

# Peloton Interactive, Inc.: Valuation During a Global Pandemic

## Case

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PREVIEW

## Abstract

This case considers approaches to valuing Peloton Interactive, Inc. (NASDAQ: PTON), a manufacturer of home fitness products including bicycles, treadmills, and connected fitness subscriptions. In this case, Bainbridge Capital, a USD 540 million assets under management (AUM) investment fund, invested USD 4.3 million to acquire shares in Peloton's initial public offering in September 2019. Less than a year later, in September 2020, sales of Peloton bikes and subscriptions have risen strongly, as fitness enthusiasts are forced into working out from home. The shares of Peloton have skyrocketed, more than doubling from their initial public offering price.

Lauren Truxton, an analyst at Bainbridge, is being asked to make a recommendation on whether the current valuation of the firm is sustainable, or is a temporary result of the Covid-19 shutdown that will reverse once gyms and fitness centers reopen. She needs to select an appropriate valuation methodology, considering not just the short history of the firm as a public company, but also the extreme market volatility as a result of the pandemic. Based on her analysis, Bainbridge will need to decide whether to sell their shares for a sizable capital gain or stay in the stock for the long term.

## Case Learning Outcomes

By completing this case, students will be able to:

- understand the differences between valuation methodologies, including the dividend discount, free cash flow, and market comparable models, and how to choose which is most appropriate given the nature of the firm being valued and the purpose of the valuation;
- identify what data are needed to complete each of these valuation methods, and to develop a strategy for locating and analyzing that data;
- appreciate the differences between valuing a new startup company that has never earned an operating profit, and more established firms with long histories of profitable operations; and
- understand the appropriate use of valuation, and the importance of understanding that an efficient market may not always be correct in the short term.

## Introduction

On September 29, 2020, Lauren Truxton was the last person to log into the Zoom video call, 10 minutes after the meeting was supposed to start. The other four members of the investment committee of Bainbridge Capital Management were already displayed on the video grid on her screen, working from their home offices, living rooms, or bedrooms.

"Lauren, glad you could finally make it," said William Bainbridge, the chairman of Bainbridge. It looked like William was on the deck of his summer home at the beach.

"Sorry, William, I couldn't find the meeting password." Lauren actually couldn't find her laptop computer, and hadn't thought to look in her daughter's room until the last minute.

"Ok, well, let's get started. Last year, you all remember that I convinced you to buy 150,000 shares of Peloton in their initial public offering in September. A reminder that they priced at USD 29, so we have a basis of USD 4.35 million. On close yesterday, the stock was at USD 96.91 [Data 1]. We have only been in for 11 months, and we're sitting on a gain of USD 10,186,500."

## Data 1. Stock Daily of Peloton Interactive, Inc. (September 26, 2019–September 28, 2020)

[Click here](#) to view the online version of this case for optimal experience of interactive data embeds.

Bainbridge Capital was an investment fund that had been set up by William Bainbridge's dad, Charles, in 1980. The initial USD 20 million in funding had come from Charles' sale of his business, followed by investments from several of Charles' wealthy friends. Over the ensuing years, the firm had steady, but not spectacular, growth, and had grown to USD 540 million assets under management (AUM), an 8% annual return. The firm's strategy had always been as a value investor, looking for undervalued stocks, typically in industrial companies. Usually, the positions were held for a long term, especially if they had the benefit of a decent dividend yield.

In 2018, Charles Bainbridge passed away and his son William assumed the role of chairman. William had decided that the firm had been too conservative in its investments, and was losing business to hedge funds willing to take on a lot more risk. His decision to invest USD 4.35 million in the Peloton initial public offering (IPO) was part of that strategy.

"With all the gyms shutting down because of Covid, everybody is stuck at home, and Peloton sales are through the roof. Everybody at the club keeps telling me that they can't wait to buy one. Matter of fact, they have to get on a waiting list, which is now a couple of weeks, since they just can't build and ship them fast enough," explained William.

"So, we need to think about what our next move is on this stock. Do we sell and take our gains? Or, is this the next Netflix and we should be putting more into it?" asked William. "Lauren, I want you to try to figure out what this stock is worth. I know it's a new company and there's not a lot of history, but put together a presentation by our meeting next week."

### Peloton History

Lauren Truxton already knew that Peloton was founded in 2012 by John Foley, who had spent several years in the Internet services business, as the president of the e-commerce division of Barnes and Noble, a traditional brick-and-mortar seller of books. Foley was searching for a business concept that could combine physical products with connected digital content. The success of businesses that could generate ongoing revenue, with a monthly service revenue, had driven companies like Netflix to great success, and the fitness industry seemed like a good opportunity.

Foley's business concept came from the idea of indoor group bicycling classes, usually referred to as "spinning." Gyms and fitness centers would arrange several indoor bicycles and an energetic instructor, usually accompanied by loud music, to lead participants through workouts. Some fitness centers, like Orange Theory and Soul Cycle, developed intense dedication among members to their workout routines and star instructors. Members paid a monthly membership fee, sometimes hundreds of dollars per month, to belong to these clubs.

In outdoor bicycle racing, most of the energy a racer has to expend is to overcome wind resistance. In a line of racing cyclists, the front rider is fully exposed to the wind, while other cyclists can take drafting positions behind the front and use much less energy. The line of racers, who work together by trading off who leads the pack, is known by the French word "peloton."

The concept developed by Foley was to provide the "peloton" experience of riders working together in a home fitness setting. Using a specially designed indoor bicycle connected to the web, a user connects to a spinning class, viewing the instructor and the class on a 22-inch, high-definition video monitor with connected speakers. The instructor is filmed at the Peloton studio in New York City leading the class through the workout, and participants can interact with others through chat, social media, and a posted "leaderboard."

From its inception, Peloton has connected to a larger goal of improving a user's life. "We believe physical  
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activity is fundamental to a healthy and happy life. Our mission is to empower people to improve their lives through fitness” (Peloton Interactive, Inc., 2019a).

John Foley financed the original development of the Peloton Bike in 2014 by utilizing the crowd-sourced funding vehicle Kickstarter. Several rounds of funding from both angel investors and venture capitalists funded subsequent growth of the company, culminating in a USD 550 million funding round in 2018 at a valuation of USD 4.1 billion. Investors in these financings received convertible cumulative preferred stock, a form of ownership that would allow the investors to exchange their preferred stock for common stock.

In September 2019, Peloton completed an IPO, selling 40 million shares at a price of USD 29.00 per share. After paying a commission of USD 1.45 per share to the underwriters that led the IPO, Peloton netted a total of USD 1.1 billion. In addition, 3.45 million shares were sold in a private placement at the IPO price, yielding an additional USD 100 million. At the time of the IPO, the holders of the convertible preferred stock converted their stock to common stock.

## Products and Services

By studying Peloton’s website, Lauren could see that the firm offers several different products and services, which they group into three major lines of business segments.

### Connected Fitness Products

Peloton sells a custom-designed indoor bicycle and a newly introduced treadmill. The company originally had factories in Asia build the bicycles under contract, but in 2019 made the decision to acquire Tonic Fitness Technologies, a factory in Taiwan.

The Peloton Bike currently sells for USD 1,895. Peloton buyers can also finance their bike purchase through the company at a 0%, 39-month payment of USD 49 per month.

In 2018, Peloton introduced a branded treadmill, known as the “Tread.” The Tread combines a treadmill and high-definition monitor, and allows users to participate in group exercise classes. As with the bike, Tread users can access live or pre-recorded classes, and can engage with other users through social media and leaderboard features. The Tread sells for USD 4,295, or USD 111 per month for 39 months. Buyers of the Tread also need to subscribe to the USD 39 All Access subscription to access the group workouts.

### Subscription Services

For a monthly fee, owners of Peloton’s indoor bike can participate in an unlimited number of either live or pre-recorded spinning classes by subscribing to the digital platform. Without the subscription services, the equipment has some limited workout functions.

The monthly subscription, known as the All Access Pass, costs USD 39 per month. Peloton reported that 95% of Peloton Bike purchasers pay the monthly fee to maintain their subscription.

### Other

Peloton sells related clothing and accessories, such as workout clothes and shoes.

Peloton bikes and treadmills are large, heavy pieces of equipment. The Bike weighs over 100 lbs, and the Tread almost 300 lbs. They are shipped partially disassembled from the Peloton warehouse fulfillment centers but must be carried by freight companies, and then assembled at the buyer’s home. The company’s original plan was to have trained teams of technicians to assemble and service their equipment, but that had to be suspended because of the COVID-19 pandemic for several months.

Lauren decided to search social media posts including Facebook, Twitter, and Instagram. Most users seemed

satisfied with their purchase.

## Peloton Interactive Financial Analysis

After studying Peloton's website, Lauren turned to the financial results. When a company completes an IPO, they need to issue a document known as the SEC Form S-1. The S-1 describes the company business plan and risk factors, and includes audited financial statements for the three years prior to the IPO. By combining these statements with Peloton's first annual SEC report, known as a 10-K, she was able to compile four years of income and cash flow statements and three years of balance sheet information.

[Table 1](#) shows the historical income statement for Peloton for the period 2017 through 2020 that she compiled. In that time period, total revenue rose from USD 218 million to USD 1.83 billion. During that time, gross margins rose from 34% to 46%, while operating expenses decreased from 66% to 54% of revenue. The company is not yet profitable, with a net loss of USD 71 million in 2017 and a net loss of USD 71.2 million in 2020. With almost 220 million shares of common stock outstanding, that equals a net loss per share of USD 0.32.

**Table 1. Peloton Interactive Income Statement, 2017–2020**

Peloton Interactive, Inc. (NASDAQ: PTON)		As of June 30 (in millions of USD, except per share data)							
		2017 actual	% of total revenue	2018 actual	% of total revenue	2019 actual	% of total revenue	2020 actual	% of total revenue
Revenue									
Connected products	fitness	183.5	83.9	348.6	80.1	719.2	78.6	1,462.2	80.1
Subscription		32.5	14.9	80.3	18.5	181.1	19.8	363.7	19.9
Other		2.6	1.2	6.2	1.4	14.7	1.6	0.0	0.0
Total revenue		218.6	100.0	435.1	100.0	915.0	100.0	1,825.9	100.0
Cost of revenue									
Connected products	fitness	113.5	51.9	195.0	44.8	410.8	44.9	833.5	45.6
Subscription		29.3	13.4	45.5	10.5	103.7	11.3	155.7	8.5
Other		1.9	0.9	4.9	1.1	17.0	1.9	0.0	0.0

Total cost of revenue	144.7	66.2	245.4	56.4	531.5	58.1	989.2	54.2
Gross profit	73.9	33.8	189.7	43.6	383.5	41.9	836.7	45.8
Operating expenses								
Research and development	13.0	5.9	23.4	5.4	54.8	6.0	89	4.9
Sales and marketing	86.0	39.3	151.4	34.8	324.0	35.4	477	26.1
General administrative	45.6	20.9	62.4	14.3	207.0	22.6	351.6	19.3
Total operating expenses	144.6	66.1	237.2	54.5	585.8	64.0	917.6	50.3
Loss from operations	(70.7)	-32.3	(47.5)	-10.9	(202.3)	-22.1	(80.9)	-4.4
Other income, net (expense)	(0.3)	-0.1	(0.3)	-0.1	6.7	0.7	12.4	0.7
Loss before provision for income tax	(71.0)	-32.5	(47.8)	-11.0	(195.6)	-21.4	(68.5)	-3.8
Provision for income tax	0	0.0	0.1	0.0	0.1	0.0	(3.3)	-0.2
Net loss	(71.0)	-32.5	(47.9)	-11.0	(195.7)	-21.4	(71.8)	-3.9
Weighted average shares							220,952,237	
Net loss per share							(0.32)	

Source: Peloton Interactive, Inc. (2020c)

The balance sheet ([Table 2](#)) shows the dramatic effects of the liquidity provided by the IPO. Cash and cash equivalents, including money market certificates, are over USD 1.76 billion, representing over two years of operating expenses. Cash and cash equivalents make up 59% of total assets in 2020.

Peloton has a negligible amount of debt, other than trade credit financings. As a result of an accounting reporting change, it shows a “right of use asset” nearly offset with a “long-term lease obligation” related to the lease it entered into for its headquarters and studio in New York City.

In the stockholders’ equity accounts, Lauren could see where the convertible preferred stock had been converted to common stock, as well as the additional stock sold to the public in the IPO, to give a paid-in capital of USD 2.4 billion. Since the company has never been profitable, the retained earnings account is an accumulated deficit of USD 693.9 million, giving a total stockholders’ equity (book value) of USD 1.68 billion.

**Table 2. Peloton Interactive Balance Sheet, 2018–2020**

For the fiscal year ending June 30

Peloton Interactive, Inc.

(in millions of USD)

(NASDAQ: PTON)

	2018	% of assets	total	2019	% of assets	total	2020 actual	% of assets	total
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	150.6	55.5		162.1	18.8		1,035.5	34.7	
Marketable securities				216.0	25.0		719.5	24.1	
Net accounts receivables	9.4	3.5		18.5	2.1		34.6	1.2	
Inventories	25.3	9.3		136.6	15.8		244.5	8.2	
Other current assets	18.4	6.8		48.4	5.6		124.5	4.2	
<b>Total current assets</b>	<b>203.7</b>	<b>75.1</b>		<b>581.6</b>	<b>67.3</b>		<b>2,158.6</b>	<b>72.4</b>	
Property and equipment, net	36.2	13.3		249.7	28.9		242.3	8.1	
Intangible assets, net	24.5	9.0		19.5	2.3		16.0	0.5	
Goodwill	4.2	1.5		4.3	0.5		39.1	1.3	
Restricted cash	1.0	0.4		0.8	0.1		1.5	0.1	



Right of use asset					492.5	16.5
Other assets	1.6	0.6	8.5	1.0	31.8	1.1
Total assets	271.2	100.0	864.4	100.0	2,981.8	100.0

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	28.1	10.4	92.2	10.7	135.8	4.6
Accrued expenses	51.4	19.0	104.5	12.1	225.9	7.6
Customer deposits	88.5	32.6	90.8	10.5	363.6	12.2
Other current liabilities	2.2	0.8	3.3	0.4	46.9	1.6
Total current liabilities	170.2	62.8	290.8	33.6	772.2	25.9
Deferred rent	9.4	3.5	23.7	2.7		0.0
Build to suit liability			147.1	17.0		0.0
Long-term lease liability					508.2	17.0
Other non-current liabilities	1.0	0.4	0.4		23.4	0.8
Total liabilities	180.6	66.6	462.0	53.4	1,303.8	43.7
Convertible preferred stock	406.3	149.8	941.1	108.9		0.0
Common stock, par value						0.0
Additional paid-in capital	20.4	7.5	90.7	10.5	2,361.8	79.2

Accumulated other comprehensive income		0.2	0.0	10.1	0.3
Accumulated deficit	(336.1)–123.9	(629.5)–72.8		(693.9)	–23.3
Total stockholders' equity (deficit)	(315.7)–116.4	(538.6)–62.3		1,678.0	56.3
Total liabilities and stockholders' deficit	271.2 100.0	864.5 100.0		2,981.8	100.0

Source: Peloton Interactive, Inc. (2020c)

Finally, she turned to the statement of cash flows ([Table 3](#)). Whenever she did a valuation, Lauren always looked for some key information from this statement. From the cash flow from operating activities, she noted the amount of depreciation, which was equal to USD 46.2 million in 2020. From the changes in operating assets, she could determine the changes in working capital. The amount of money spent on purchase of plant and equipment gave her the amount of capital expenditures.

**Table 3. Peloton Interactive Statement of Cash Flows, 2018–2020**

	For the fiscal year ended June 30			
Peloton Interactive, Inc. (NASDAQ: PTON)	(in millions of USD)			
	2017 actual	2018 actual	2019 actual	2020 actual
Cash flows from operating activities:				
Net loss	(71.1)	(47.9)	(195.6)	(71.6)
Depreciation and amortization expense	3.7	6.6	21.7	40.2
Stock-based compensation expense	10.3	8.5	89.5	88.8
Impairment of long-lived assets	0.2	0.7	0.5	47.7
Amortization of debt issuance costs	0.1	0.3	0.3	6.4
Amortization of (discount) on marketable securities			(2.2)	

Changes in operating assets and liabilities:

Accounts receivable	(3.6)	(4.1)	(9.1)	11.3
Inventories	(5.0)	(9.6)	(111.3)	(96.8)
Prepaid expenses and other current assets	(1.0)	(12.1)	(30.3)	(33.1)
Other assets	(1.1)	1.4	(5.5)	(22.1)
Accounts payable and other accrued expenses	22.1	41.0	117.3	133.4
Customer deposits	19.0	63.0	2.2	272.3
Operating lease liabilities				(23.6)
Other liabilities	7.8	1.9	13.8	23.5
Net cash provided by operating activities	(18.6)	49.7	(108.7)	376.4
Cash flows from investing activities:				
Purchases of marketable securities			(249.8)	(1,199.6)
Maturities of marketable securities			36.0	435.4
Sales of marketable securities				224.3
Cash paid for cost method investment			(0.6)	(0.1)
Purchases of property and equipment	(10.2)	(28.0)	(83.0)	(45.0)
Acquisition of business, net of cash provided	0.0	(28.7)	(0.1)	(156.4)
Net cash provided by investing activities	(10.2)	(56.7)	(297.5)	(741.4)

Cash flows from financing activities:

Proceeds from issuance of common stock				1,195.7
Proceeds from issuance of redeemable convertible preferred stock	315.6		539.1	
Repurchase of common and redeemable convertible preferred stock	(170.0)		(130.3)	
Proceeds of borrowing under credit facility	10.5			
Debt repayments	(13.0)	(3.1)		
Debt issuance costs	(0.2)	(1.2)	(0.9)	
Proceeds from employee stock purchase plan				7.0
Proceeds from exercise of stock options	0.7	7.4	9.3	37.4
Net cash provided by financing activities	143.6	3.1	417.2	1,240.1
Effect of exchange rate changes			0.2	(1.2)
Cash, cash equivalents, beginning of period	40.7	155.5	151.6	163.0
Cash, cash equivalents, end of period	155.5	151.6	163.0	1,037.0
Net change in cash	114.8	(3.9)	11.3	874.0

Source: Peloton Interactive, Inc. (2020c)

## Total Addressable Market

Digital service companies are often evaluated through two metrics. The first is the size of their subscription base, which reflects the number of customers who are willing to keep paying a recurring charge to maintain a subscription to the product. In the earliest days of the Internet, most people had the feeling that anything that was on the web was free, and companies had a difficult time convincing customers to make a continuing payment. One of the first to change this was Netflix (NASDAQ: NFLX), which started with movie DVDs, and then digital downloads. A recurring feature of most Internet-based subscription services has been the 30-day

free trial. Starting in March of 2020, Peloton expanded its 30-day free trial to a 90-day free trial. Along with the number of users that are willing to pay the recurring subscription is the “churn rate,” which is defined as the percentage of the customer base that drops the subscription. In the third quarter of 2020, Peloton had an exceptionally low churn rate of only 0.54% per month for its connected fitness products.

## Valuation Overview

This was Lauren Truxton’s fourth year at Bainbridge. She had started with the firm as a summer intern in 2016, and had worked for both Charles and William Bainbridge. She could see the different styles that they had—Charles was the one who always wanted to err on the side of caution, while William seemed much more willing to take risks if the potential rewards were great enough.

As she gathered her data about Peloton, Lauren thought about how to proceed. She realized that the valuation she was being asked to perform was a lot more complicated than it seemed. Last year, the firm put over USD 4.5 million in a very risky investment, and that had concerned many members of the investment committee. As a matter of fact, for the first six months following the IPO, the stock had shown some pretty dismal returns, dropping at one point to a low of USD 17, a fall of 42% from the IPO price (see Data 1). There was even some discussion about getting out of the stock then, in a move to minimize losses.

Lauren had done well so far at the firm, and was in Level 3 of her Chartered Financial Analyst (CFA) certification. She thought about the valuation techniques that she had learned, and how they might be useful to her in this case.

The first approach was the dividend discount model. The basic idea was to forecast the expected stream of future dividends, and then take the present value of those dividends and sum them. To get the present value, you need two things: a dividend forecast, and a discount rate meant to reflect the risk involved in the investor getting the dividends. She remembered that is how they valued many of the industrial companies that Bainbridge had held in their portfolio; these companies had been paying dividends for many, many years and Lauren remembered using regression analysis of the past dividends to get a forecast she felt pretty comfortable with.

The second approach was the discounted cash flow (DCF) model. This worked in a similar matter to the dividend discount model except that she needed to forecast the “free cash flow,” and not dividends. The DCF was a method often used for companies that didn’t pay dividends; through the free cash flow she was trying to estimate the “capacity” of the firm to pay dividends. This became clear when she followed the formula to calculate free cash flow: net profit after tax, plus depreciation (a non-cash charge), less capital expenditures (to maintain the firm’s operations), less any additions to working capital. For these models, Lauren had to put together detailed “pro-forma” financial projections, forecasting income statements, balance sheets, and cash flows. By convention, most analysts forecast cash flows for three to five years.

The third approach was the market-based valuations. These are based on a quite different premise; the idea was that she tried to find a group of other publicly traded companies that were similar, or “comparable,” to the firm she was trying to value. This method works best where there are many similar companies offering a product or service, which makes the process of identifying a comparable company much easier. Lauren had used this method to value companies in the retail and hospitality industries. The most difficult part about using comparable approach is where there is a unique company, and she could not locate a comparable.

## Cost of Capital

The cost of capital can be thought of as an opportunity cost, i.e., the extra return that an investor needs to receive as compensation for the risk they are bearing. In the case of a startup company like Peloton, there is far more risk than investing in risk-free security such as a Treasury bill or bond. The return on the Treasury bill is the risk-free rate, which is currently about 0.7%. The extra risk from investing in Peloton is calculated by using the Capital Asset Pricing Model (CAPM). In the CAPM, the cost of capital, also known as the required return on equity ( $R_e$ ), is calculated as

$$R_e = R_f + \beta \times (R_m - R_f)$$

where  $R_f$  is the risk-free rate, and  $R_m$  is the expected return on a broad index of investable stocks like the S&P 500 index. Although the  $R_m$  can differ depending on the time period over which it is calculated, Bainbridge uses an estimate of 8.2%. The final term in the equation, the beta, is the correlation between the return on that broad market index and Peloton's return.

Since Peloton has no debt, the cost of capital is approximately equal to the cost of equity.

## DCF Valuation

The essence of preparing a DCF valuation is the basic valuation principle, that the value of any financial asset is worth the sum of the present value of the future expected cash flows. For a valuation of a company like Peloton, this starts with a calculation of the free cash flow from the existing business, with the numbers needed (net income, depreciation, capital expenditures, and changes in working capital) coming from the historical income statement and statement of cash flows. These cash flows need to be forecast. In these situations, historical growth rates may be so high that they will not work for future projections.

Instead, Lauren remembered that another way was to use the company's addressable market. In the case of Peloton, the addressable market is estimated by the company to be 14 million units, and that they think they can achieve 20% or 2.8 million units in five years. She knew that this implied a growth rate of 41% using the current base of 500,000 and the forecast of 2.8 million in five years. For the calculation of the terminal value, she decided that she could use a growth rate similar to the expected economy of 3%.

## Market Comparables Valuation

Lauren knew better than to try to find a publicly traded firm that was identical to Peloton. The company's business model and structure was so distinct that this wasn't likely to be successful. Instead, she had to think about how investors viewed Peloton, in terms of its risks and returns. To William Bainbridge, Peloton was a rapidly growing digital services company, one that might be the next Netflix (NASDAQ: NFLX, Data 2), even though less than 15% of its revenue came from subscriptions. On the other hand, the great majority of the company business was building and selling fitness equipment. Looking at the company from that perspective, a good comparable seemed to be Nautilus Group, Inc. (NYSE: NLS).

### Data 2. Stock Daily Close of Netflix, Inc. (2002–September 28, 2020)

[Click here](#) to view the online version of this case for optimal experience of interactive data embeds.

### Data 3. Stock Daily Close of Nautilus, Inc. (1999–September 28, 2020)

[Click here](#) to view the online version of this case for optimal experience of interactive data embeds.

Lauren decided to get information for both companies, to see how that might affect the valuation ([Table 4](#)).

**Table 4. Peloton Suggested Peer Companies**

	Peloton	Netflix	Nautilus
Stock ticker	PTON	NFLX	NLS
Exchange	NASDAQ	NASDAQ	NYSE

Market capitalization (USD billions)	23.8	212.6	0.45
Beta	NA	0.97	2.34
Stock price (as of September 11, 2020)	84.04	482.03	14.9
52-week range (low–high)	117.7–98.6	252.3–575.4	1.22–16.86
Dividend yield	NA	NA	NA
Forward price to earnings ratio	NA	81.4	NA
Price to book ratio	12.5	NA	4.2

Source: Google Finance ([https://www.google.com/search?tbm=fin&q=pton#scso=\\_Tts5X-rPL-WkytMPq8CroA41:0ls=/m/016yss&tab=OVERVIEW](https://www.google.com/search?tbm=fin&q=pton#scso=_Tts5X-rPL-WkytMPq8CroA41:0ls=/m/016yss&tab=OVERVIEW))

## Discussion Questions

- 1. Based on your understanding of Peloton, and the purpose of the valuation that Lauren Truxton has been asked to perform, which of the valuation approaches do you think would be the most appropriate? Which do you think would be the least appropriate?
- 2. What information would you need in order to estimate the weighted average cost of capital for Peloton? Since Peloton has only been publicly traded for one year, how would you estimate the beta for the stock using the CAPM?
- 3. Many of the companies that are in the digital services space have not generated any profits, yet have had remarkably high returns for their shareholders. How do you think investors in these companies evaluate these firms in the absence of profits?
- 4. Two possible comparable firms were suggested for Peloton: Nautilus (NYSE: NLS) and Netflix (NASDAQ: NFLX). How would you choose which firm is the best peer comparable?
- 5. If you were in Lauren Truxton's position, would you hold on to Peloton's stock or sell? Why?

## Further Reading

Peloton Interactive, Inc. (2019b, November 6). *SEC form 10-Q*. <https://investor.onepeloton.com/sec-filings/sec-filing/10-q/0001639825-19-000018>

Peloton Interactive, Inc. (2020a, February 6). *SEC form 10-Q*. <https://investor.onepeloton.com/sec-filings/sec-filing/10-q/0001639825-20-000011>

Peloton Interactive, Inc. (2020b, May 6). *SEC form 10-Q*. <https://investor.onepeloton.com/sec-filings/sec-filing/10-q/0001639825-20-000068>

Peloton Interactive website. <https://www.onepeloton.com/>

Pinto, J. , Henry, E. , Robinson, T. , & Stowe, J. (2015). *Equity asset valuation* (3rd ed.). John Wiley and Sons.

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Peloton Interactive, Inc. (2019a, August 27). *SEC form S-1*. <https://investor.onepeloton.com/sec-filings/sec-filing/s-1/0001193125-19-230923>  
Peloton Interactive, Inc. (2020c, September 11). *SEC form 10-K*. <https://investor.onepeloton.com/sec-filings/sec-filing/10-k/0001639825-20-000122>  
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