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From: Yonggy (Brian) Park, Ariel Qi, Branden Soo and Travis Zeng

To: Scott Abrams

Re: Valuing Peloton

Peloton's Business Model

Peloton is a leading connected fitness company that combines hardware, software, and content to deliver a unique at-home workout experience. Its business model focuses on selling high-end fitness equipment, like the Peloton Bike and Tread, paired with a \$39/month subscription for live and on-demand classes. This integrated approach drives strong user engagement, customer loyalty, and recurring revenue. The company also offers a digital app for non-equipment users, broadening its reach to build a community..

However, high customer acquisition costs (~\$1,100 per subscriber) and premium pricing limit its market to affluent customers. While Peloton's churn is currently low, there is concern that churn could rise as initial contracts from early adopters expire and lower-cost competitors emerge, posing challenges to scaling and long-term growth.

Peloton's Subscribers Projections

Our team conducted projections on Peloton's subscriber and revenue growth and performed a 7-year DCF on Peloton stock's fair value. Based on its historical performance with a churn rate of 7.5%, Peloton is expected to have 7,030,000 subscribers by November 8, 2026. Based on analyst expectations with a churn rate of 18%, Peloton is expected to have 5,624,000 subscribers by November 8, 2026 (*see Exhibit 1*).

DCF Valuations of Peloton

Using the 'Historical Performance' metrics, the equity value per share for PTON is \$35.6 (*see Exhibit 2a & 2b*).

Using the "Analyst Expectations" metrics, the equity value per share for PTON is \$26.3 (*see Exhibit 3a & 3b*).

Peloton's Current Stock Market Valuation

Our analysis implies that PTON's current stock market valuation is undervalued. With an expected share price of \$35.60 extracted from historical performance and a share price of \$26.30 based on analyst expectations, the current share price of \$23.46 is a buy. Currently, if our analyst's conservative expectations are correct, purchasing the stock now could result in a gain of 12.1%. On the other hand, if the stock grows according to its historical pattern, analysts predict a gain of 51.2%.

Subscriber Cancellations

Subscriber cancellations pose the largest risk when it comes to projection of revenues. Historically, Peloton experienced a 7.5% churn rate, while our analysts bumped expected cancellations to 18%. Based on analyst expectations, we should expect nearly every 1 in 5 subscribers to cancel their subscriptions. However, even with this conservative subscription cancellation rate, our target stock price is \$26.30, which is still a 12.1% gain on its current share price. Although subscriber cancellations are Peloton's largest threat to their revenues, our analysts predict that the current share price of \$23.46 is still undervalued. Our analysts recommend that Knox invest in PTON at its current share price of \$23.46, with a target sell price of \$26.30. In conclusion, even with a conservative churn rate of 18%, Peloton is still a profitable investment.

Appendix

Exhibit 1. Peloton's Subscribers Projections

Projected Peloton Subscribers:		Year ending Nov 8,							
		2019	2020	2021	2022	2023	2024	2025	2026
Historical Performance									
	Beginning of period (BOP)		511	889	1,427	2,131	3,071	4,235	5,555
	Cancellations	7.5%	(38)	(67)	(107)	(160)	(230)	(318)	(417)
	New gross joins	Ex. 6	417	604	811	1,100	1,394	1,638	1,892
	End of period (EOP)		511	889	1,427	2,131	3,071	4,235	5,555
Analyst Expectations									
	Beginning of period (BOP)		511	836	1,289	1,868	2,632	3,552	4,551
	Cancellations	18.0%	(92)	(150)	(232)	(336)	(474)	(639)	(819)
	New gross joins	Ex. 6	417	604	811	1,100	1,394	1,638	1,892
	End of period (EOP)		511	836	1,289	1,868	2,632	3,552	4,551

Exhibit 2a. Revenue Build Projections using “Historical Performance” Metrics

Projected Peloton Subscribers:	Year ending June 30,							
	2019	2020	2021	2022	2023	2024	2025	2026
Beginning of period (BOP)		511	889	1,426	2,130	3,071	4,234	5,555
Cancellations	7.5%	(38)	(67)	(107)	(160)	(230)	(318)	(417)
New gross joins	Ex. 6	417	604	811	1,100	1,394	1,638	1,892
End of period (EOP)		511	889	1,426	2,130	3,071	4,234	5,555
CFP Revenue:								
Average price per unit		2,395	2,443	2,492	2,542	2,592	2,644	2,697
New gross joins		417	604	811	1,100	1,394	1,638	1,892
CFP Revenue		1,018,075	1,505,022	2,061,232	2,851,668	3,686,117	4,417,946	5,205,085
Subscription Revenue:								
Price per month		39.0	39.8	40.6	41.4	42.2	43.1	43.9
EOP subscribers		889	1,426	2,130	3,071	4,234	5,555	7,030
Subscription revenue		424,575	694,488	1,058,029	1,555,486	2,187,895	2,927,577	3,779,279

Schedule of Marketing Costs

(amounts in thousands, except per subscriber price)

Marketing Costs	Year ending November 8,							
	2019	2020	2021	2022	2023	2024	2025	2026
Subscriber acquisition costs	1,100	1,122	1,144	1,167	1,191	1,214	1,239	1,264
New gross joins		417	604	811	1,100	1,394	1,638	1,892
Total Marketing Costs		467,592	691,242	946,704	1,309,743	1,692,998	2,029,119	2,390,645

Exhibit 2b. DCF Valuations using “Historical Performance” Metrics

	Year ending June 30,							
	2019	2020	2021	2022	2023	2024	2025	2026
CFP revenue		1,018.1	1,505.0	2,061.2	2,851.7	3,686.1	4,417.9	5,205.1
Subscription revenue		424.6	694.5	1,058.0	1,555.5	2,187.9	2,927.6	3,779.3
Total revenue	915.0	1,442.7	2,199.5	3,119.3	4,407.2	5,874.0	7,345.5	8,984.4
Cost of goods sold:								
Variable CFP costs		580.3	857.9	1,174.9	1,625.5	2,101.1	2,518.2	2,966.9
Variable subscription costs		118.9	194.5	296.2	435.5	612.6	819.7	1,058.2
Fixed media production costs	53.0	54.1	55.1	56.2	57.4	58.5	59.7	60.9
Total cost of goods sold		753.2	1,107.5	1,527.4	2,118.3	2,772.2	3,397.6	4,086.0
Marketing costs		467.6	691.2	946.7	1,309.7	1,693.0	2,029.1	2,390.6
R&D costs	54.8	55.9	57.0	58.2	59.3	60.5	61.7	62.9
G&A costs	207.0	211.1	215.4	219.7	224.1	228.5	233.1	237.8
EBIT		(45.2)	128.4	367.3	695.7	1,119.8	1,623.9	2,207.0
Less Taxes @ 25%		-	(32.1)	(91.8)	(173.9)	(279.9)	(406.0)	(551.8)
NOPAT		(45.2)	96.3	275.5	521.8	839.8	1,218.0	1,655.3
Add: Depreciation & Amortization		44.0	62.0	75.0	82.0	89.0	104.0	119.0
Less: Capex		(271.0)	(76.0)	(67.0)	(83.0)	(97.0)	(108.0)	(122.0)
Less: Working Capital Investment		(4.3)	(6.6)	(9.4)	(13.2)	(17.6)	(22.0)	(27.0)
Unlevered Free Cash Flow		(276.5)	75.7	274.2	507.5	814.2	1,191.9	1,625.3
Terminal Value		16,578.2						
PV of FCF		2,132.2						
PV of Terminal Value		7,499.1						
Value of Operations		9,631.4						
Add: Cash		378.1						
Enterprise Value		10,009.5						
Less: Debt		-						
Equity Value		10,009.5						
Number of Shares		281.0						
Equity Value per share		35.6						

Terminal Growth Rate	2%
WACC	12%

Exhibit 3a. Revenue Build Projections using “Analyst Projections” Metrics

Projected Peloton Subscribers:	Year ending June 30,							
	2019	2020	2021	2022	2023	2024	2025	2026
Beginning of period (BOP)		511	836	1,289	1,868	2,632	3,552	4,551
Cancellations	18.0%	(92)	(150)	(232)	(336)	(474)	(639)	(819)
New gross joins	Ex. 6	417	604	811	1,100	1,394	1,638	1,892
End of period (EOP)		511	836	1,289	1,868	2,632	3,552	4,551
CFP Revenue:								
Average price per unit		2,395	2,443	2,492	2,542	2,592	2,644	2,697
New gross joins			417	604	811	1,100	1,394	1,638
CFP Revenue		1,018,075	1,505,022	2,061,232	2,851,668	3,686,117	4,417,946	5,205,085
Subscription Revenue:								
Price per month		39.0	39.8	40.6	41.4	42.2	43.1	43.9
EOP subscribers			836	1,289	1,868	2,632	3,552	4,551
Subscription revenue		398,963	627,784	927,858	1,333,297	1,835,463	2,398,479	3,023,199

Schedule of Marketing Costs

(amounts in thousands, except per subscriber price)

Marketing Costs	Year ending November 8,							
	2019	2020	2021	2022	2023	2024	2025	2026
Subscriber acquisition costs	850	867	884	902	920	938	957	976
New gross joins		417	604	811	1,100	1,394	1,638	1,892
Total Marketing Costs		361,321	534,141	731,544	1,012,074	1,308,225	1,567,956	1,847,316

Exhibit 3b. DCF Valuations using “Analyst Projections” Metrics

	Year ending June 30,							
	2019	2020	2021	2022	2023	2024	2025	2026
CFP revenue		1,018.1	1,505.0	2,061.2	2,851.7	3,686.1	4,417.9	5,205.1
Subscription revenue		399.0	627.8	927.9	1,333.3	1,835.5	2,398.5	3,023.2
Total revenue	915.0	1,417.0	2,132.8	2,989.1	4,185.0	5,521.6	6,816.4	8,228.3
Cost of goods sold:								
Variable CFP costs		692.3	1,023.4	1,401.6	1,939.1	2,506.6	3,004.2	3,539.5
Variable subscription costs		111.7	175.8	259.8	373.3	513.9	671.6	846.5
Fixed media production costs	53.0	54.1	55.1	56.2	57.4	58.5	59.7	60.9
Total cost of goods sold		858.1	1,254.3	1,717.7	2,369.8	3,079.0	3,735.5	4,446.8
Marketing costs		361.3	534.1	731.5	1,012.1	1,308.2	1,568.0	1,847.3
R&D costs	54.8	55.9	57.0	58.2	59.3	60.5	61.7	62.9
G&A costs	207.0	211.1	215.4	219.7	224.1	228.5	233.1	237.8
EBIT		(69.4)	72.0	262.0	519.7	845.3	1,218.2	1,633.4
Less Taxes @ 25%		-	(18.0)	(65.5)	(129.9)	(211.3)	(304.5)	(408.4)
NOPAT		(69.4)	54.0	196.5	389.8	634.0	913.6	1,225.1
Add: Depreciation & Amortization		44.0	62.0	75.0	82.0	89.0	104.0	119.0
Less: Capex		(271.0)	(76.0)	(67.0)	(83.0)	(97.0)	(108.0)	(122.0)
Less: Working Capital Investment		(4.3)	(6.4)	(9.0)	(12.6)	(16.6)	(20.4)	(24.7)
Unlevered Free Cash Flow		(300.6)	33.6	195.6	376.2	609.4	889.2	1,197.4
Terminal Value		12,213.3						
PV of FCF		1,474.6						
PV of Terminal Value		5,524.7						
Value of Operations		6,999.2						
Add: Cash		378.1						
Enterprise Value		7,377.3						
Less: Debt		-						
Equity Value		7,377.3						
Number of Shares		281.0						
Equity Value per share		26.3						

Terminal Growth Rate	2%
WACC	12%