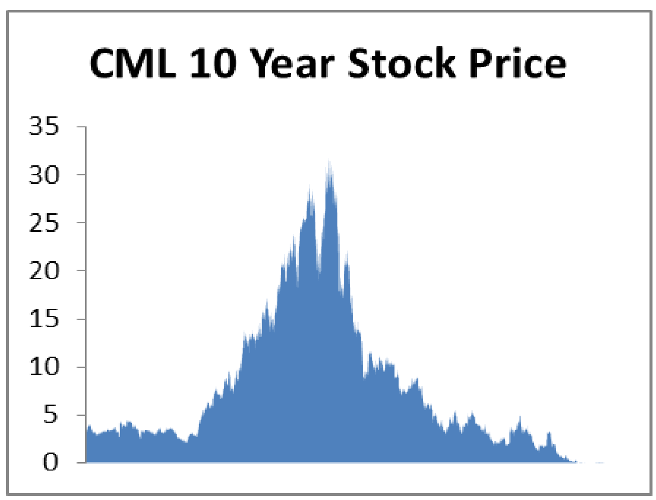
NordicTrack and Bowflex are among the most successful fitness product companies ever. Both experienced extreme popularity reaching more than $5B in cumulative sales, in today's dollars (PTON is over $7.5B). Yet, even with product innovation, **the brands lost their appeal due to rising competition and changing consumer tastes**. Both brands peaked out well before the 2000 tech bubble or the 2008 GFC. **NordicTrack and Bowflex's sales peaked after year five (right where PTON is now)**, when sales represented ~17% of cumulative sales in the surrounding 10 year period.

Peloton's optimistic valuation has been based on its large and growing TAM. Management believes their serviceable addressable market is $12B in the US ($15B globally). For comparison, it was estimated NordicTrack sales in 1992 represented only 3% of their 55 million households TAM. NordicTrack peaked 3 years after this estimate, generated ~$2.7B (unadjusted) cumulative sales from 1990-2000 (15% penetrated).

Both of those companies were PROFITABLE and their stocks still went down over 80%. **If PTON can not make an annual profit at the peak of their sales cycle, when will they ever?**





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We ended up making over 60% on our short and traded it several more times as clueless Wall St analysts kept recommending it all the way down.

Similar to Peloton's bike, only 8% of NordicTrack's sales were generated by products other than cross-country ski machines, in 1992 (PTON was at almost 90% cycling in 2018, they are now at about 58%).

Even as new products and retail outlets kept sales rising, the costs involved in these new ventures caused operating margins to shrink; **operating income peaked a year before NordicTrack's sales peaked** (**PTON operating income peaked in 4Q20, sales peaked in 3Q21**), while operating margin declined since its IPO.

PTON is showing all the same slowdown in metrics that CML and Nautilus experienced. It is not different this time!

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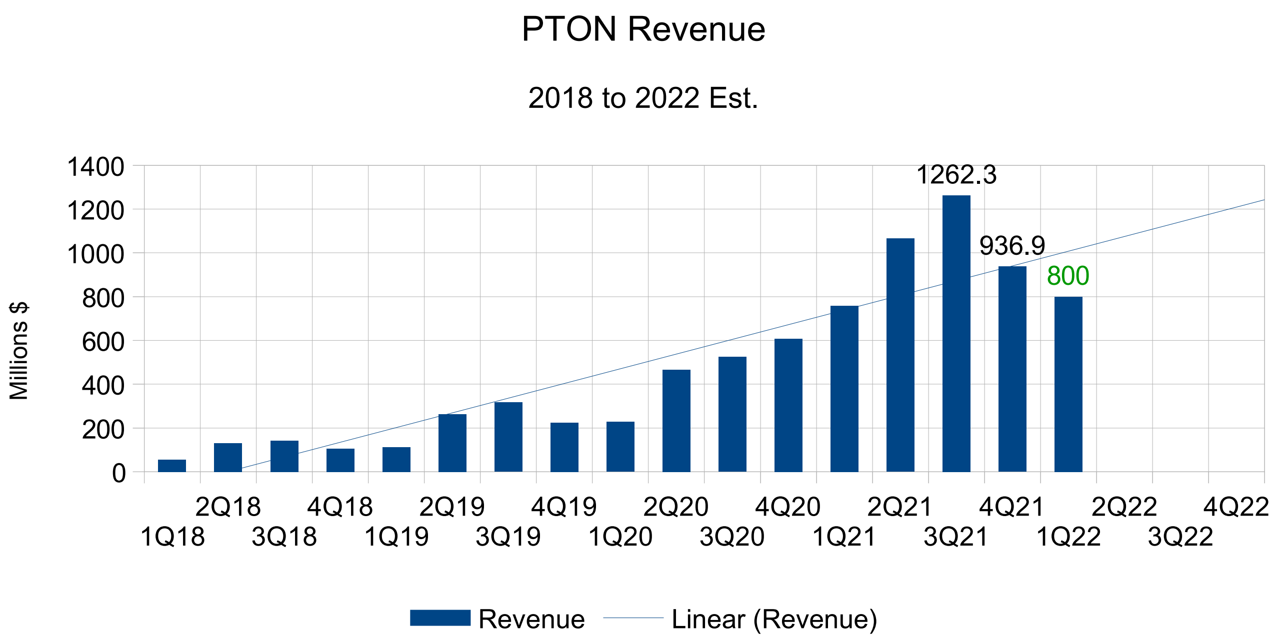

PTON is in year 5 of their existence. This is right about the time previous exercise companies experienced difficulties. How does PTON look in comparison? Almost exactly the same. Remember that the bullish argument is that PTON is different, that it is not a fad. If it is not a fad then sales, workouts and earnings should be increasing over time. But PTON is experiencing difficulties. Almost everything is slowing. Let's start with revenue. From 2018, it is still trending up, but from 2021 it is starting to slow and is now far below the trend line. In 2019, 2020 and 2021, first quarter revenue was higher than the previous 4th quarter by 5.4%, 2.1% and 24.9% respectively. However this year, 2022, management has guided revenue to $800 million a **14.6% sequential decline** from the 2021 fourth quarter. That is a change. Is it a one off and revenue will get back to the trend line? We seriously doubt it because as you will see, the numbers of workouts is declining. **Also, the 2022 first quarter ending September 30, 2021 is the first time EVER that sequential revenue will have declined in the first quarter**. That is a very ominous sign! This is supposed to be a growth stock?

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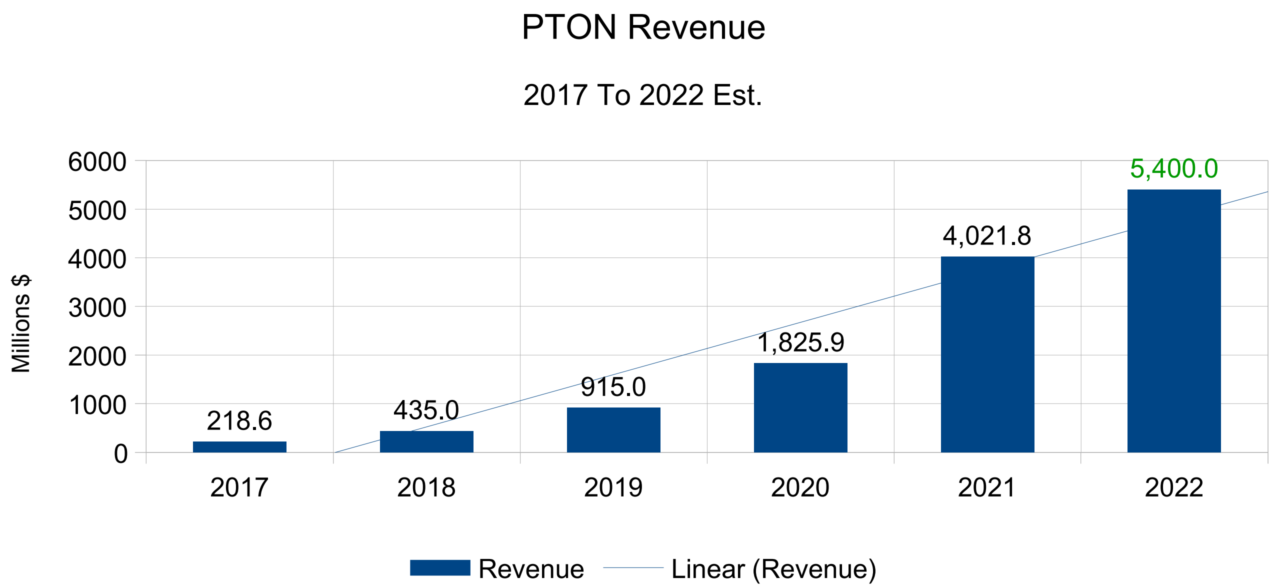

On an annual basis and if looking at Wall street estimates for revenue for 2022, all is well. **Revenue is estimated to be up 34% in 2022**. But with sequential revenue negative for two quarters in a row, we put a **high probability that PTON will have a revenue miss in 2022**. We believe that PTON management will continue to lower guidance going forward. The stock price should follow this lower guidance.

Management guided 2022 first quarter revenue to $800 million and Wall street has a 2nd quarter revenue of $1.51 billion. That means that **PTON has to do $3.09 billion of revenue in the second half of 2022** to reach the year estimate of $5.4 billion. That would be 77% of the entire 2021 years revenue? Why is there suddenly going to be a huge jump in revenue when the decline in workouts has started and digital subscribers declined? **Sequential revenue has declined for two quarters in a row for the first time ever,** but suddenly it is going to do even better than the second half of 2021 before the slowdown? In the second half of 2021, PTON did $2.2 billion in revenue. Now they are going to do $3.09 billion? Yes, they cut the price of the bike by $400, but that just means that they have to sell even more units than 2021? **They have to do better than 2021 by 40% in the 2nd half**, not going to happen in our opinion.

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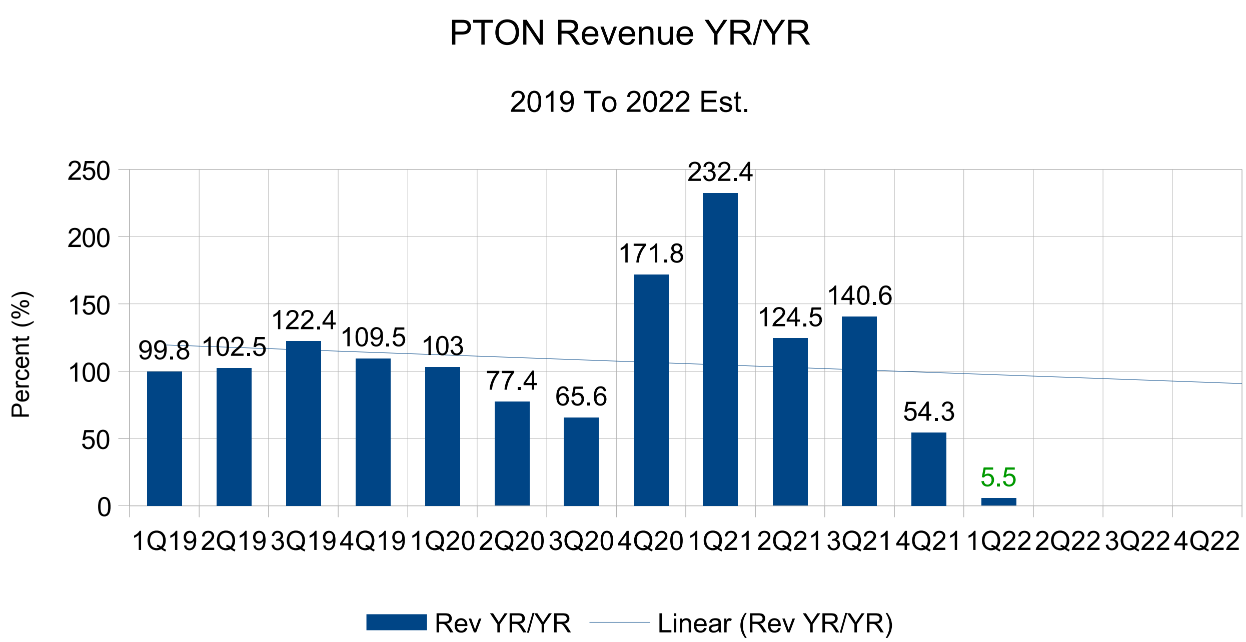

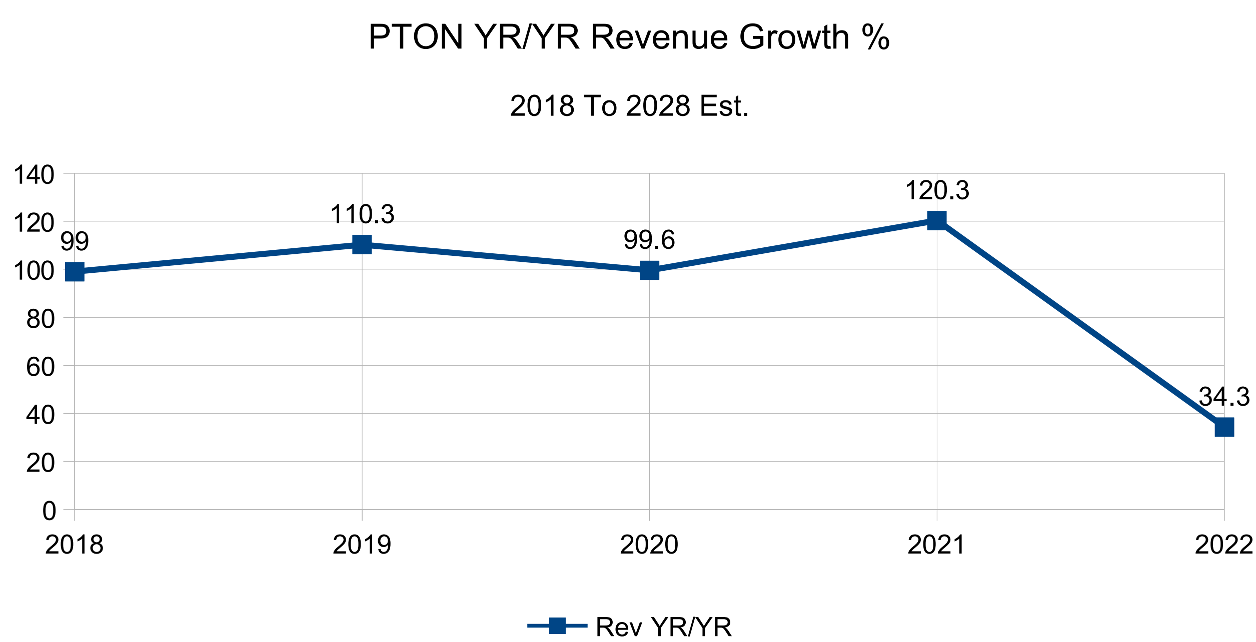

PTON year over year revenue growth HAS COLLAPSED! Happens to exercise equipment companies in year 5!

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Bad Management Timing

After Covid hit in 2020, suddenly PTON was caught short in their supply and demand equilibrium. They had orders for more bikes than they could make. It took weeks/months for customers to receive their bikes. **This is a good thing,** not a bad thing! **It means that you have a hot, in demand product! It means that you can charge top dollar &/or raise your prices.** And guess what? People will pay it!

The worst thing that you can do is panic and decide, oh my god, we have to increase production at all costs. Instead of seeing that the increased demand was BECAUSE of Covid, and was for a large part, a temporary pulled forward increase in demand, they decided to, wait for it: **build a new factory in the USA!**

Now, we are all for products built in the USA, but factories in the USA are far more expensive to operate. Apparently, U.S. workers like high wages and benefits. So, what happens? By the time the factory is built in 2023, and they can then increase capacity and meet the increased demand, the demand has already started to slow substantially. All those people that couldn't get your bike, bought a competitors cheaper version or moved on to other things. And now fitness clubs are opening back up. Oops, now they have expensive added supply coming on in a few years, just as demand is half of what it was. My University of Wisconsin Economics degree tells me that now they will have to cut the price of the bike again, after you just added lots of new expenses. Not good for operating margins that were already negative!

Bulls and the company will argue that **the reduced price of the bike will make the bike more affordable and able to reach more people**. Technically, that is true, but we say, nonsense. The increased inventories, tells us that you have a demand problem, not a supply problem. **Cutting prices is a sure sign of weak**

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demand. No one cuts prices when they are selling everything that they produce. You cut prices to spur demand. You also increase marketing expense. PTON is now doing both of those things. PTON increased marketing expense far below sales growth, +47% and +53% vs sales growth of +90% and +120% in FY 2020 and 2021. In 2022 the increase in marketing expense will be higher than the increase in sales.

The company is trying to convince investors that cutting prices is a good thing. It's not. PTON cut the price of the bike $350 from $2,245 to $1,895, or 15.6%, in September 2020. Yes, sales increased sharply. But that was before saturation, during Covid, and before the re-opening of the US economy.

Gross margins collapsed from 43.0% to 28.9%. Yes, some of that was from the treadmill recall. Now they are cutting the price of the bike $400, or 21.1%, from $1,895 to $1,495. Let's see what that does to the gross margin. Also, **keep in mind that many people were receiving $1,200 stimulus checks from the US government last year.** Those are not reoccurring this year. How many people used those stimulus checks to buy Pelotons? A lot more than you think. Is it just a coincidence that sales started to slow after there were no more stimulus checks?

In this business cutting prices can be a sign that your business is about to implode. Not only do they have weaker demand, they have to cut prices AND increase sales and marketing expenses. Those all lead to earnings misses.

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Inventory

Inventories have gone from:

4Q2019: $136.6 million
4Q2020: $244.5 million, +79.0% yr/yr
1Q2021: $364.0 million, +48.9% seq
2Q2021: $522.8 million, +43.6% seq
3Q2021: $614.2 million, +17.5% seq
4Q2021: $937.1 million, **+52.6% seq, +283.3% yr/yr**

The real reason that PTON is cutting prices is because inventories have exploded. They have to move units. Bulls like to argue that PTON is not valued on an equipment basis but as a subscription model instead. But equipment was 78% of revenue in FY 2021 and 70% of revenue in 4Q21.

Serviceable Addressable Market (SAM)

PTON says that the SAM is 15 million households, or 15 million subscriptions and the units are 20 million. To date, PTON has sold ~2 million units. That is the number of units historically that other companies started to have demand problems as well, CML, Nautilus. So, they should have 18 million more units to go. Why cut prices now if they are only 10% of the way there? Either the market is not as big as they think and/or competitors are eating into it. We believe that it is both. **We believe that the total TAM is 20 million units for ALL home exercise equipment combined**. Many people do not have room in their house for a treadmill and an exercise bike and a rower and a Bowflex, etc.. **Historically, none of these exercise equipment companies ever get anywhere close to the estimated TAM, before they blow up.**
By cutting the price of the bike by $400 and having a $39/month subscription, they just took off 10 months of lifetime gross value of a subscription. So, to the bulls, the value of each subscription is now less, we think substantially less. So the next things to look at are churn and Subscriber Acquisition Cost to see how much this lower subscription value matters.

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Churn

PTON releases a monthly churn subscription (well, used to) and annual retention number. While the churn number is technically accurate, we find it misleading.

First, lets look at the reported annual retention number. PTON says it is 92%, its been right about there for the last two years. That means that 8 percent of subscribers do not renew. We find this number to be far below other exercise companies historically. Planet fitness and other gyms have 20+ percent annual churn rates.
At a minimum, PTON has to add 8 percent new subscribers every year just to stay even. This is pretty easy to do the first few years but gets harder as time goes by. When subscriber growth is 100%+, an 8% churn rate is no big deal. **When subscriber growth is 20%, an 8% churn rate IS a big deal.**

Second, lets look at the reported monthly churn number. For the fourth quarter ended June 30, 2021, reported monthly churn was 0.73. That was versus 0.52 a year earlier, or **40% worse.** For the 2022 first quarter management is guiding to **0.85 vs 0.65** a year earlier, or **31% worse.** A 0.65 monthly churn rate equates to a 12.8 year average life of a subscription customer. This is a laughably unbelievable number in this industry. Even the 0.85 monthly churn rate equates to an almost 10 year average life.

PTON reports Churn as:

AVERAGE NET MONTHLY CONNECTED FITNESS CHURN
We use Average Net Monthly Connected Fitness Churn to measure the retention of our Connected Fitness Subscriptions. We define Average Net Monthly Connected Fitness Churn as Connected Fitness Subscription cancellations, net of reactivations, in the quarter, **divided by the average number of beginning**

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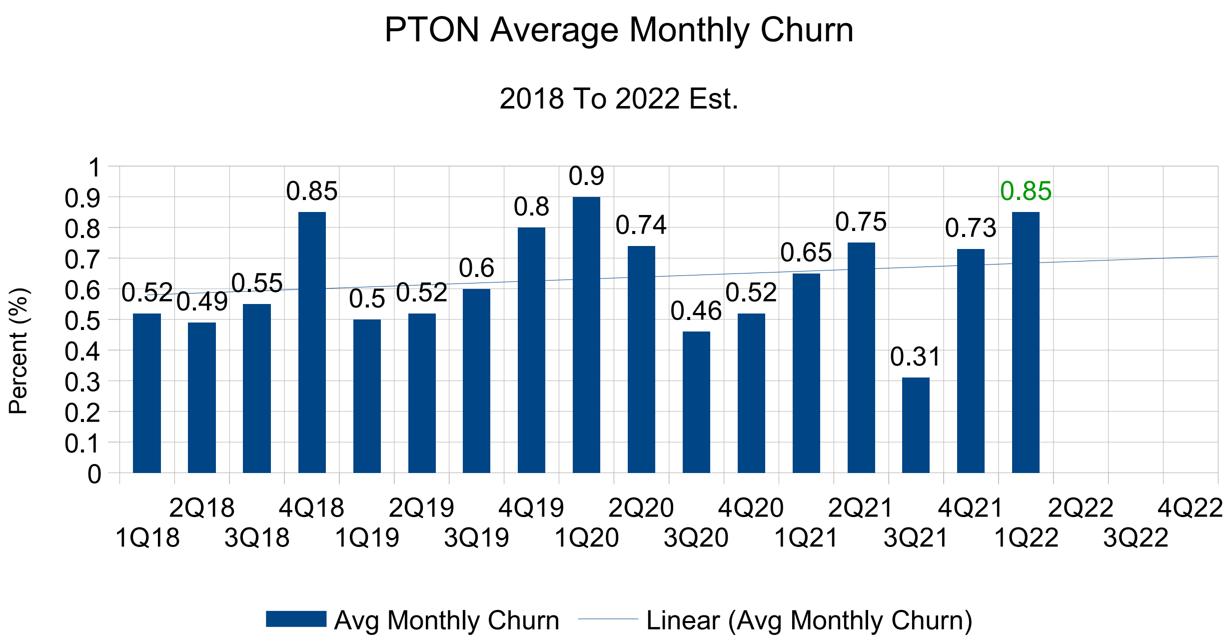
Connected Fitness Subscriptions in each month, **divided by three months**. This metric **does not include data related to our Digital Subscriptions** for Members who pay a monthly fee for access to our content library on their own devices.

While this is technically accurate, we find it misleading. PTON's reported number is only useful to see what direction the monthly churn is going: up, down or staying the same. **We now know that churn is going up according to PTON by 30-40%**. Not good. But we find their number misleading because it looks at all subscribers at the beginning of the month, dived by 3 months. We feel that to get a true churn number, you should **only look at subscribers older than one year.** Someone that just bought a PTON bike for $1,500 two months ago is highly unlikely to immediately cancel their subscription. Yet those subscribers are included in PTON's churn number.

But what about someone who bought the bike 18 months or two years ago, is that person still a subscriber? That is a much more accurate representation of the true business potential. We need to know this number because of the Subscriber Acquisition Cost. PTON needs to keep a subscriber for a number of years in order to recoup their SAC, much less make a profit on them.

Our true churn calculation (only including month to month and subscribers >1 yr) **is 2.1% per month**, which is over 25% per year, right about in line with the industry. So, the company says the churn rate is about 8% per year, which equals an average life of about 13 years. We say the annual churn rate is, to be conservative, 20% which equals an average life of about 5 years. What sounds more likely an average life of 5 years or 13 years? The company has not even been around for 13 years. We believe that the AVERAGE life of an AVERAGE customer (not a die-hard) is about 5 years at most.

This makes the $400 price cut on the bike that removes 10 months of average life of a subscriber even worse.



These are the reported churn numbers from PTON. They are trending up slightly from three years ago. **The most recent numbers are up 30-40% year over year**. Our true churn numbers are more than twice as high. Given the sequential drop in revenue we suspect that our numbers are more accurate.

In fine print in the earnings letter, **PTON said they will no longer provide guidance on Average Net Monthly Connected Fitness Churn.** They will only provide quarterly numbers. Hmmm, I wonder why? If the churn number was getting better would they stop disclosing it? I stand by our churn metric!

Churn of 0.85 per month equals 10.2% per year, but that includes subscribers that just recently signed up, and it doesn't include digital subscribers that just declined sequentially for only the second time ever. So, it is reasonable to assume that the true churn is far higher than 8%. **The more important takeaway here is that the churn is going up a lot, dealing a blow to the bull story that customers love PTON and won't leave. They will, and do.**

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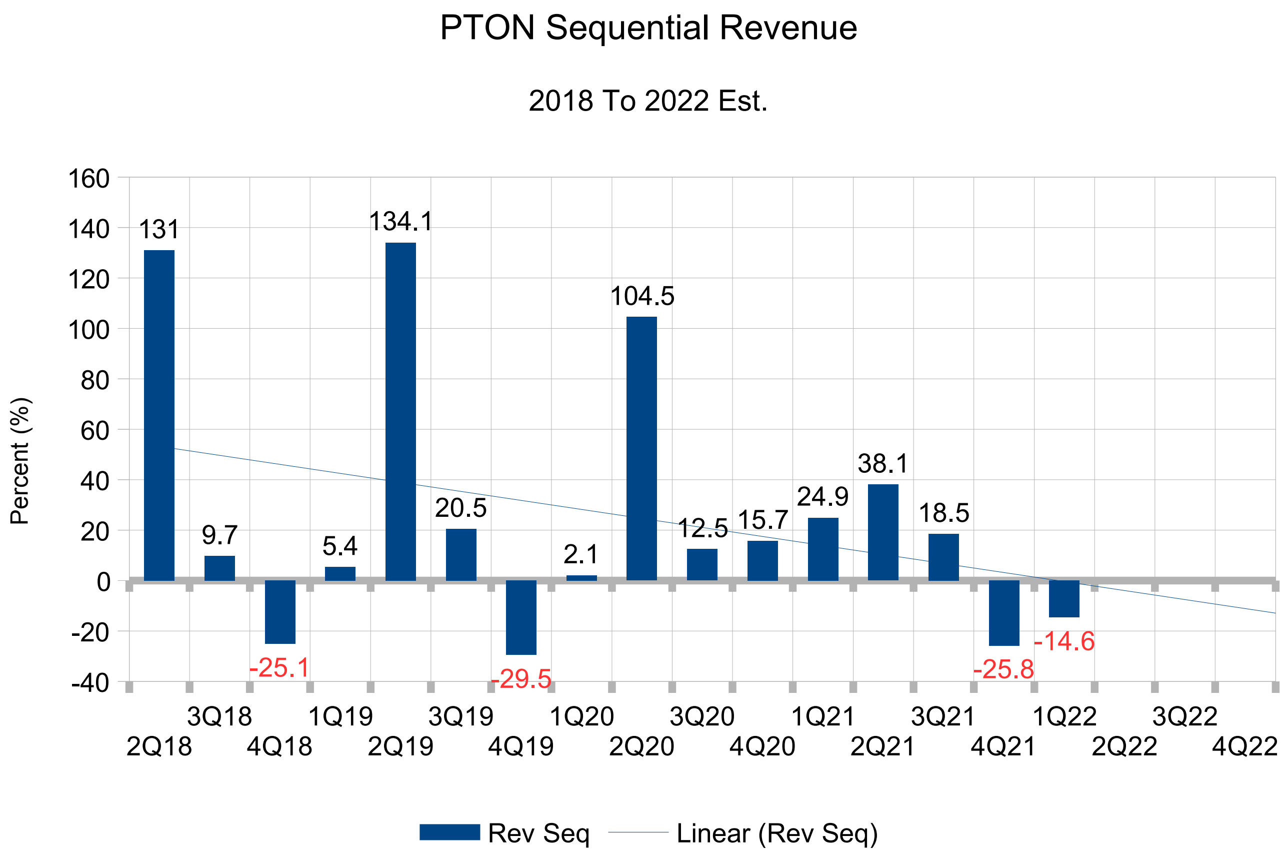

Sequential revenue growth has dropped off a cliff, lending more credence to our calculation that subscriber churn is higher than PTON is saying it is. This is supposed to be a growth stock. Does this revenue chart look like a growth company now? First time ever that sequential revenue growth is negative two quarters in a row.

Fourth quarter 2022 sequential revenue growth needs to be up 30% for PTON to reach the annual revenue estimate of $5.4 billion. PTON has NEVER had 4th quarter sequential revenue growth that high. Most years the 4th quarter is negative sequentially!

2022 estimated revenue:1Q: $800M, 2Q: $1,151M, 3Q $1,500M, 4Q: $1,950M, YR: $5.4B

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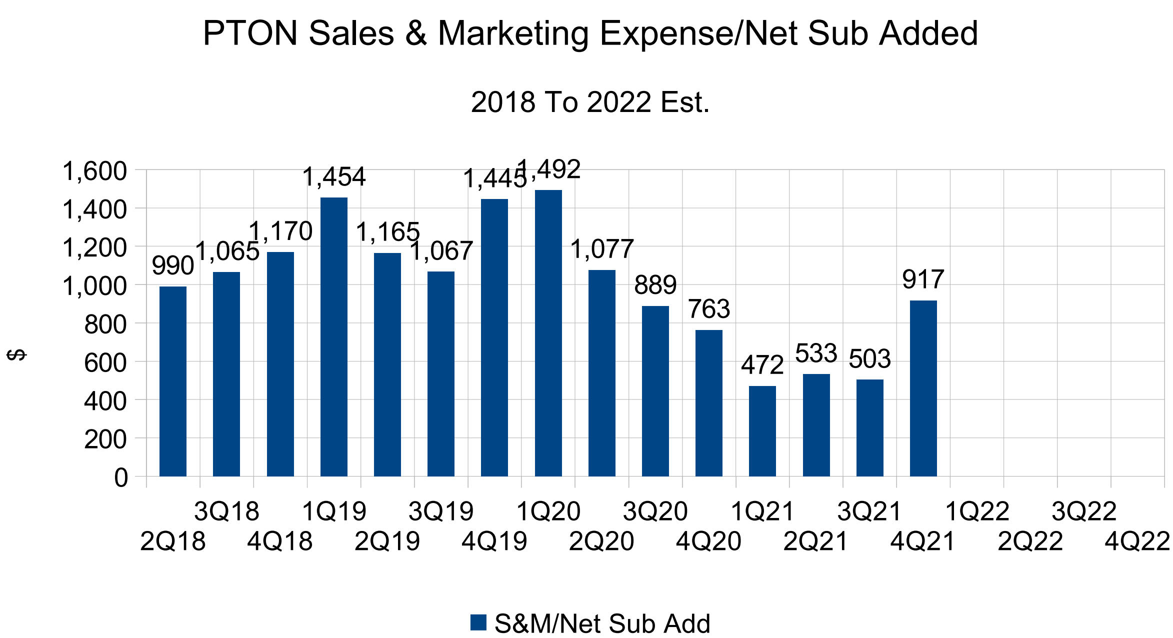
Subscriber Acquisition Cost (SAC)



This is an important metric because PTON is steadily increasing sales and marketing expense. Management has guided to even higher marketing expense in 2022. Why is that? Because it is getting harder and harder to get new subscribers. The first two million are the low hanging fruit for any piece of exercise equipment. Then it gets harder, because I have already seen dozens and dozens of PTON commercials and I still will never buy an exercise bike. I have a treadmill that I use regularly, and I don't have room, nor do I want a bike.

As you can see, the cost to get a new sub has nearly doubled in 3 quarters. We believe that the average PTON subscriber will not remain a subscriber for more than 5 years and hence, PTON will never earn a profit on a subscriber after accounting for costs. As it is, \$917/ \$39 = 24 months. So, a subscriber has to remain a subscriber for a minimum of two years or PTON loses money on them. And that is just to recoup S&M expense, not to mention all the other expenses. **And that is on a gross revenue basis of \$39/mo.**

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Let's look at FY 2021: SAC

Net subscribers added: 1,240,000 (862,590 CF @ $39/mo & 377,410 digital subscribers @ $13/mo) = Avg $31.09/mo

Sales/marketing, G&A, R&D: $1,639,700,000

Cost per subscriber: $1,322
Revenue per sub ($31.09/mo Gross)
Months to recoup cost: 42.52
Years to recoup cost: 3.5

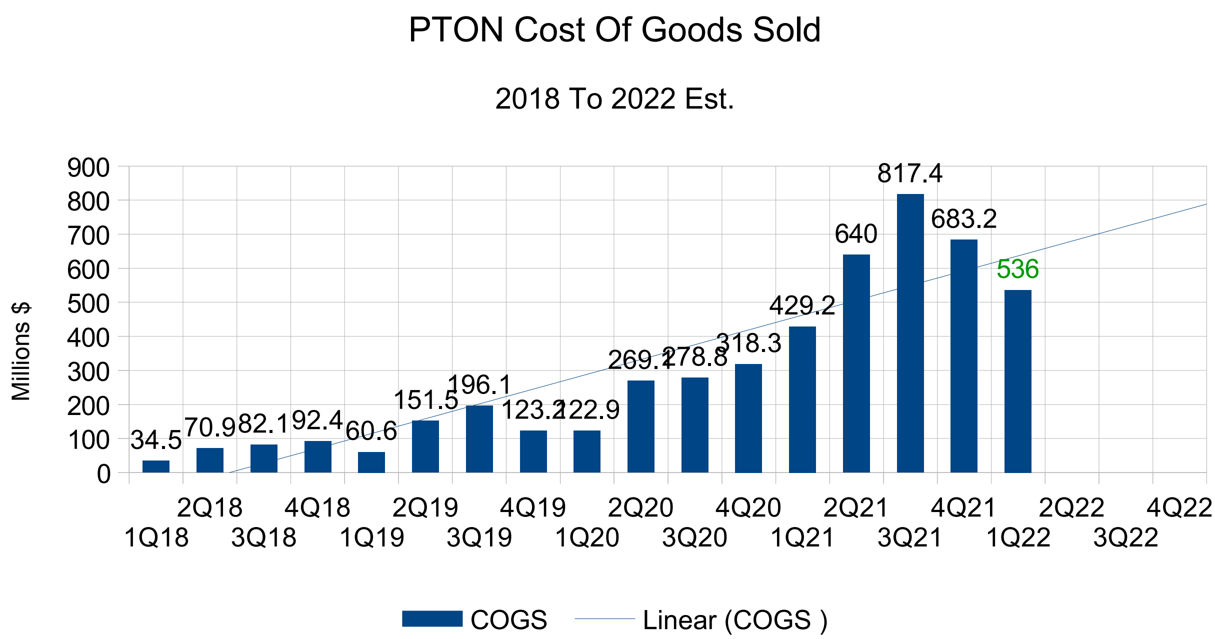
However, this is a gross revenue calculation. PTON is guiding to a 65% gross margin for 2022. So, that $31.09/mo gross is $20.21/mo net.

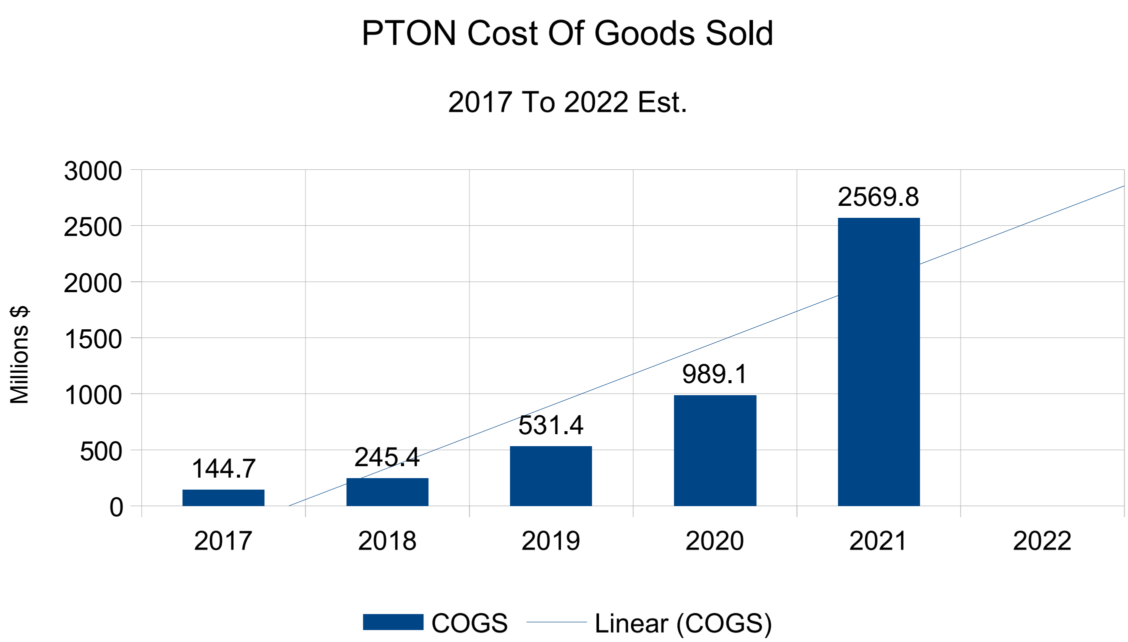
Cost per subscriber: $1,322
Revenue per sub ($20.21/mo net)
Months to recoup cost: 65.41
Years to recoup: 5.45

But wait, it gets worse; Don't forget churn. PTON has a 8% churn per year. So in year two, they will get 92% of $20.21, or $18.59/mo from the original 1.24 million subs. In year 3 they get 92% of $18.59 or $17.10/mo, and so on...

Year one revenue	($20.21 x12): $243	Subs: 1.24 million
Year two revenue	($18.59 x 12): $223	Subs: 1.141 million
Year three revenue	($17.10 x 12): $205	Subs: 1.05 million
Year four revenue	($15.73 x 12): $189	Subs: 0.966 million
Year five revenue	($14.48 x 12): $174	Subs: 0.888 million.
Year six revenue	($13.32 x 12): $160	Subs: 0.817 million.
Year seven revenue	($12.25 x 12): $147	Subs: 0.7516 million.

Total net revenue after 7 years: $1,341 101% of original cost recouped.
PTON will virtually never make any profit unless subs stay for OVER 7 years!


PTON Cost Of Goods Sold
2018 To 2022 Est.
Millions $
900
800
700
600
500
400
300
200
100
0
34.5
70.9
82.1
92.4
60.6
151.5
196.1
123.2
122.9
269.1
278.8
318.3
429.2
640
817.4
683.2
536
1Q18
2Q18
3Q18
4Q18
1Q19
2Q19
3Q19
4Q19
1Q20
2Q20
3Q20
4Q20
1Q21
2Q21
3Q21
4Q21
1Q22
2Q22
3Q22
4Q22
COGS
Linear (COGS)


PTON Cost Of Goods Sold
2017 To 2022 Est.
Millions $
3000
2500
2000
1500
1000
500
0
144.7
245.4
531.4
989.1
2569.8
2017
2018
2019
2020
2021
2022
COGS
Linear (COGS)

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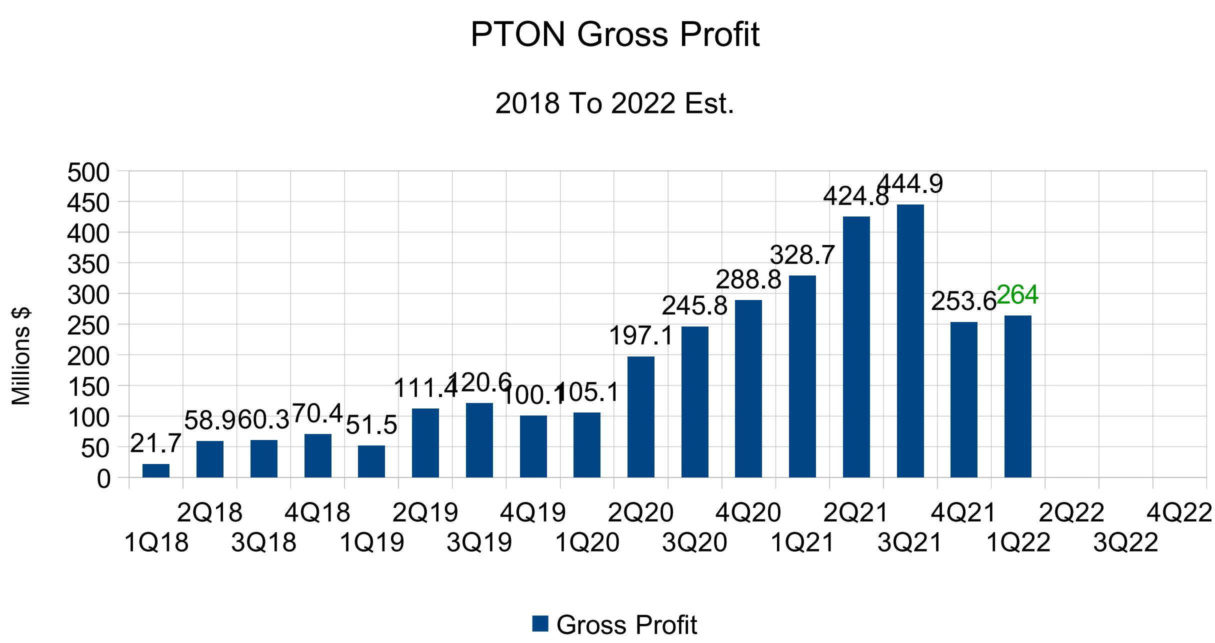

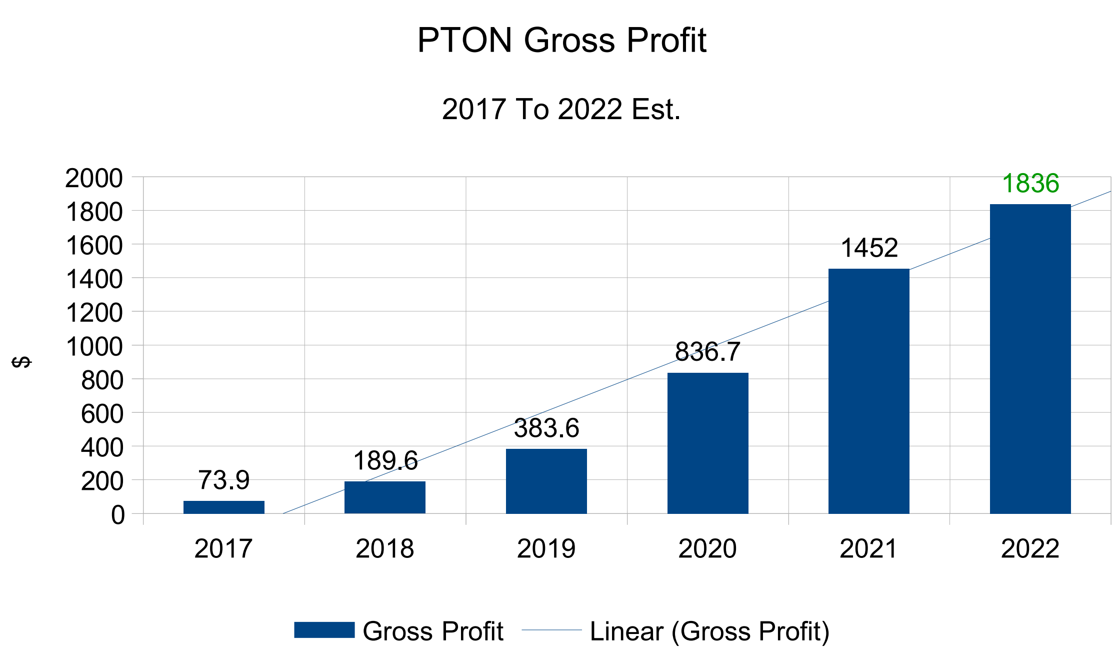

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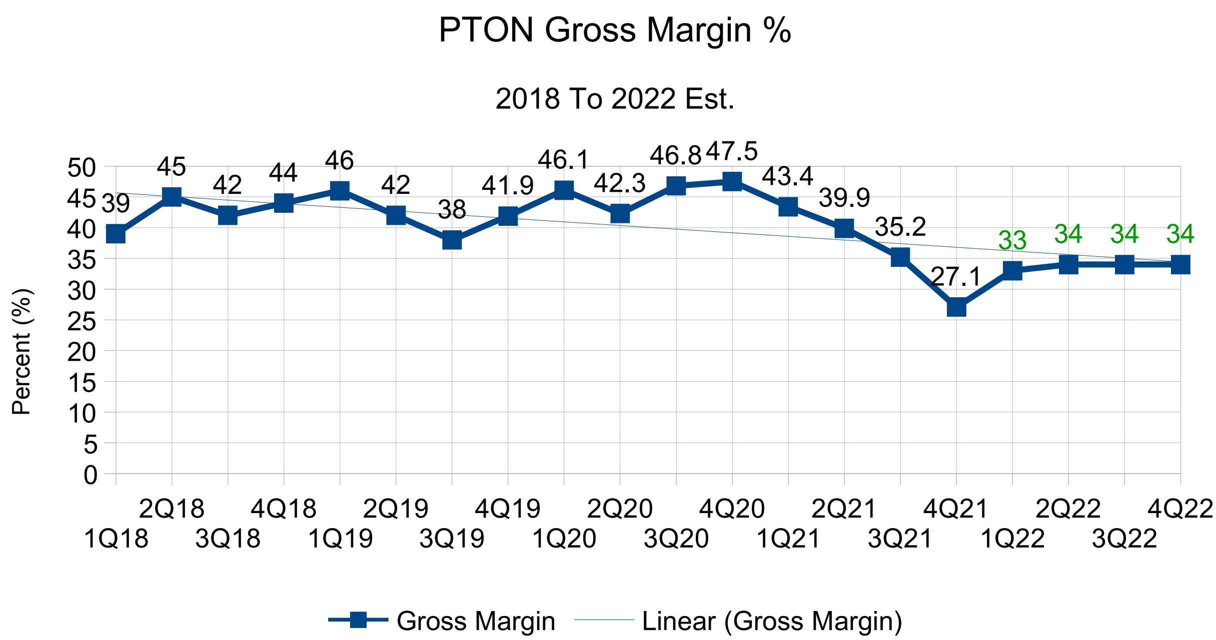

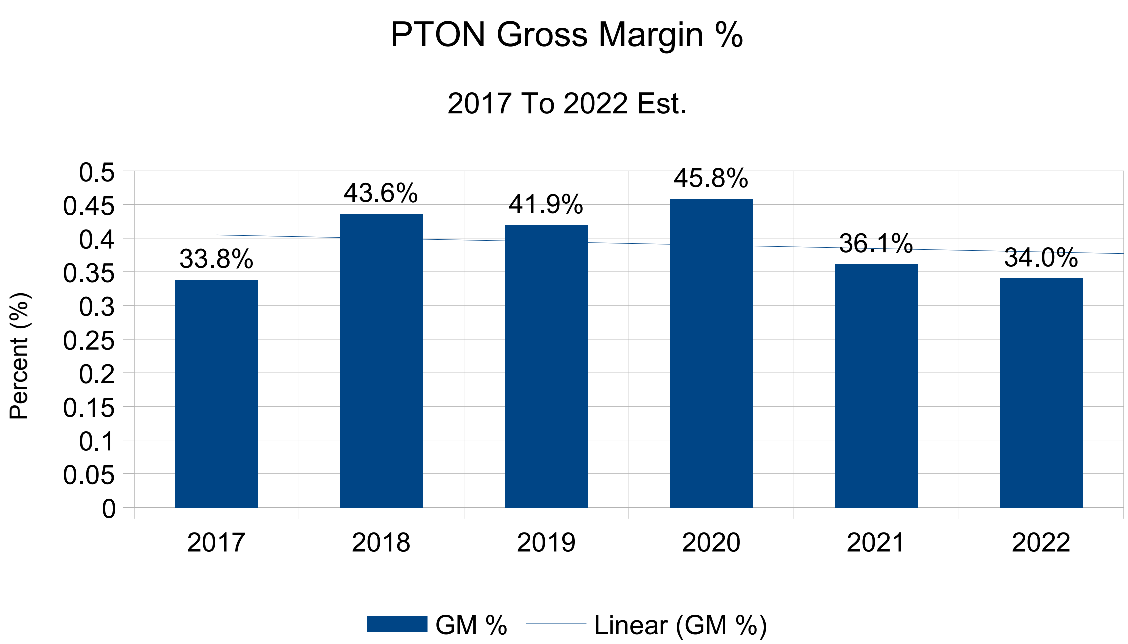

Gross margin collapsed in 4Q21, because of the treadmill recall, but it was trending down before that, and is not going to recover in 2022.

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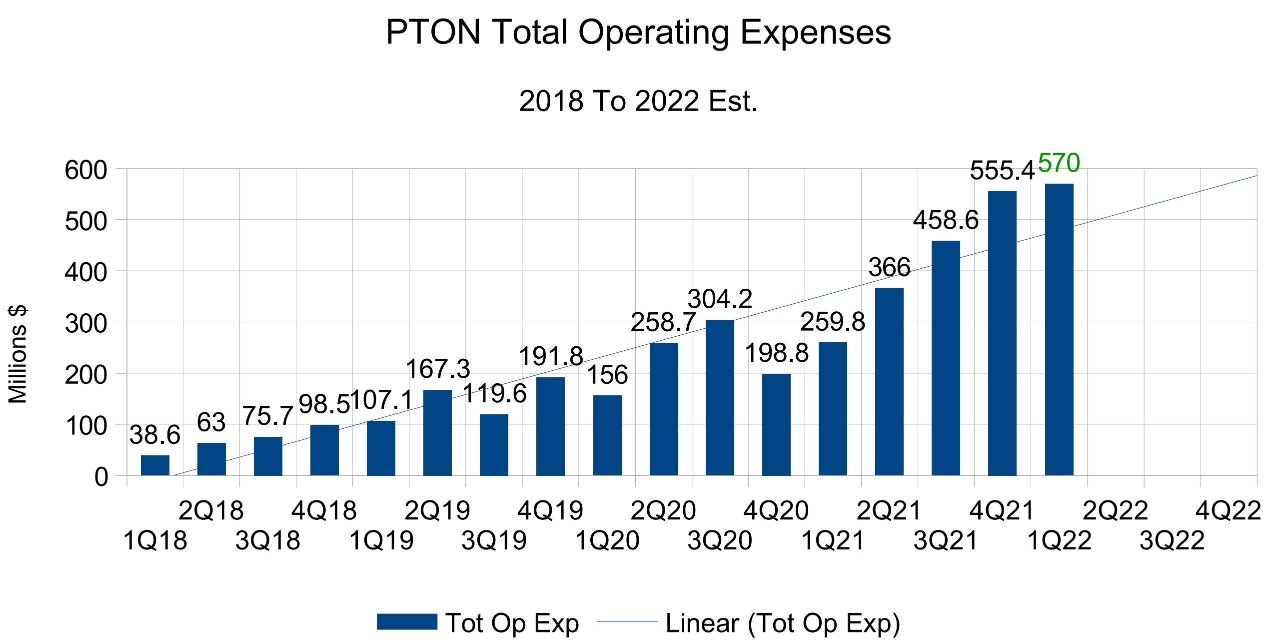

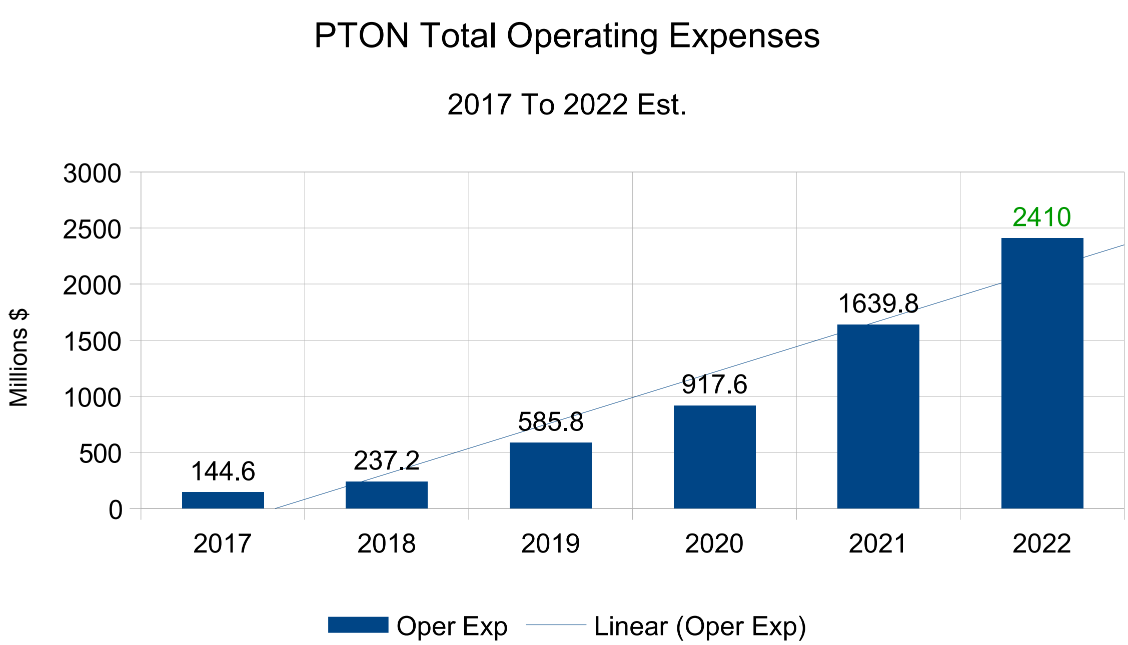

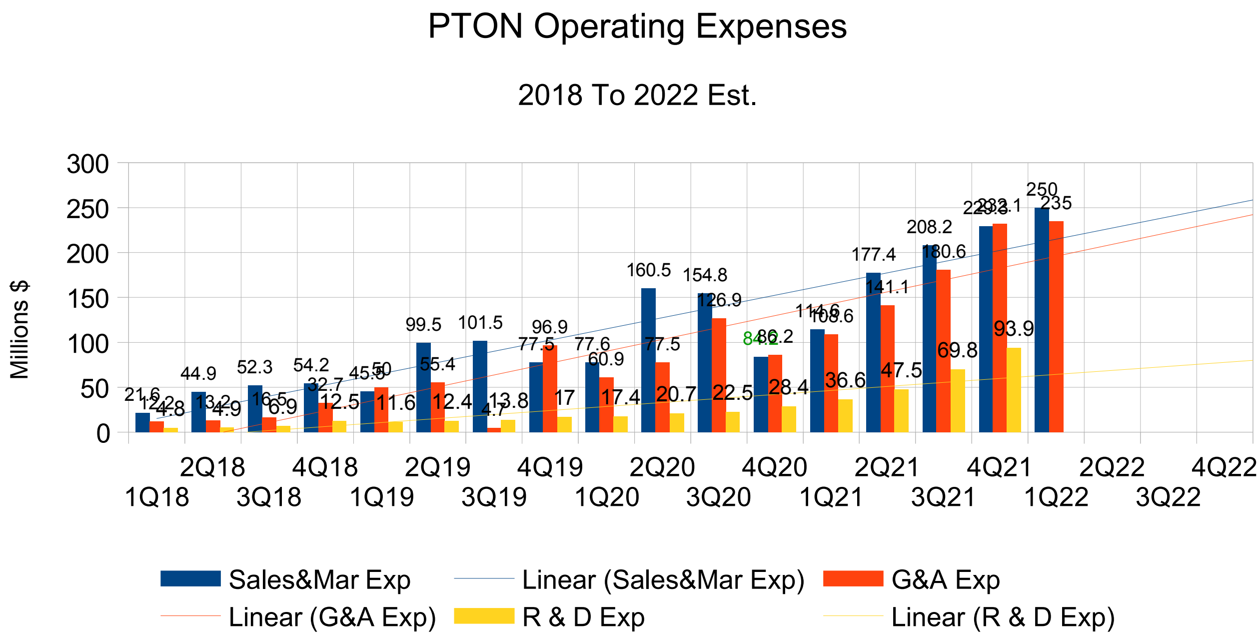
PTON Operating Expenses
2018 To 2022 Est.
Millions $
Sales&Mar Exp
Linear (Sales&Mar Exp)
G&A Exp
Linear (G&A Exp)
R & D Exp
Linear (R & D Exp)

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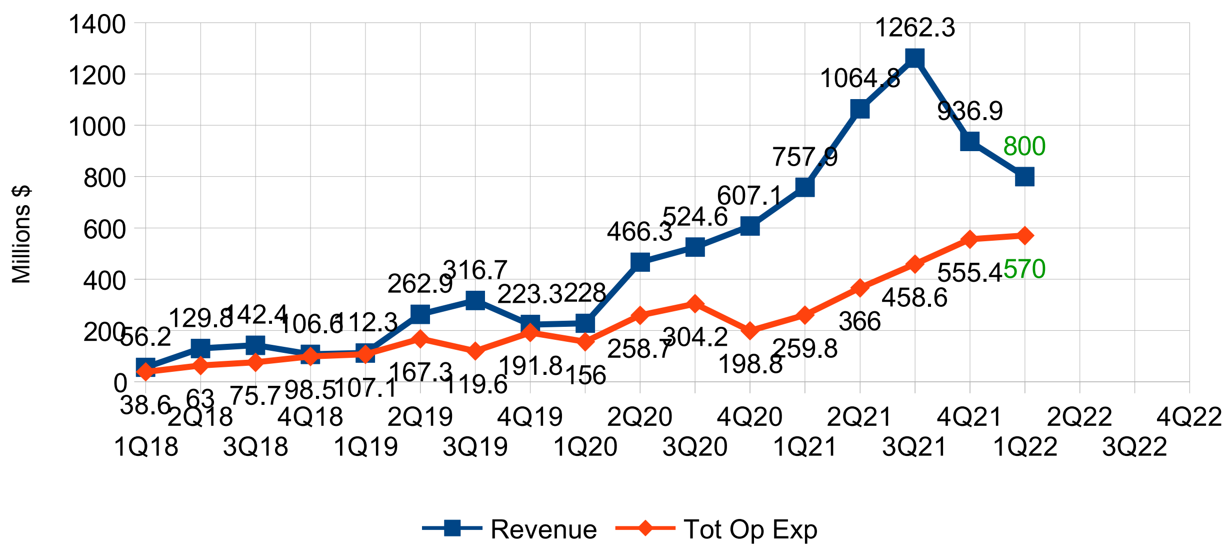
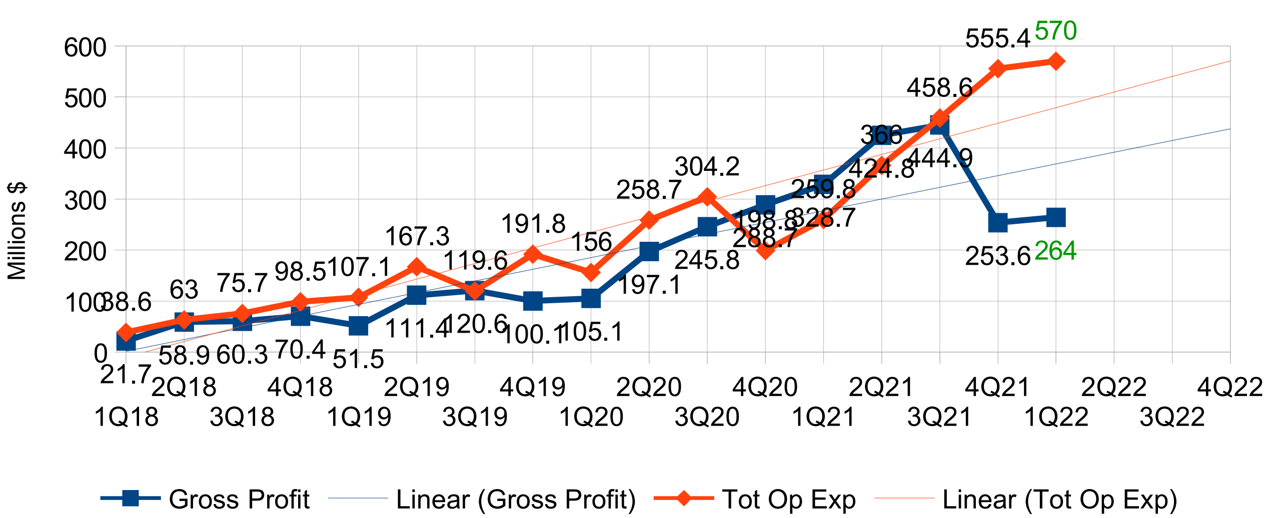
PTON Revenue Vs Total Operating Expenes



PTON Gross Profit Vs Total Operating Expenses

2018 To 202 Est.



Total operating expenses are rising as fast or faster than gross profit.

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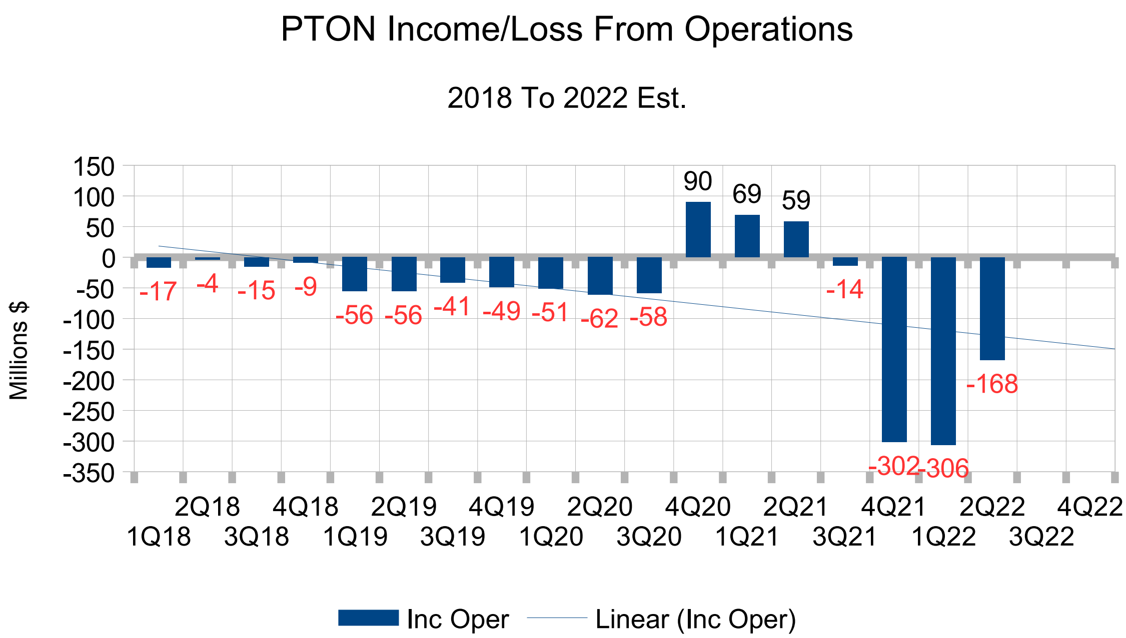
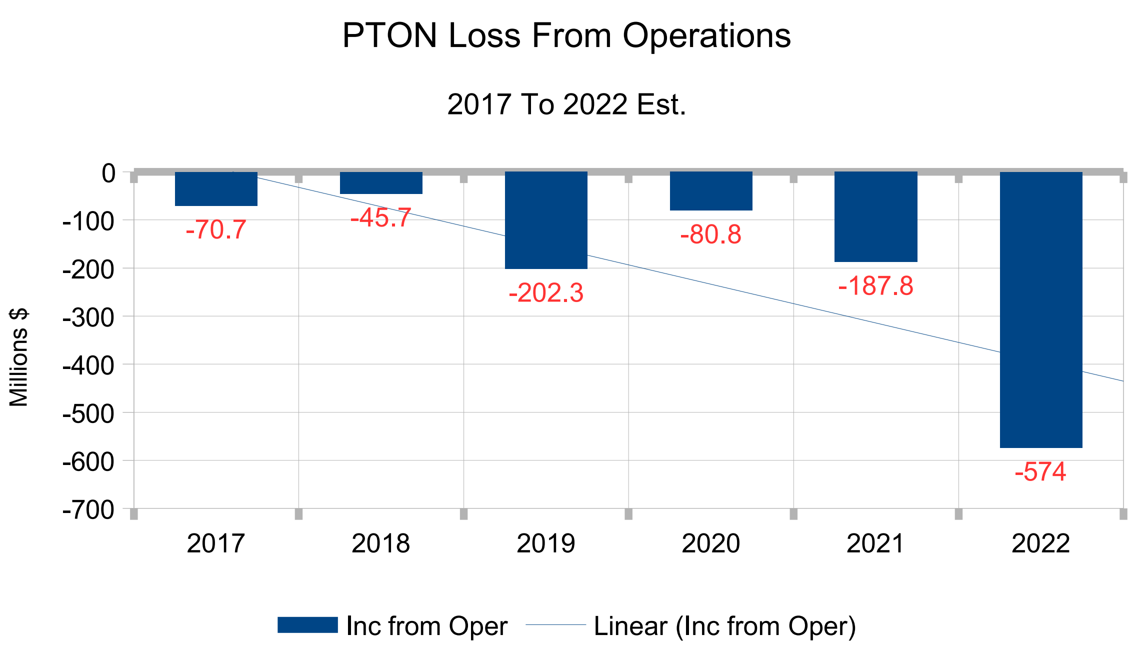
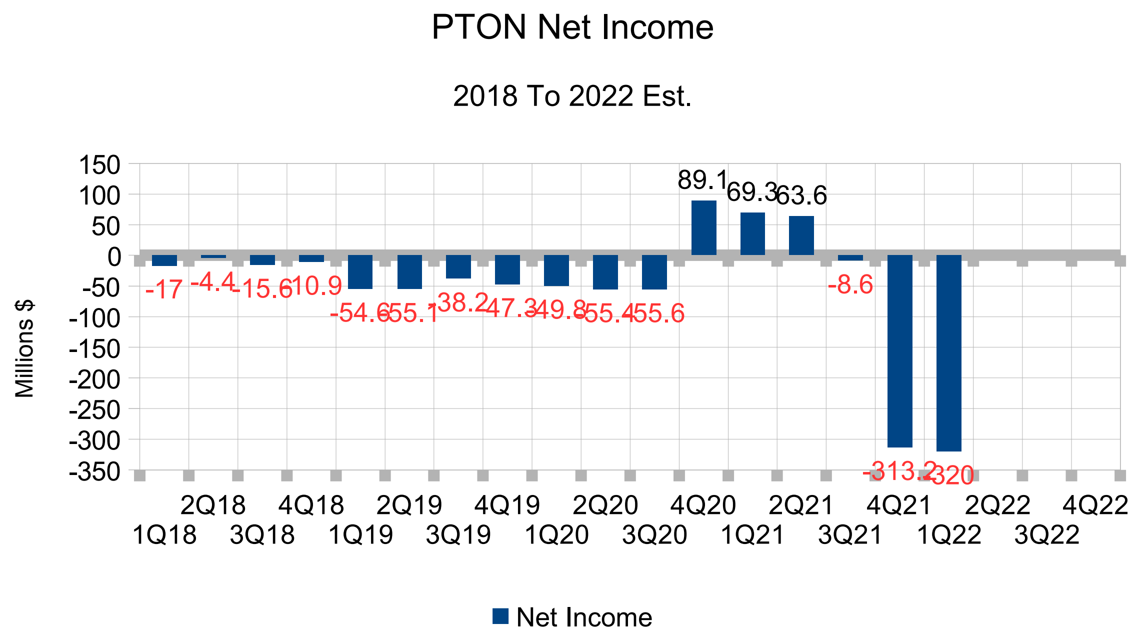
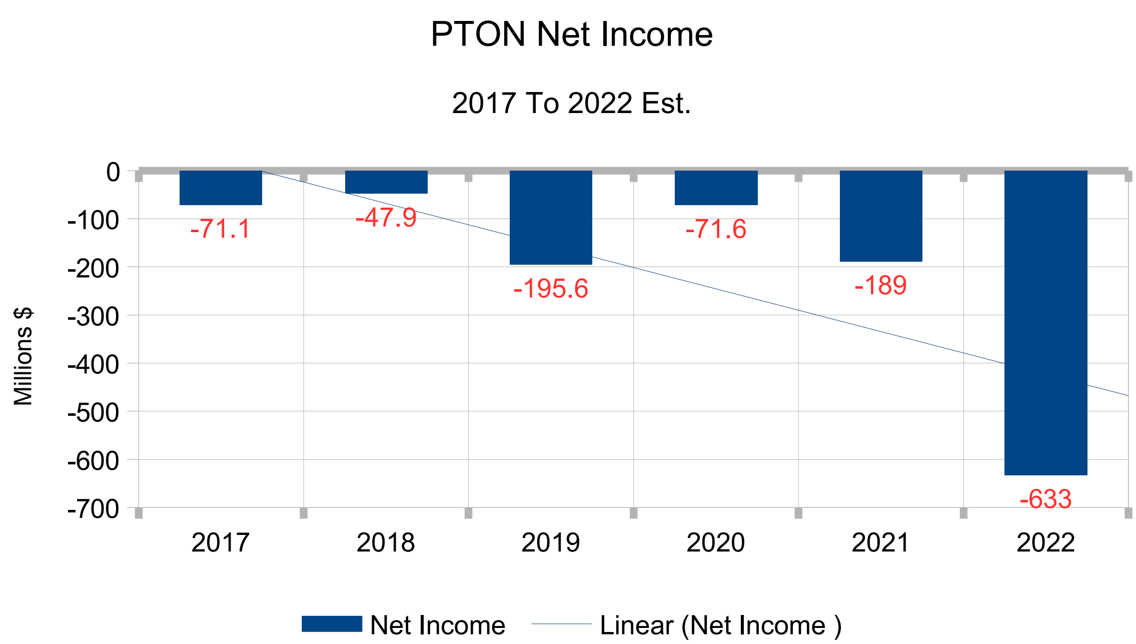




Covid in 2020 gave PTON the best possible environment to operate in and they still could not earn a lasting profit.


PTON Net Income
2018 To 2022 Est.
Millions $
150
100
50
0
-50
-100
-150
-200
-250
-300
-350
-17
-4.4
-15.6
-10.9
-54.6
-55.1
-38.2
-47.3
-49.8
-55.4
-55.6
89.1
69.3
63.6
-8.6
-313.2
-320
1Q18
2Q18
3Q18
4Q18
1Q19
2Q19
3Q19
4Q19
1Q20
2Q20
3Q20
4Q20
1Q21
2Q21
3Q21
4Q21
1Q22
2Q22
3Q22
4Q22
Net Income


PTON Net Income
2017 To 2022 Est.
Millions $
0
-100
-200
-300
-400
-500
-600
-700
-71.1
-47.9
-195.6
-71.6
-189
-633
2017
2018
2019
2020
2021
2022
Net Income
Linear (Net Income)

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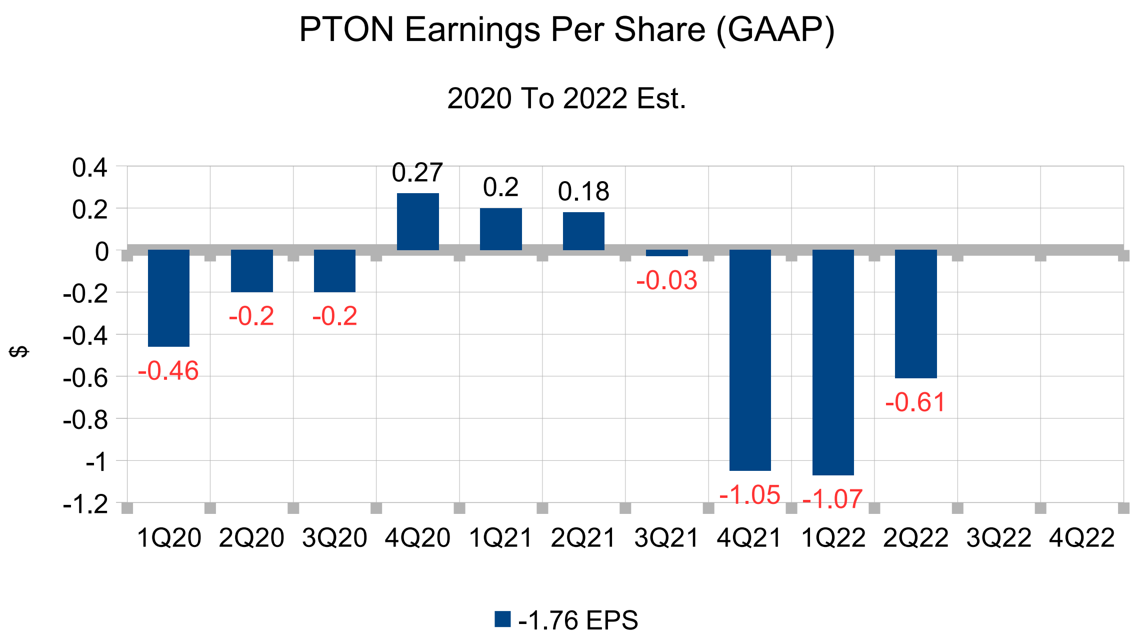

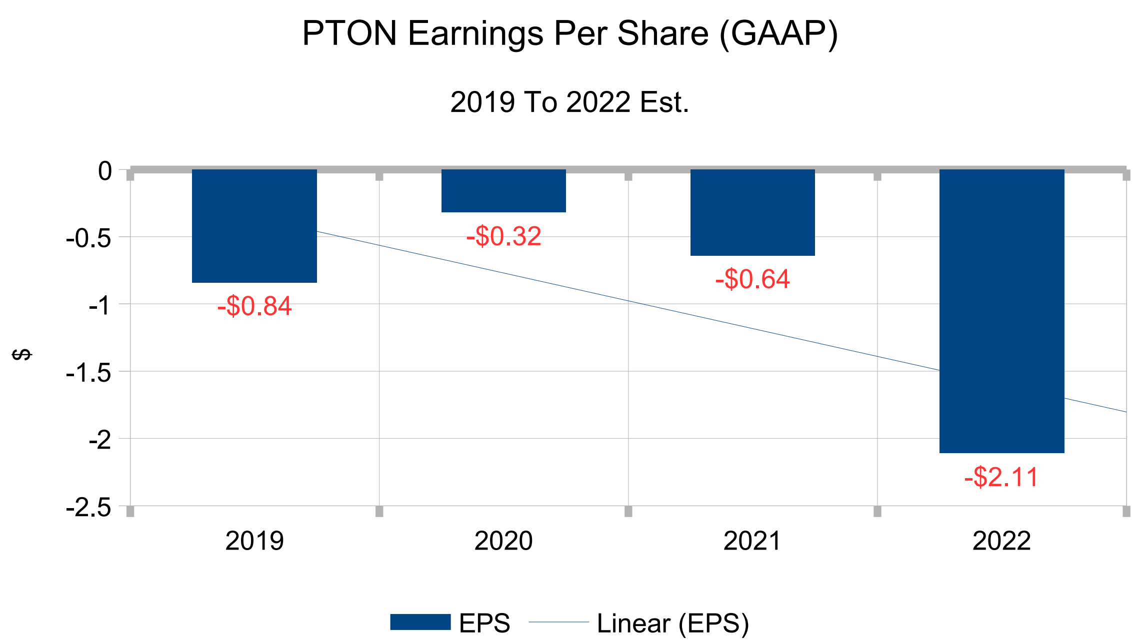

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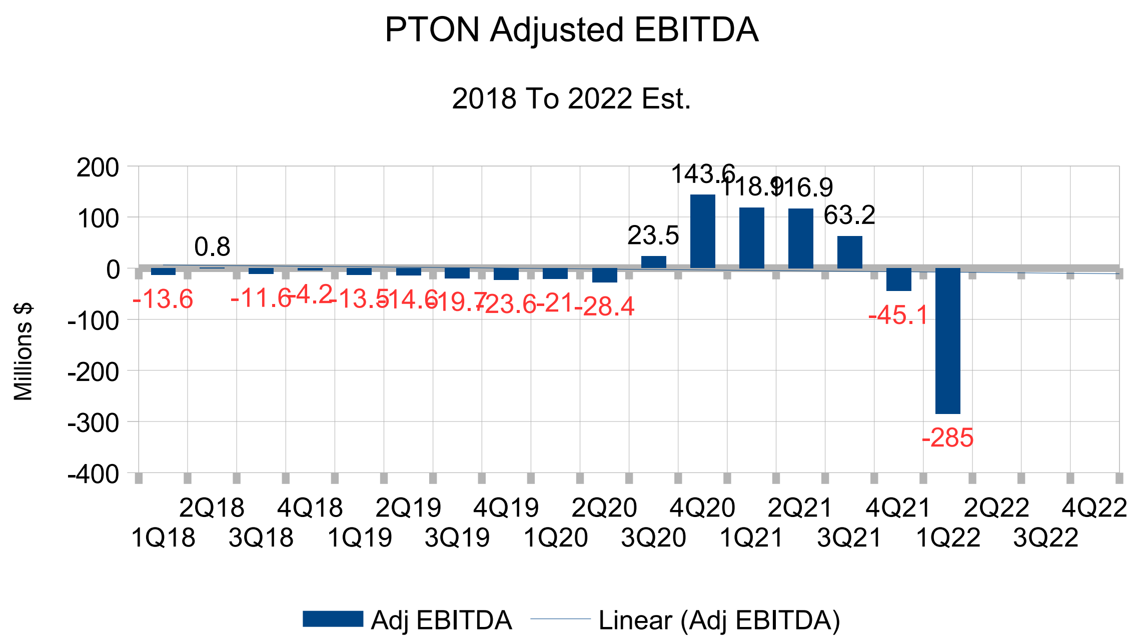

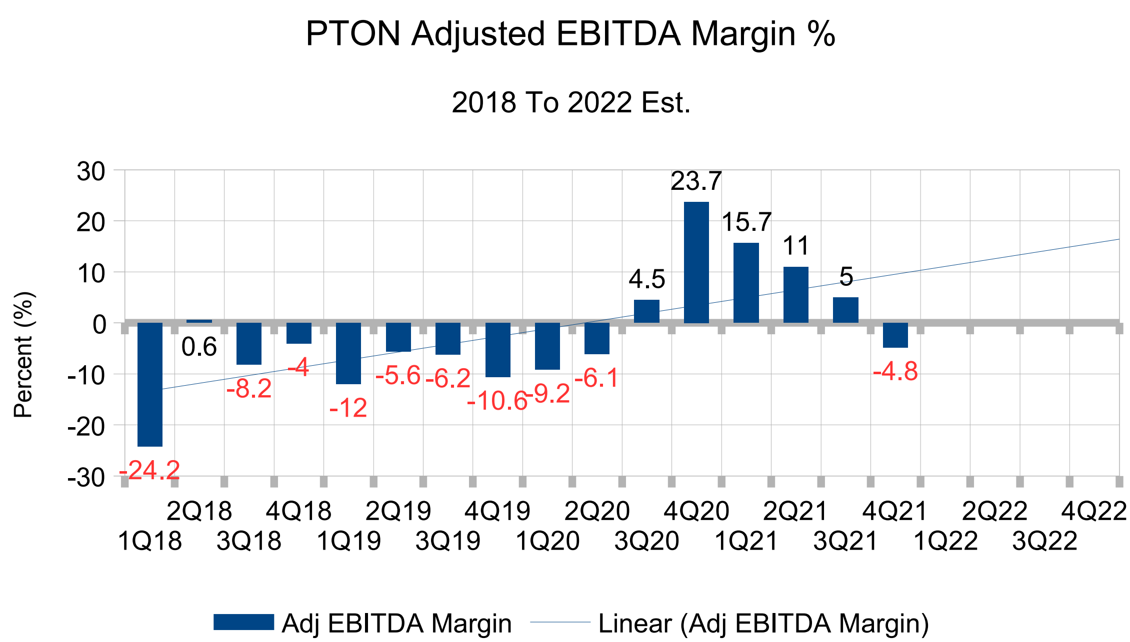

When even the "Adjusted" number is terrible, you know it's bad!

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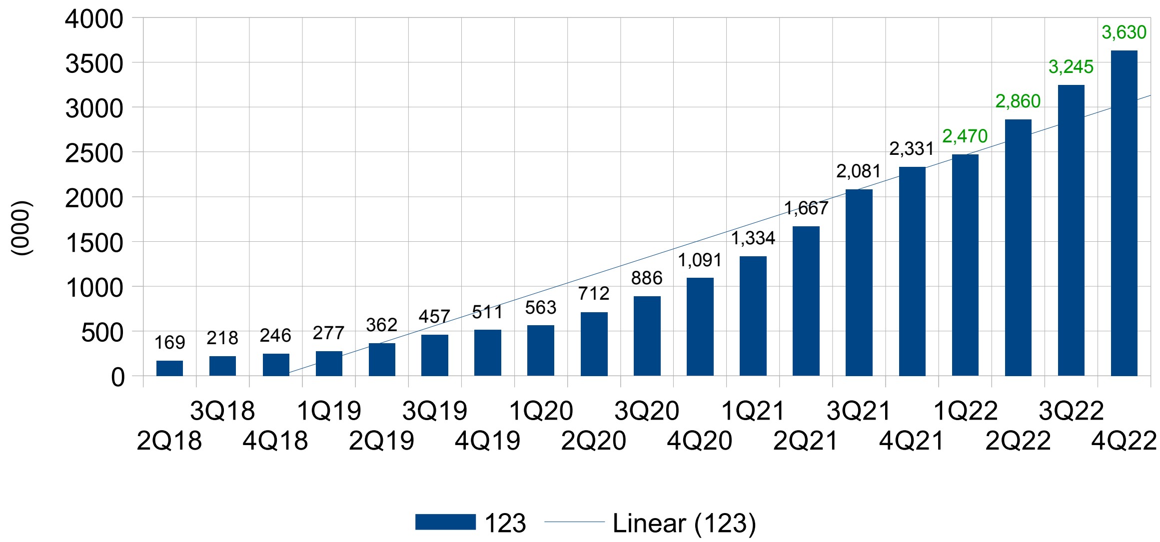
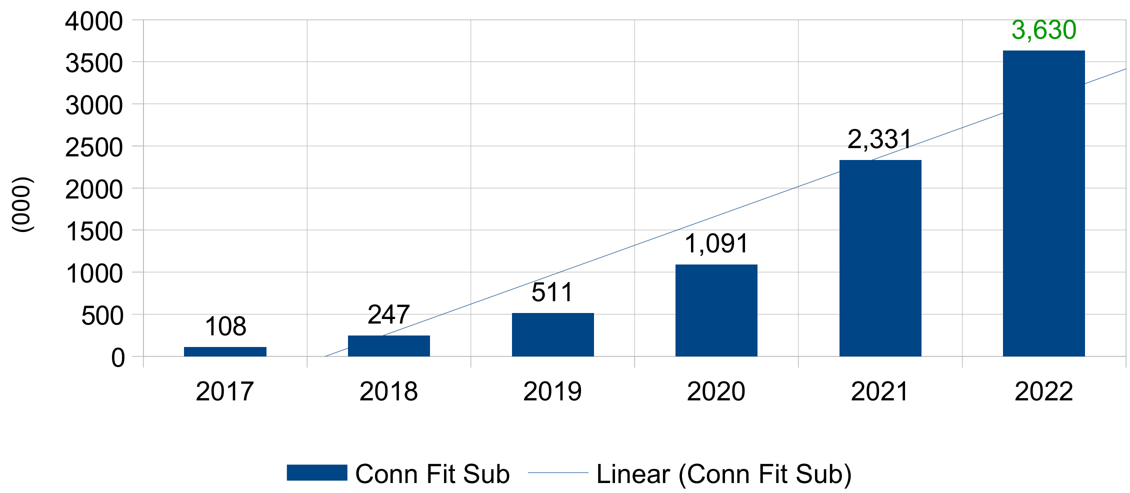
PTON Connected Fitness Subs

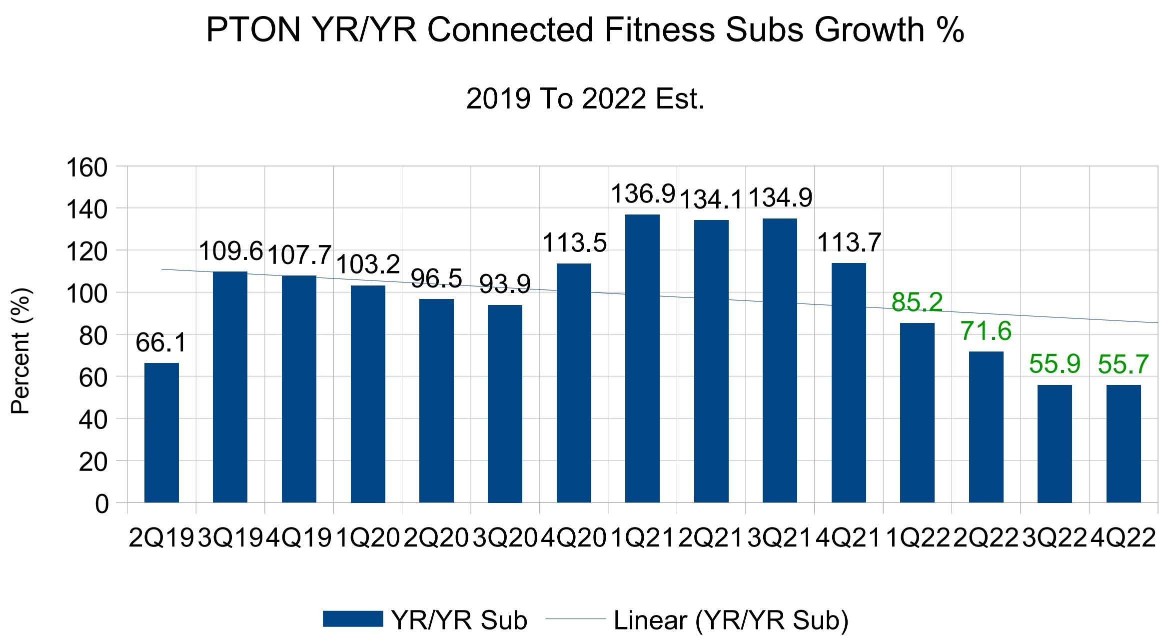


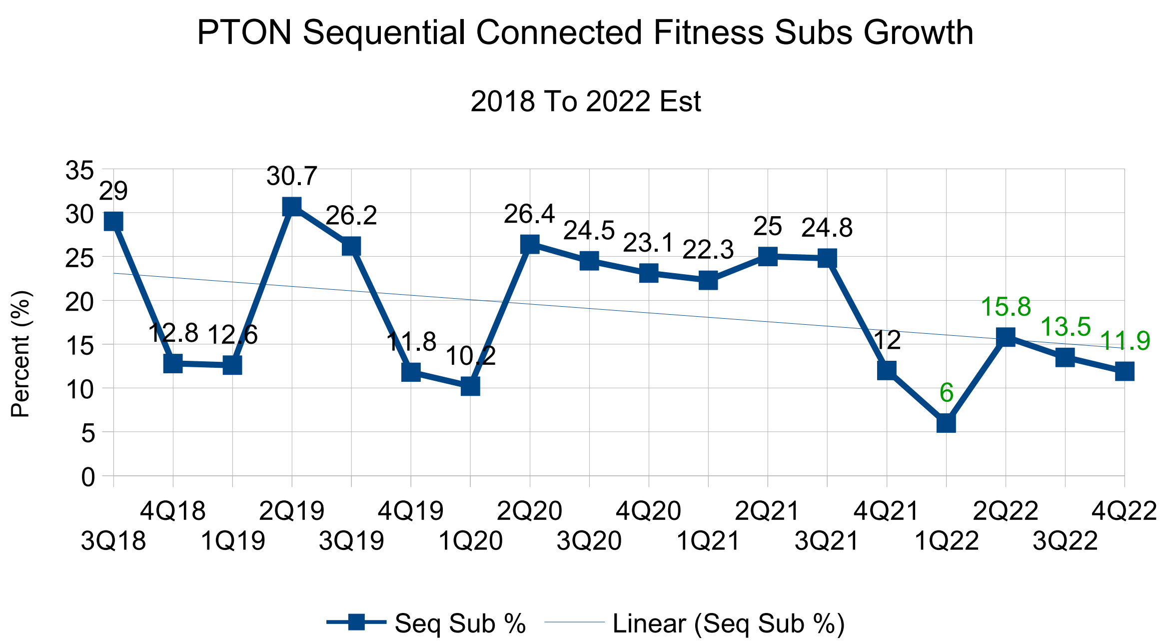
PTON Connected Fitness Subscribers

2017 To 2022 Est.



These two charts still look good. This is what the bulls look at. But let's look closer. Keep in mind that even with this, they never made an annual profit.





Here is where the cracks are showing. By the end of this year FY 2022, Yr/Yr sub growth will have dropped in half in one year! Growth is slowing!

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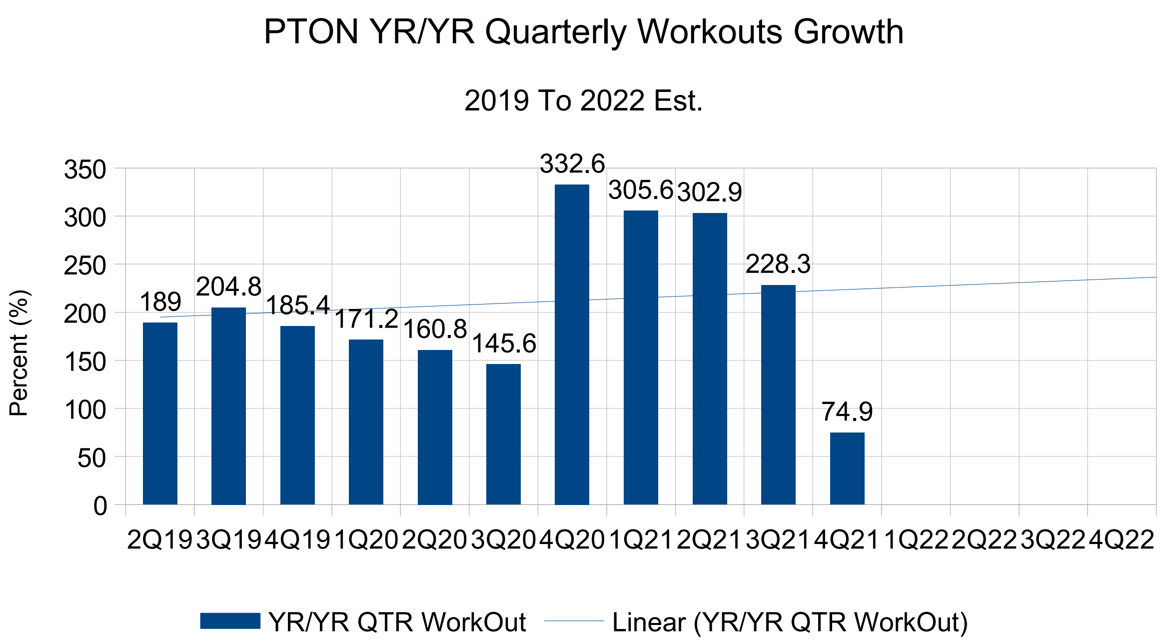

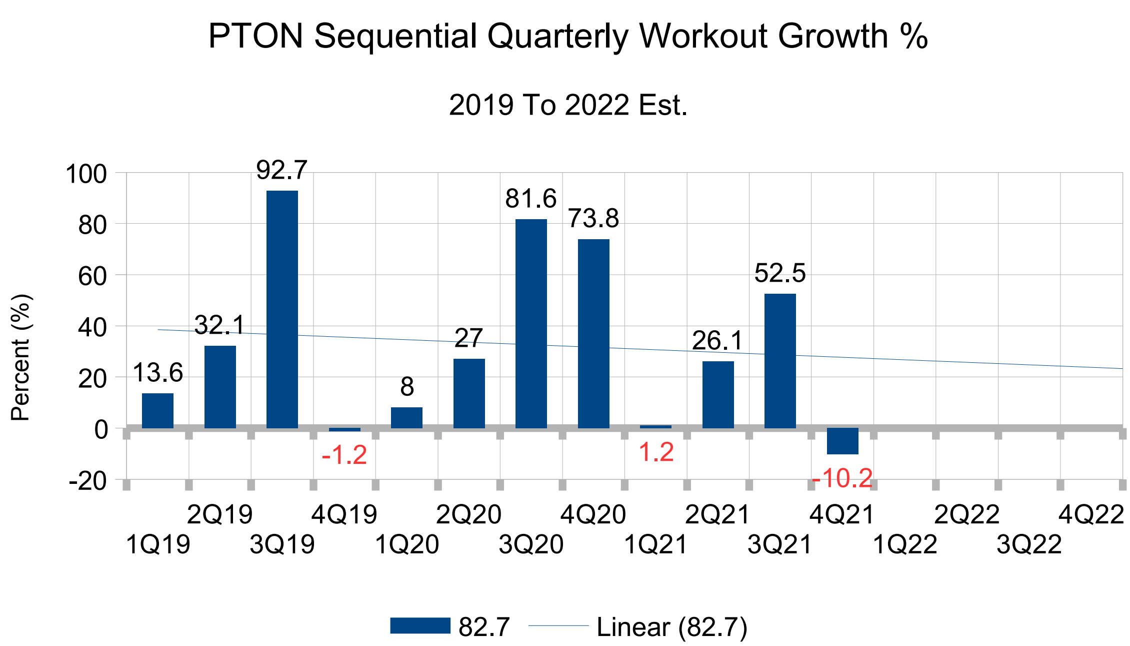

These charts bode poorly for the churn rate. Subs are getting tired/bored with the workouts. This will lead to higher churn rates. The whole bullish argument is that PTON is different, not a fad, and that the subs love the workouts and will never quit. Yes they will quit, they always do!

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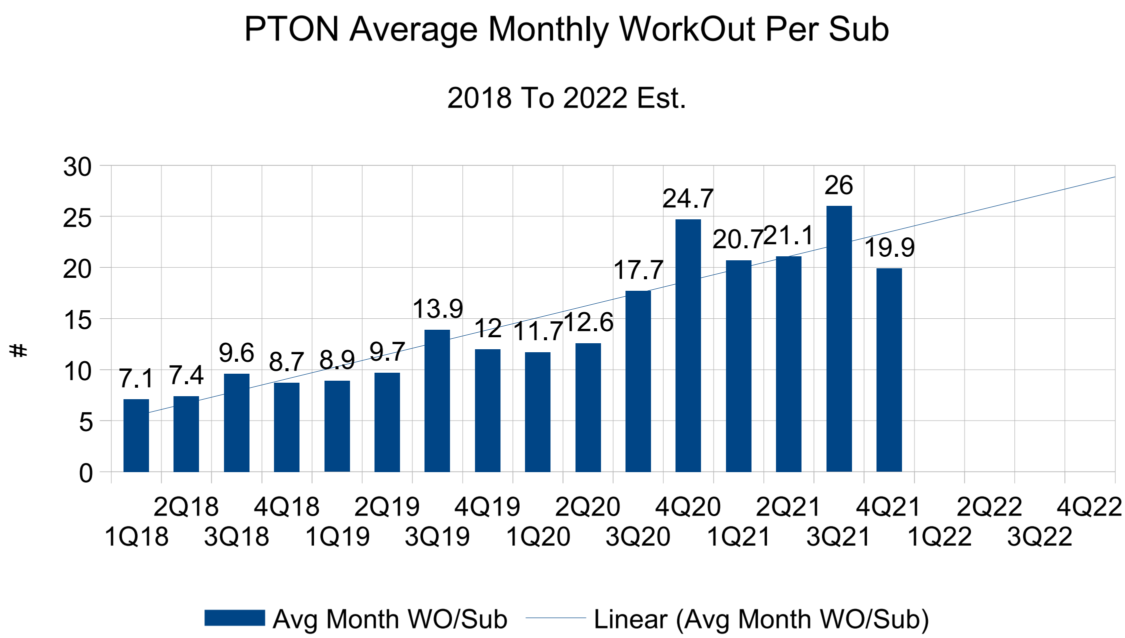

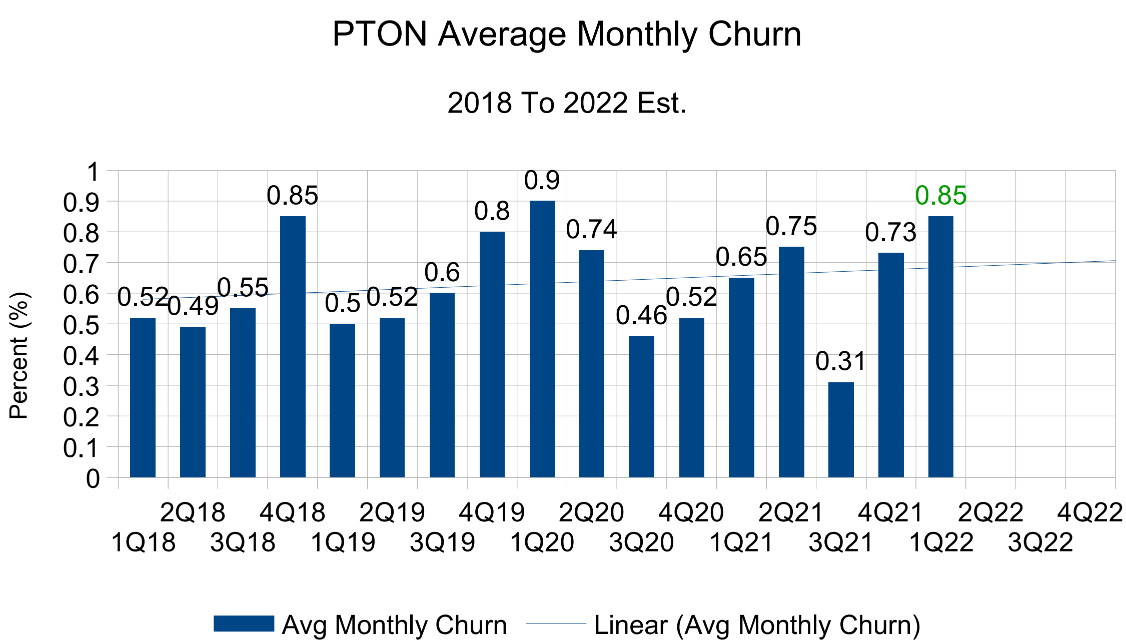

Average monthly workout/sub declined 19.4% in 4Q21 Yr/Yr. As this number goes down, the churn rate will go up.

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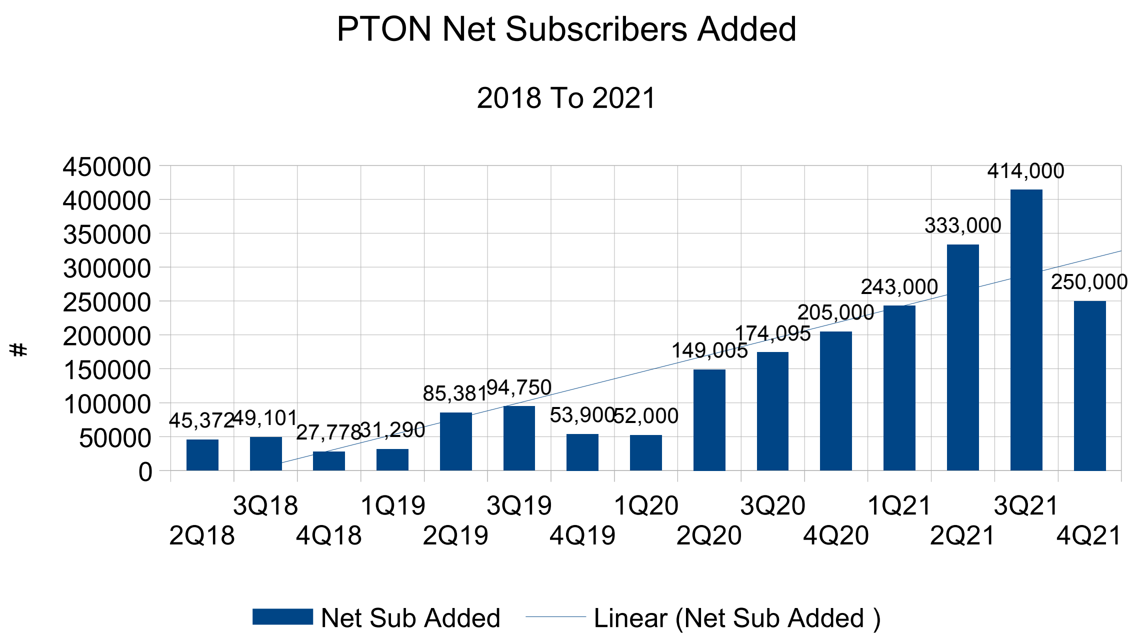

This is why PTON cut the price of the bike. Net subscriber addition growth slowed despite spending more on sales and marketing. **PTON spent 172 percent more on S&M expense** in 4Q21 than 4Q20, $229.3 million vs $84.2 million, **but net adds only went up 22 percent**.

It is getting harder and harder for them to add subscribers without spending more and more. The problem is that it already takes at least 5 to 7 years to recoup the acquisition costs. As this metric worsens, PTON will never make a profit on a new subscriber.

PTON management has guided to higher sales and marketing expense in 2022. If the growth in new sub adds continues to slow, the business model does not work.

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Valuation

PTON trades at a market capitalization of over $30 billion. **It is structurally unprofitable.** The profitability metrics are getting worse not better as growth in revenue slows. It could easily get to the point that a new subscriber will have to remain for 10 years for PTON to earn a return on its costs. They are not in a good position to raise prices to offset this. There is too much competition currently and always more on the way.

Here is a new competitor that we have never heard of: Obe Fitness
"We call it 'fitness and enter-TRAIN-ment,'"Spencer Jones, an obé dance, sculpt and bounce instructor, told The Post. "It has anything you can think of: **boxing, sculpt, yoga, HIIT, weight-lifting, power classes, breathing, stretching** and more. I can't imagine someone saying we don't have something that works for them."
With obé, you'll have access to **22 live classes daily**, more than **6,000 on-demand classes to choose from** — if your schedule is jam-packed and you *really* want to squeeze yoga in. There are well-trained instructors, many of whom worked on Broadway and were part of the Rockettes, and an encouraging community — otherwise known as the obé Fam.
"We're live seven days a week, which is amazing," Jones said. "If you can't catch the live classes, they have thousands of on-demand classes they record from live sessions and put in the vault."

Classes include **barre, bounce, cardio boxing, dance, dance HIIT, foam roll, HIIT, pilates, power, sculpt, strength, stretch, yoga sculpt, vinyasa yoga and restorative yoga**. Obé offers a monthly, quarterly. or annual subscription," Mills and Mullett told The Post. "A monthly subscription is **$27 per month**, a quarterly subscription is $65 and an annual subscription is $199 per year."
There are many more just like it all competing for the same users.

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At 6x EV/FY22 revenue, nothing should be slowing at PTON.
Margins are declining. **Margins in connected fitness product have collapsed from 45% in 2020 to 11.6%** in 4Q22. We have heard bulls claim that PTON's efficiencies were letting it cut the price on the bike. Nonsense, it won't be long before they are selling them at cost to keep the growth going.

They cut the price of the bike by $400, giving up 10 months of lifetime value, and that is on a gross basis. On a net basis they have given up 16 months of lifetime value. That is a lot, when they already need a subscriber to stick around for at least 5-7 years. According to IHRSA, the average length of membership is 4.9 years, Gym

Bringing on a new state of the art factory in 2023, when they will most likely not need additional capacity will further put pressure on margins. We would not be surprised if this factory never starts production for PTON.

The two pillars of the bullish story on PTON are starting to crack. Subscriber growth is going to only get harder, because the economy and gyms are opening back up, the law of large numbers and competition. PTON will have to spend more and more money for lower growth. Second and most importantly, the bulls believe that PTON is different, almost cult like. That it is not a fad and that it is building a subscription like business in perpetuity, almost like a Netflix. If the workout metrics continue to slow &/or the churn rate continues to increase, this story will evaporate and then PTON is just like all the other formerly hot exercise equipment companies. A very large stock price decline is near certain if this occurs

An interesting fact is that in the 2022 fourth quarter, digital subscribers DECLINED! Wait what? Digital subscribers declined sequentially from 891K to 874K. That is only a 2% decline, but should it already be declining if they have millions of potential subscribers in their TAM still? Aren't we in the early stages, to already be seeing a decline? And it's only $13/mo, why cancel?

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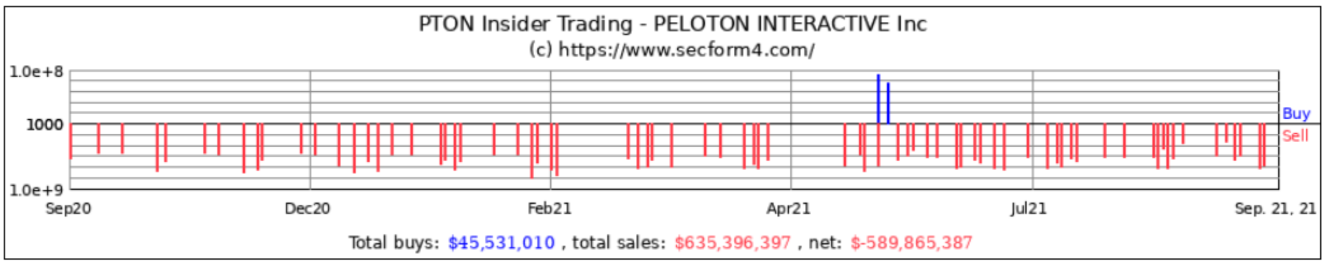
The digital app had a one time decline once before and the company panicked and lowered the price. They can hardly afford to do that again, but they need to keep the growth narrative going at all costs, so this bears watching. The digital app is only $13/mo. We still can't figure out why subscribers pay $39/mo when they can get just about everything for $13/mo with the digital app, except seeing their name on the screen or a shout out from an instructor.

Insider Sales



Goto page 0, 1, 2, 3, Next

Common stock purchase or sale:

Transaction Date	Reported DateTime	Company	Symbol	Insider Relationship	Shares Traded	Average Price	Total Amount	Shares Owned	Filing
2021-09-15 Sale	2021-09-16 7:39 pm	PELOTON INTERACTIVE Inc	PTON	Woodworth Jill CFO	50,000	$105.55	$5,277,319	0 (Direct)	View
2021-09-14 Sale	2021-09-16 4:33 pm	PELOTON INTERACTIVE Inc	PTON	LYNCH WILLIAM President	28,333	$110.64	$3,134,874	1,300 (Indirect Direct)	View
2021-09-13 Sale	2021-09-15 4:32 pm	PELOTON INTERACTIVE Inc	PTON	Cortese Thomas Chief Product Officer	40,000	$112.48	$4,499,342	413 (Indirect Direct)	View
2021-09-13 Sale	2021-09-15 4:32 pm	PELOTON INTERACTIVE Inc	PTON	Kushi Hisao Chief Legal & Culture Officer	80,000	$112.51	$9,000,891	1,724 (Direct)	View
2021-09-08 Sale	2021-09-09 4:32 pm	PELOTON INTERACTIVE Inc	PTON	CALLAGHAN JON Director	10,000	$97.22	$972,205	808,954 (Indirect)	View
2021-09-03 Sale	2021-09-08 4:35 pm	PELOTON INTERACTIVE Inc	PTON	Garavaglia Mariana COO	21,924	$99.15	$2,173,658	8,009 (Direct)	View
2021-08-30 Sale	2021-09-03 4:33 pm	PELOTON INTERACTIVE Inc	PTON	Foley John Paul CEO	486	$100.34	$48,765	642 (Indirect Direct)	View
2021-08-30 Sale	2021-09-01 4:35 pm	PELOTON INTERACTIVE Inc	PTON	Cornils Kevin Chief Commercial Officer	3,278	$100.04	$327,937	2,640 (Direct)	View
2021-08-30 Sale	2021-09-01 4:35 pm	PELOTON INTERACTIVE Inc	PTON	Klingsick Allen J CAO	1,489	$102.87	$153,176	10,993 (Direct)	View
2021-08-30 Sale	2021-09-01 4:34 pm	PELOTON INTERACTIVE Inc	PTON	Garavaglia Mariana COO	4,443	$102.05	$453,429	10,142 (Direct)	View
2021-08-20 Sale	2021-08-23 4:40 pm	PELOTON INTERACTIVE Inc	PTON	Klingsick Allen J CAO	501	$109	$54,609	9,644 (Direct)	View
2021-08-17 Sale	2021-08-19 4:33 pm	PELOTON INTERACTIVE Inc	PTON	Garavaglia Mariana COO	1,749	$110	$192,390	3,234 (Direct)	View
2021-08-17 Sale	2021-08-19 4:33 pm	PELOTON INTERACTIVE Inc	PTON	Draft Howard C. Director	15,000	$111.89	$1,678,412	264,167 (Indirect Direct)	View
2021-08-16 Sale	2021-08-18 4:32 pm	PELOTON INTERACTIVE Inc	PTON	LYNCH WILLIAM President	28,333	$109.99	$3,116,334	1,300 (Indirect Direct)	View
2021-08-16 Sale	2021-08-18 4:32 pm	PELOTON INTERACTIVE Inc	PTON	Foley John Paul CEO	100,000	$109.94	$10,994,378	200,000 (Direct)	View

There is a lot of insider selling recently.

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We are surprised that given the high valuation and slowing metrics that the short interest is only 11%. The stock price jumped last week when they announced they were getting into branded apparel. They already have sold apparel on their website for a long time. This was silly. Rallies in this stock on "announcements" like that should be sold.

Our price targets:
Short term (0-3 mo): $90,
Medium term (3-9 mo): $80-$85,
Long term (1yr): $75,
Longer term $50

The Bear Facts

Report Date:
September 21 , 2021

Badger Consultants, LLC
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Income Statement
($ millions, except per share data)

Revenue																				
Connected Fitness	77.9	221.3	261.6	162.3	723.1	160.8	389.1	420.2	485.9	1,456.0	601.4	870.1	1,023	655.3	3,150	626.0	900.0	1,170.0	1,520.0	
Subscription	31.7	37.3	51.1	61	181.1	67.2	77.1	98.2	121.2	363.7	156.5	194.7	239.4	281.6	872.2	174.0	251.0	330.0	429.0	
Total Revenue $	112.3	262.9	316.7	223.3	915.2	228	466.3	524.6	607.1	1,826.0	757.9	1,064.8	1,262.3	936.9	4,021.9	800.0	1,151.0	1,500.0	1,949.0	5,400.0
Growth % (Yr/Yr)					110.0%	103.0%	77.4%	65.6%	130.6%	89.5%	232.40%	128.4%	140.6%	54.3%	120.3%	5.6%	8.1%	18.8%	108.0%	34.3%
Cost of Revenue	60.6	151.5	196.1	123.2	531.4	122.9	269.1	278.8	318.3	989.1	429.2	640	817.4	683.2	2,569.8	536	748	990	1,290	3,564
Gross Profit	51.5	111.4	120.6	100.1	383.6	105.1	197.1	245.8	288.8	836.8	328.7	424.8	444.9	253.6	1,452.0	264	403	510	659	1,836
Gross Margin %	[illegible]	[illegible]	[illegible]		41.9%	[illegible]	42.3%	46.9%	47.6%	45.8%	43.40%	39.9%	35.2%	27.1%	36.1%	33.0%	35.0%	34.0%	34.0%	34.0%
Operating Expenses																				
Research & Development	11.600	12.400	13.800	17.000	54.800	17.400	20.700	22.500	28.400	89.000	36.6	47.5	69.8	93.9	247.8	90	90	90	90	
Sales and Marketing expense	45.500	99.500	101.100	77.900	324.000	77.600	160.500	154.800	84.200	477.100	114.6	177.4	208.2	229.3	729.5	250	251	255	364	
General and Administrative expense	50.000	55.400	47.000	96.900	249.300	60.900	77.500	126.900	86.200	351.500	108.6	141.1	180.6	232.1	662.4	230	230	230	240	
Depreciation and Amortization																				
Restructuring																				
Gain on sale																				
Total costs and expenses	107.100	167.300	162.000	191.800	628.200	156.000	258.700	304.200	198.800	917.700	259.8	366	458.6	555.4	1,639.8	570	571	575	694	2,410.0
Opex % of sales	95.4%	63.5%	37.8%	85.9%	68.6%	68.4%	55.5%	58.0%	32.7%		34.2%	34.4%	36.3%	59.3%	63.6%	71.3%				
Income (loss) from operations	(55.60)	(55.10)	(41.40)	(50.20)	(202.30)	(50.90)	(61.50)	(58.40)	90.000	(80.80)	68.90	58.8	(13.70)	(301.70)	(187.70)	(306.00)	(168.00)			(574.00)
Operating Margin %	-49.50%	-21.00%	-13.10%	-22.50%	-22.10%	-22.30%	-13.20%	-11.13%	14.82%	4.90%	9.0%	5.5%	-1.1%	-32.2%	-7.3%					
Interest income	1			6		1.3	5.9	5.6	3.9	16.7	2.4	1.9	1.6	1.1	7					
Interest expense									(0.40)	(0.40)	(0.70)		(4.90)	(9.10)	(14.70)	(9.00)	(9.00)	(9.00)	(9.00)	(36.00)
Other Income (expense), net			3.000	-3.200		-0.100	-0.100	-2.900	-0.700	-3.800		(0.10)	(0.70)	(1.80)	(2.60)	(2.00)	(2.00)	(2.00)	(2.00)	(8.00)
Income (Loss) before income taxes	(54.50)	(55.10)				(49.70)	(55.80)	(55.70)	92.80	(68.40)	70.6	60.6	(17.70)	(311.60)	(198.10)	(317.00)	(179.00)			(618.00)
Income tax benefit (expense)	0.00		(0.20)	(0.80)		(0.10)	(0.40)	(0.10)	3.80		1.3	(3.00)	(9.10)	1.6	(9.20)	(3.00)	(3.00)	(3.00)	(3.00)	(12.00)
Tax Rate %	0.0%	0.0%	0.5%			0.2%														
Net income (Loss) $	(54.500)	###	(38.600)	(47.400)	(195.600)	(49.800)	(55.400)	###	89.100	(71.700)	69.30	63.6	(8.60)	(313.20)	(188.90)	(320.00)	(182.00)			(630.00)
EPS (Basic) $	($2.18)	($4.83)		($0.14)		($0.25)	($0.20)	($0.20)	$0.31	($0.34)	$0.24	$0.22	-$0.03	-$1.05	-$0.62					
EPS (Diluted) $	($2.18)	($4.83)		($0.14)	($0.84)	($0.25)	($0.20)	($0.20)	$0.27	($0.38)	$0.20	$0.18	-$0.03	-$1.05	-$0.70	-$1.07	-$0.61			-$2.11
YR/YR EPS Growth % (Diluted)																				
EPS (Operating) $						-$0.17	-$0.28			-$0.45										
Weighted Shares Out Basic	24.999	21.781	21.960			38.454	279.974	280.879	281.784		288.7	292.5	295.6	298.8						
Weighted Shares Out Diluted	24.999	21.781	21.960			38.454	279.974	280.879	284.501		342.1	347.9	295.6	298.8						
Connected Fitness Subs	276,957	362,338	457,100	511,000	511,000	563,000	712,005	886,100	1,091,000	1,091,000	1,334,000	###	2,081,000	###	###	2,470,000	2,860,000	3,245,000	3,630,000	3,630,000
YoY %						103.3%	96.5%	93.9%	113.5%		136.9%	134.1%	134.8%	113.6%		85.2%	71.6%	55.9%	55.7%	
Monthly Churn %	0.5	0.52	0.6			0.9	0.74	0.46	0.52		0.65	0.75	0.31	0.73						
EBITDA	(55.60)	(56.00)	(41.40)	(49.30)	(202.30)															
Adjustments to EBITDA																				
Adjusted EBITDA	(13.50)	(14.60)	(19.70)	(23.60)	(71.40)	(21.00)	(28.40)	23.50	143.60	117.70	118.9	116.9	63.2	(45.10)	253.9	(285.00)				(325.00)
Adjusted EBITDA Margin %	-12.0%					-9.2%														
Connected Fitness Subs	277	362	457	511	511	563	712	886	1,091	1,091	1,334	1,667	2,081	2,331	2,331					
Digital Fitness Subs					46	49	109	176	497	497			891	874	874					
Net Subs Added		85	95	54		52	149	174	205	580	243	333	414	250	1,240					

ETS	2021	06/30/2020
Cash and cash equivalents	1,134.8	1,035.5
Marketable securities	472.9	719.5
	71.4	34.6
	937.1	244.5
Prepaid expenses and other current assets	202.8	124.5
Total current assets	2,818.1	2,158.6
	591.9	242.3
	247.9	16.0
Goodwill	210.1	39.1
Restricted cash	0.9	1.5
	580.1	492.5
Other assets	36.7	31.8
Total assets	$ 4,485.6	$ 2,981.8
Current liabilities:		
Accounts payable and accrued expenses	$ 989.1	$ 361.7
Customer deposits and deferred revenue	164.8	363.6
	61.9	36.9
Other current liabilities	27.2	10.0
Total current liabilities	1,243.0	772.2
Convertible senior notes, net	829.0	—
	620.4	508.2
Other non-current liabilities	38.3	23.4
Total liabilities	2,731.5	1,303.8
Commitments and contingencies		
Common stock, $0.000025 par v... ...000,000 and 2,500,000,000 Class A sha... ...ized, 270,855,358 and 237,318,574 ... and 2,500,000,000 Class B shares authorized, 29,291,774 and 50,538,538 s... ...ed and outstanding as of June 30, 202... 30, 2020, respectively.	—	—
Additional paid-in capital	3,618.9	2,361.8
Accumulated other comprehensive income	18.2	10.1
Accumulated deficit	(883.0)	(693.9)
Total stockholders' equity	1,754.1	1,678.0
Total liabilities and stockholders' equity	$ 4,485.6	$ 2,981.8

Total other comprehensive income

Comprehensive (loss) income	$ (309.1)	$ 96.4	$ (180.9)	$ (61.7)

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Badger Consultants, LLC Compliance Document - 2021

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