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ASSET MANAGEMENT

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Potential Opportunity: BUY Peloton



Price Target (YE20): \$42 / +91%

Risk Price (YE20): \$14 / -34%

Risk / Reward: 2.7x

Current Price: \$22

February 5, 2019

OVERVIEW

Peloton: It's the Tesla + Netflix of Fitness



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WHY BUY PELOTON?

- **Offering:** With a leading hardware, software, and media-integrated offering, we believe Peloton can be a disruptor in the global fitness market
- **Growth:** We forecast a >70% revenue CAGR through 2021, supported by the signature cycling product, new product roll-outs, and international expansion
- **Valuation:** We see +91% upside to our year-end 2020 PT with a 41% IRR and 2.7x risk / reward, with high growth and a low-churn subscription component driving value creation

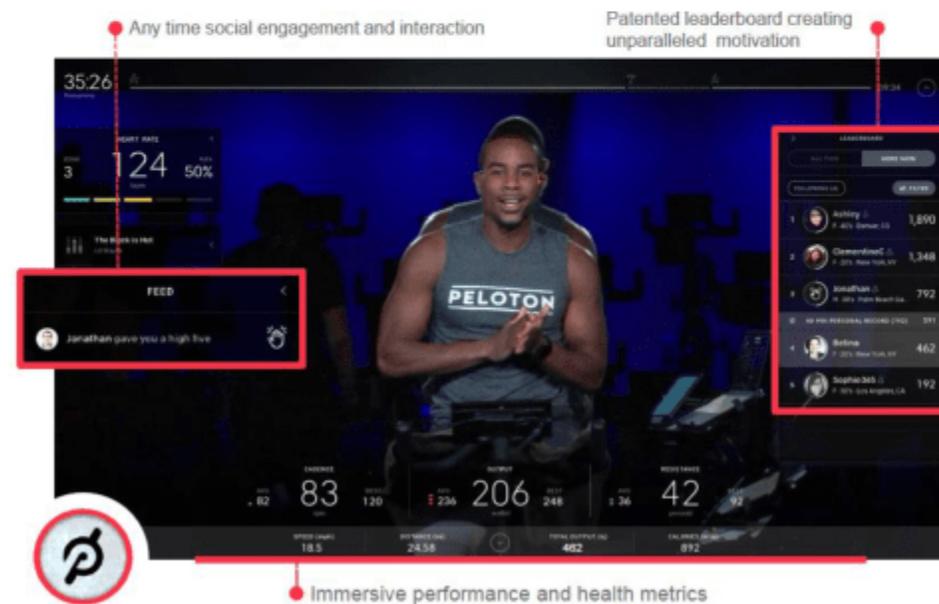
PELOTON OVERVIEW

Disruptive hardware, software, and media-integrated fitness offering



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- Fitness-focused business, currently centered around their signature cycling product, pictured below
- Offering combines a high-quality studio bike, software including health metrics and social engagement, and media with motivational instructor programming
- Peloton is easy to order online (as well as at Peloton boutiques), with white glove delivery and setup for a similar ordering experience to Casper mattresses
- With a differentiated offering mixing the convenience of a home gym with the quality of a boutique fitness class, we believe Peloton can disrupt the traditional fitness model



Source: Company data

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PELTON POSITIVES – COMPETITIVE PRICING



Competitive pricing versus other premium fitness offerings

- Peloton makes money through selling its bike along with class subscriptions
 - This is different from most premium gyms that have less upfront cost but either high monthly subscription fees or a pay-per-class offering
 - Unlike gym memberships, the cost of Peloton can be spread across multiple users in a household
- As shown in the following chart, the two-year average monthly cost per rider for Peloton is below competitive premium fitness offerings

FITNESS OPTION	AVG. MONTHLY COST PER RIDER OVER TWO YEARS	AVG. MONTHLY COST PER COUPLE OVER TWO YEARS
PELOTON ¹	\$143	\$143
SOULCYCLE ²	\$408	\$816
BARRY'S ³	\$336	\$672
FLYWHEEL ³	\$290	\$580
EQUINOX ⁴ <small>FITNESS CLUBS</small>	\$250	\$500
the Method ³	\$185	\$370
CLASSPASS ²	\$180	\$360
Orangetheory ⁵ <small>FITNESS</small>	\$169	\$338

Source: Peloton calculation and company websites

PELTON POSITIVES – LOW CHURN

We believe the Peloton model supports structurally low churn



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- Customer retention is 96% after 12 months and 84% after 24 months, for monthly churn of <1%.
 - We believe this is a testament to the quality of the product and the strength of the business model
 - Having a Peloton at home is more convenient than going to the gym, and we think users are less likely to cancel a subscription to a device they own in their home when compared to a traditional gym membership
- One Peloton subscription includes multiple user profiles (similar to Spotify or Netflix), which serves as a family plan that we believe further lowers churn
- The low churn factor is key for Peloton's attractive subscription economics



Source: Company data

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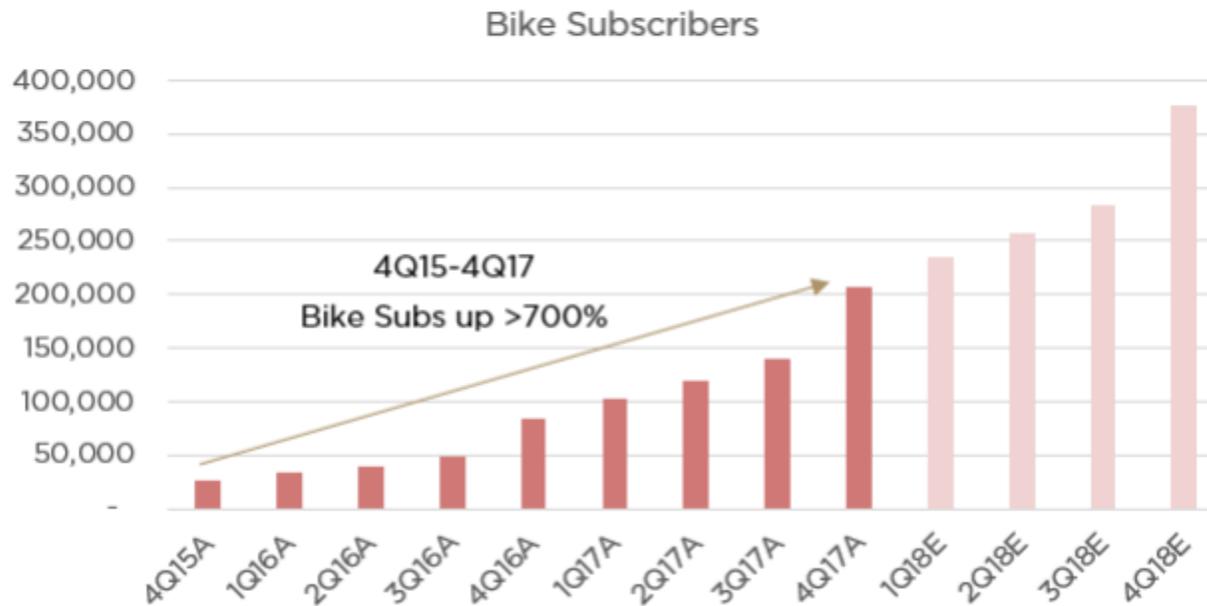
GROWTH DRIVERS – SIGNATURE PRODUCT

Growth in the Peloton model begins with core cycling



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- Core cycling is demonstrating continued momentum. Peloton sold -22k bikes in 2015, -62k in 2016, and -131k in 2017
- Bike Subscribers grew over 700% during this period as shown in the chart below, with Q/Q subscriber growth averaging 30% over the past 8 quarters
- Through investments in the brand, sales force, and retail footprint, we believe Peloton has a continued runway to drive bike product and subscription revenue growth within the US



Source: Company data

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GROWTH DRIVERS – INNOVATION PIPELINE

New product innovation is beginning with the Peloton Tread



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- Peloton has a product innovation pipeline, beginning with a treadmill launch in 2019
 - We see significant potential in treadmills as 5mn+ treadmills are sold annually in the US, 3x more than stationary bikes.
 - Peloton plans to roll out lower price point Bike and Tread versions in coming years which we believe can further increase the TAM
 - A potential 3rd product launch is planned for 2021
- One subscription covers all of Peloton's products, which encourages cross-sell for Bike and Tread customers
- In addition to hardware, Peloton offers a monthly app-based subscription product, which further expands the TAM
 - Peloton sees 47.8 million households open to subscription fitness; with its talented instructors and loyal customer followings, we believe Peloton can be a leader in app-based fitness subscriptions

PRODUCT ROADMAP



Source: Company data

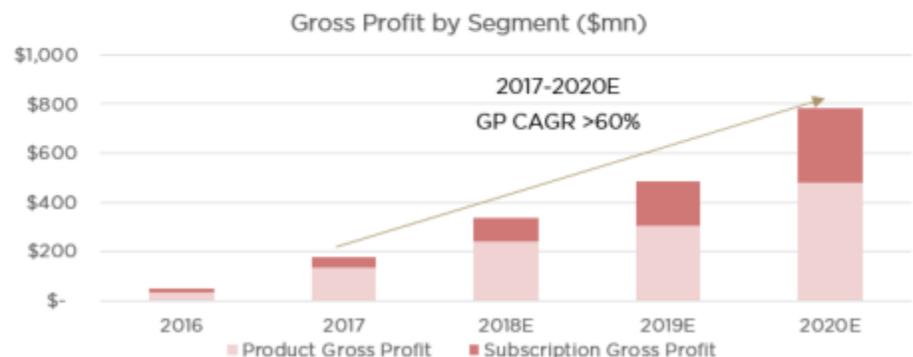
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MODEL OVERVIEW



Mix shifting toward subscription revenue is positive

- With the Peloton model, the Subscription business becomes a larger part of the revenue and GP mix over time, which is positive for long-term earnings visibility
 - Between 2018 and 2021 we forecast a 70%+ revenue CAGR with product revenue growing -65% and subscription growing +80%, reaching 20% of revenue in 2021
 - With subscription gross margins of +75% versus product GM of +35%, we forecast subscriptions representing 35% of gross profit in 2021, up from 28% in 2018
 - As gross profit grows, Peloton can leverage expenses; we forecast operating expenses going from -60% of revenue in 2018 to -40% in 2021, with EBITDA and FCF turning positive in 2021 and net income turning positive in 2022.
- Additional drivers such as advertising and sponsored classes are not included in our estimates and could be a source of upside



Source: Company data, Honeycomb estimates

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VALUATION



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- We see +91% Price Target upside with a 41% IRR and 2.7x risk / reward, with high growth and a low-churn subscription component driving value creation
 - Price Target: \$42 (+91%) on 8.5x Honey 2021 subscription revenue and 5.5x Honey 2021 product gross profit.
 - Risk Price: \$14 (-34%) on 4.5x a -25% discount to Honey 2021 sub revenue and 1.5x a -25% discount to Honey 2021 product GP
 - Risk/Reward: 2.7x

PRICE TARGET at Year-end 2020		RISK PRICE at Year-end 2020	
Subscription		Subscription	Haircut
2021 Subscription Revenue	686	2021 Subscription Revenue	-25%
EV / Revenue	8.5x	EV / Revenue	4.5x
EV Contribution	5,831	EV Contribution	2,315
Product / Other		Product / Other	
2021 Product / Other GP	988	2021 Product / Other GP	-25%
EV / Gross Profit	5.5x	EV / Gross Profit	1.5x
EV Contribution	5,432	EV Contribution	1,111
Total		Total	
Enterprise Value	11,264	Enterprise Value	3,427
Net Debt	(685)	Net Debt	(685)
MCAP	11,948	MCAP	4,111
Shares O/S	284	Shares O/S	284
Share Price	\$42	Share Price	\$14
% return	91.3%	% return	(34.2)%
Implied EV/2021 Revenue	3.2x	Implied EV/2021 Revenue (-25% haircut)	1.3x
Implied EV/2021 GP	7.5x	Implied EV/2021 GP (-25% haircut)	3.0x
IRR	41%	Risk / Reward	2.7x

Source: Honeycomb estimates

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BUY Peloton



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APPENDIX – PRICING OPTIONS

Hardware packages (incl. financing options), plus membership subscriptions



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Choose your Bike experience

Get what you need to start training, whether it's just the Peloton Bike, warranty and Membership, which gets you unlimited access to Peloton classes, or accessories to equip you and your family.

BASICS PACKAGE	ESSENTIALS PACKAGE	WORKS PACKAGE	FAMILY PACKAGE
			
\$2,245	\$2,404	\$2,494	\$2,694
Or pay as low as \$58/mo for 39 mos at 0% APR	Or pay as low as \$62/mo for 39 mos at 0% APR	Or pay as low as \$64/mo for 39 mos at 0% APR	Or pay as low as \$70/mo for 39 mos at 0% APR
SHOP NOW	SHOP NOW	SHOP NOW	SHOP NOW
Includes Peloton Bike 1 Yr. Limited Warranty Delivery and Setup (Est.) ⓘ	Includes Peloton Bike 1 Yr. Limited Warranty Delivery and Setup (Est.) ⓘ Shoes (1 Pair) Weights (1 Pair) Headphones (1 Pair)	Includes Peloton Bike 1 Yr. Limited Warranty Delivery and Setup (Est.) ⓘ Shoes (1 Pair) Weights (1 Pair) Headphones (1 Pair) Heart Rate Monitor Bike Mat	Includes Peloton Bike 1 Yr. Limited Warranty Delivery and Setup (Est.) ⓘ Shoes (2 Pairs) Weights (1 Pair) Headphones (2 Pairs) Heart Rate Monitor (2) Bike Mat Water Bottles (2)



PELOTON MEMBERSHIP

Access all classes via the Peloton Bike, Tread and app

\$39/mo
Requires Peloton Bike or Tread

[SHOP BIKE](#) [SHOP TREAD](#)

- ✓ Unlimited Peloton classes on the Bike, Tread and on the go
- ✓ 20+ live classes daily and over 10,000 on-demand
- ✓ Unlimited user profiles
- ✓ A variety of class types including cycling, running, bootcamp, yoga, outdoor and more
- ✓ Includes Digital Membership (access on iOS, Android and Web)
- ✓ Instructor curated training programs
- ✓ Live workout metrics including distance, heart rate, and resistance
- ✓ Detailed workout performance dashboard
- ✓ Live and on-demand class Leaderboard

Source: Company website as of 2/5/2019

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