

INVESTOR'S EDGE

Peloton offers opportunities for aggressive investors

The company is growing, but is not yet profitable

"Exercise is a dirty word. Every time I hear it I wash my mouth out with chocolate." — Charles Schultz



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Just this week my brand-new Peloton bike was delivered to my home in Cazenovia. Within a month, I am sure to be a lean, mean, fighting machine — or so my friends tell me. The fact is, my colleagues, family, and friends have raved to me about their Peloton bikes unlike any other product — including the Apple iPhone — that I have ever heard.

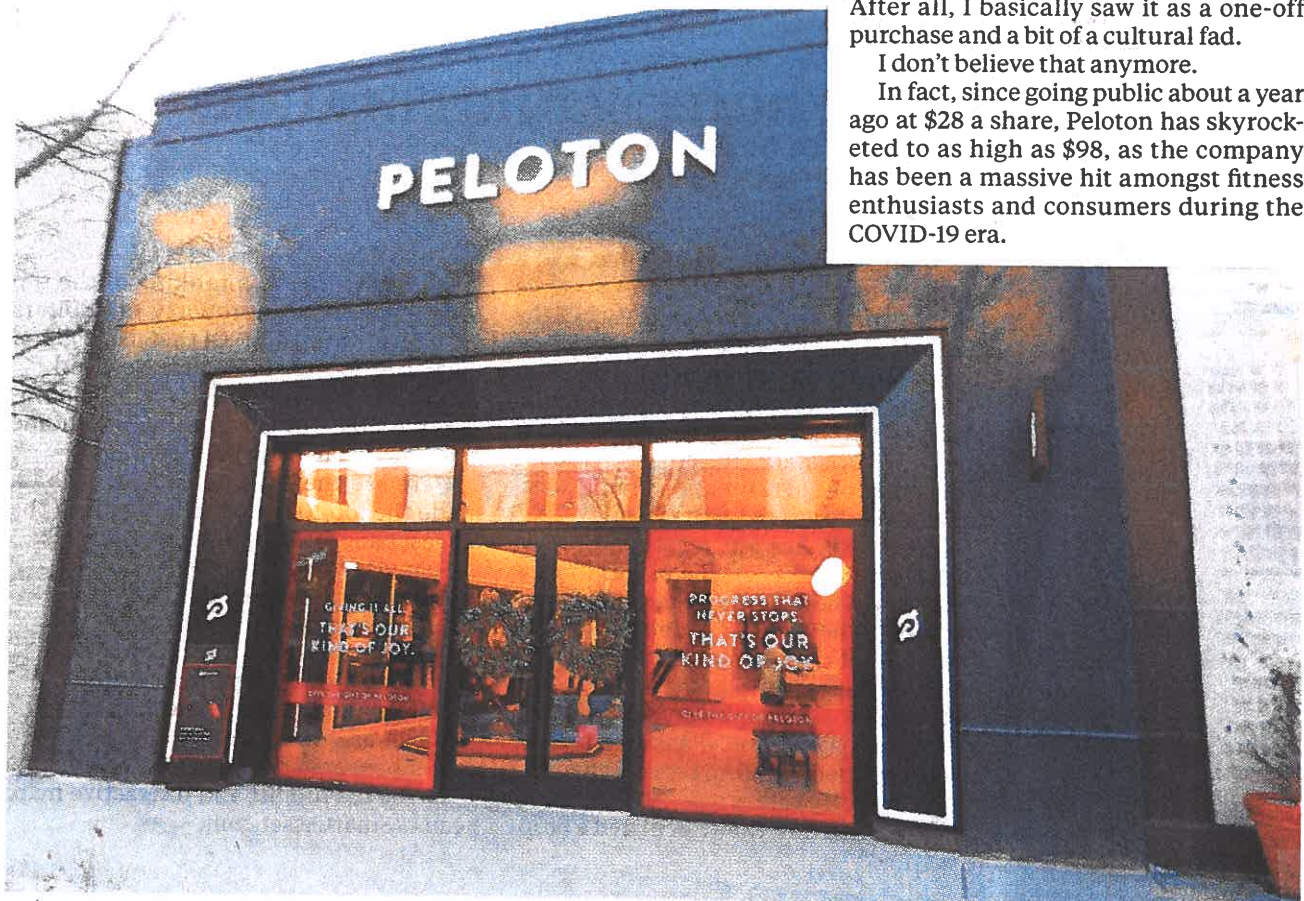
Ever.

Peloton's raving fanbase is especially noteworthy, considering that stationary bikes have been around since the early 1900s. And, excuse me, I've never, ever, heard anyone talk about how excited they are to hop on their stationary bike! So, Peloton clearly has something very special. In fact, when I ordered my Peloton earlier this summer, I was expecting to have the bike in a week or so. I actually had to wait, however, more than six weeks for delivery, as the company raced to keep up with unprecedented demand.

Before making this investment in my fitness, I had not really considered a financial investment in Peloton itself. After all, I basically saw it as a one-off purchase and a bit of a cultural fad.

I don't believe that anymore.

In fact, since going public about a year ago at \$28 a share, Peloton has skyrocketed to as high as \$98, as the company has been a massive hit amongst fitness enthusiasts and consumers during the COVID-19 era.



A Peloton showroom in Orange, Ohio. The company's subscription model gives it a steady stream of income, but the company is not yet profitable. *Cleveland Plain Dealer file photo*

As most of you probably know, Peloton Interactive (ticker symbol: PTON), is an industry leading home fitness and wellness provider. The company's unique draw is that their fitness bike and treadmill sport large LCD screens where its users can stream live and on-demand workouts and fitness classes. In fact, many of the teachers have become sort of fitness superstars, adored by a fanatical fanbase.

In addition to cardio workouts, Peloton also offers strength training, yoga, and wellness classes right from the screen attached to the bike. Unique.

Peloton operates on a subscription-based business model. In fact, in addition to the \$2,000-\$3,000 you pay up front for your treadmill or bike, Peloton charges a \$39 monthly subscription fee for direct unlimited access to online workouts, its fitness community, and other health related services. So, buying a Peloton bike is not just a one-off purchase — it's a recurring investment because of the subscription fees.

Currently, the company has more than 3 million members in total, which grew over 100% year over year. Peloton also recently reported a massive 172% annual increase in sales as gym closings and stay-at-home orders sent consumers flocking over in droves.

Peloton's first-mover advantage gives it a large industry edge over competition. The company's fun, engaging, and even "addicting" workouts and communities give it a 93% user retention rate that your local gym would die for. Furthermore, the company's brand recognition, again, fueled by its raving base, is quickly becoming one of the most valuable in the fitness industry.

Long term, Peloton has the eventual goal of reaching 100 million subscribers around the world through tiered product offerings, targeted marketing, and brand strength.

Currently, the connected fitness household penetration in the United States is only 0.8%. Less than 4% of Peloton's revenue was generated from outside the United

States giving Peloton a long runway for growth both at home and around the world.

Beneath Peloton's flashy bikes and spectacular 2020 stock performance are some formidable risks potential investors need to be aware of.

Peloton's stock, like its fitness bikes, is quite expensive. Peloton is not yet profitable as a publicly traded company, although it recently bumped up its timetable for when it would reach profitability. Nevertheless, this is a future earnings story.

Peloton also has been one of the ultimate COVID-19 beneficiaries. Workout junkies needed something — anything — to replace their gyms, yoga classes, and group fitness classes.

Peloton fit this need perfectly. Some people believe that when COVID dissipates people will flock back to gyms and away from their Pelotons.

I disagree with this thesis; I believe Peloton has revolutionized fitness and its market penetration is minuscule relative to its long-term opportunity.

Here's the real deal on Peloton. Over the last two decades, investors have been willing to pay massive premiums for "long duration" stocks — companies such as Amazon, Tesla, Netflix, etc. These companies have always been expensive and provided huge returns on invested capital. That is because with slow economic growth, low inflation, and unbelievably low interest rates, investors will pay up for big future earnings.

I do believe Peloton will have significant upward earnings power. Be forewarned, if interest rates, or inflation rise, these kinds of hyper-growth stocks will be hit. Period.

In short, Peloton is a unique play for the aggressive investor. If you are aware of the risks, hop on for the ride!

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an invest-

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