



Stock in Focus

Peloton Interactive (PTON)

By the Loomis Sayles Global Equity Team



STOCK IN FOCUS

Peloton – a pioneer of ‘connected fitness’ – saw the potential to bring the fitness workout to the home almost a decade ago. It listed in 2019 and at the time of writing has a market capitalisation of US\$20 Billion with over two million subscribers. Peloton operates in the health/fitness/wellbeing space – an industry estimated to be worth US\$4.2 trillion per annum. The stock was added to the portfolio in the first quarter of 2020.

\$4.2trn Total health and wellness industry ⁽¹⁾	\$600bn Global fitness and wellness spend ⁽¹⁾	183mm Global gym members ⁽²⁾	62mm U.S. gym members ⁽²⁾	90mm Gym members in Peloton markets ⁽²⁾⁽³⁾
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(1) Global Wellness Institute, Wellness Now a \$4.2 Trillion Global Industry, October 2018.

(2) Per the following reports from the International Health, Racquet & Sportsclub Association: (i) The 2019 IHRSA Global Report and (ii) the 2018 IHRSA Global Report.

(3) Includes U.S., Canada, U.K., and Germany.

SOURCE: PELOTON COMPANY WEBSITE

THE PELOTON STORY

Peloton offers both hardware for stationary bikes and treadmills which each have a large built-in screen in conjunction with subscription software that allows users to take classes in their own home either live or at their time of choosing. This level of on-demand service challenges the traditional bricks and mortar model of set times and set classes of traditional gyms. The live classes allow for connectivity to other participants which increases engagement among members.

During a live class, Peloton members can see the leaderboard populate as riders log in, listing their chosen screen names, gender, age bracket by decade, and location. In a prerecorded on-demand class, Peloton members can instead see the names of everyone who has ever taken that particular fitness session. As you pedal, Peloton members can watch their ranking change. Peloton broadcasts 10 - 14 live cycling classes a day (more than 90 a week) similar to what an in-person studio offers.

Many Peloton rides aren't taken live. The Peloton library consists of thousands of on-demand cycling classes offering 11 class types from low impact to interval training to climbing/strength, and from five minutes (warm-up, cooldown, and intro rides) to 90 minutes in length, with most sessions being of 30-45 minutes duration.

Peloton members can also choose their class based on their choice of instructor, difficulty level, music genre, or 'sort' (new, trending, popular, top-rated, easiest, hardest). Finally, similar to what is offered with some indoor bicycles in gyms, the Peloton library also includes about a hundred timed scenic rides – immersive videos that let the cyclist virtually pedal along coastlines, through countrysides, and on city streets at the member's own pace.

Peloton's repertoire also includes hundreds of off-the-bike workouts in outdoor running (via audio only), yoga, strength training, cardio high-intensity interval training, bootcamp, meditation, and stretching. These are all major selling points – and they offer a way for Peloton members to keep their full fitness strategy within the Peloton fold. All classes are viewable on the bike's built-in tablet. Keeping subscribers involved, giving them more services for their fees and ensuring they are happy so churn is low are key focuses of Peloton as the company grows.



THE LOOMIS SAYLES GLOBAL EQUITY FUND

- The Loomis Sayles Global Equity Fund uses a disciplined, bottom-up, unconstrained approach to investing.
- Based on deep, fundamental research, the Fund features a concentrated portfolio of high-quality companies with the ability to grow their intrinsic value.
- The Loomis Sayles Global Equity Fund's investment strategy features a long-term track record going back to 2004*.

** This refers to the Loomis Sayles Global Equity Opportunity Composite upon which the strategy of the Loomis Sayles Global Equity Fund is based. The Loomis Sayles Global Equity Fund was launched on 1 November 2018.*

INVESTMENT THESIS

Peloton currently has the leading position in a market with significant growth potential. Loomis Sayles believes Peloton is well-placed to continue to capture a disproportionate share of that demand with an established brand synonymous with at-home fitness and lifestyle. Importantly, the company protects the value of its brand by controlling all aspects of its platform including the design and manufacturing of equipment, software and programming development, and the sale of products via its website and retail showrooms. As the company grows its community Loomis Sayles believes its network effect will also grow; with members interacting via live or on-demand classes, a Peloton membership becomes more attractive the more one's family and friends join. Moreover, the company's subscription based class application has a clear value proposition relative to a physical gym or on-site boutique classes. Loomis Sayles expect intrinsic value growth to be driven by revenue growth and margin expansion as Peloton continues to leverage its scale, unit economics, and the positive margin mix from subscription business. Valuation is attractive based on Loomis Sayles scenario analysis.

TOTAL MEMBERS (AS OF MAR. 31, 2020)

2.6+ Million

TOTAL QUARTERLY REVENUE IN Q3 2020

\$524.6 Million

TOTAL QUARTERLY WORKOUTS IN Q3 2020

44.2 Million

12-MONTH RETENTION RATE (AS OF MAR. 31, 2020)

93%

Source: <https://investor.onepeloton.com/investor-relations>

ABOUT LOOMIS, SAYLES & COMPANY

Boston-based Loomis Sayles has been managing money for investors since 1926. The firm currently manages over \$250 billion USD on behalf of clients worldwide. With extensive resources across the US, Europe and Asia, Loomis Sayles is well positioned to manage global equities and seek long term performance.

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