

## **Peloton 1st Quarter Earnings Call, Fiscal Year 2024**

Peloton CEO Barry McCarthy shared in his first quarter 2024 [shareholder letter](#) and first Quarter earnings call that the company plans on continuing with new innovations to make the Peloton platform grow even more, focusing on partnerships and the bike rental program, attracting a new demographic of users, and perfecting the paid Peloton App. Peloton is currently focusing on the “seasonal holiday rush” (aren’t we all??), which should result in revenue for the next quarter. The initiatives that the company has recently started seem to all be coming together at the same time, providing for an exciting year ahead.

### **SOCIAL MEDIA MARKETING IS A FOCUS FOR PELOTON**

Peloton has been focusing on marketing in social media, including influencer marketing. This is especially important during the holiday season, so be ready to see a lot of Peloton content as you scroll through social media. The inventory of hardware available for purchase was described on the call as being “healthy”, so hopefully sales that result from this marketing strategy will be readily available for delivery.

### **COLLABORATING WILL HELP PELOTON GROW**

McCarthy mentioned the collaborations that have already taken place, which have driven and are expected to continue to drive revenue and growth. These partnerships include [Liverpool Football Club \(LFC\)](#), the [University of Michigan](#), [lululemon](#), [New York Road Runners](#), and most recently, the [NBA and WNBA](#). McCarthy hopes that these partnerships will continue to broaden awareness for Peloton and the impact Peloton has on its users’ lives. The ability for subscribers of the NBA League Pass to stream games while working out on Peloton equipment should, according to McCarthy, bring in a new demographic of Peloton enthusiasts, especially for the tread, where people especially seem to want to be able to access different modes of entertainment.

McCarthy noted during the earnings call that Peloton is a desired company to partner with, discussing the lululemon partnership specifically. McCarthy said that Peloton is already benefiting from this partnership and that the apparel launch started strongly, driving a lot of traffic to both companies. While this partnership will be slower to develop than other partnerships, it is predicted to be strong, especially with lululemon mirror owners now having access to Peloton content on the mirror.

### **PELOTON IS EXPERIENCING GROWTH INTERNATIONALLY**

According to McCarthy’s letter to shareholders, another significant area of forecast revenue growth this fiscal year will be in international markets. The bulk of this growth is expected to

come from existing markets, principally the UK and Germany, and Peloton plans on leaning into “more culturally relevant marketing, content, and business models like rental, which is off to a strong start in Germany”, according to the Earnings Letter. This initiative includes the recent partnership with Jürgen Klopp, the Liverpool Football Club (LFC) coach, and “compelling content” with players from both the Men's and Women's first teams. In the United States, the hope is still to sell Peloton's Ohio facility and ease the burden of its expense, and Peloton is currently talking to a variety of parties for the sale.

## PARTNERSHIPS WITH UNIVERSITIES AND OTHER ORGANIZATIONS

These partnerships are especially exciting to McCarthy, and he is confident they will attract a new generation of Peloton users. In addition to the hope that University fitness centers will purchase equipment, University students can take advantage of Peloton's rental program, so when they move away from campus at the end of a semester, they won't show up at their parents' house with their Peloton bike (though still way more useful, in our opinion, than a hamper full of unwashed laundry). [The co-branded bike](#) will also help engage these potential customers, and we should see big things coming together in this area of growth in the next few weeks.

McCarthy also stated that Peloton has had “exceptionally strong inbound interest in partnerships” from universities and professional sports leagues, including more than fifty top-ranked Division I universities and pro sports teams around the world. These partnerships bring awareness of Peloton to a huge demographic - for example, partnering with a university would introduce Peloton to students, faculty, alumni, university staff, student athletes, and fans. Peloton hardware will be introduced to campus recreation centers, athletic facilities. McCarthy stated during the earnings call that there isn't a brand in the world who wouldn't “kill” to partner with Peloton now (we look forward to hearing Tom's examples of companies that would not be appropriate to partner with Peloton), and that companies are “beating down” Peloton's door to find ways to work with the company.

## THE BIKE RENTAL PROGRAM IS HUGE

McCarthy says that he has purposefully kept the [bike and bike+ rental program](#) from being as huge as it could be, but wants to properly grow this service in the near future to its maximum potential, and that we will know its potential within the next twelve months. Peloton Bike Rental subscriptions has 54,000 rental subscribers in the United States and Canada as of the end of the first quarter fiscal year and is expected to finish the fiscal year with approximately seventy five thousand subscribers. Currently, 33% of bike users rent their bike or bike+.

Sixty percent of rental bike users said that they would not have joined Peloton if it weren't for the flexibility of Peloton's rental program. Rentals were recently expanded into Germany, and

Peloton plans on expanding this option to the United Kingdom and select college campuses in the US this fiscal year. The average payback period on Bike rentals is eighteen months, and McCarthy also noted that bike rentals often turn into purchasers. Rentals accounted for more than thirty three percent of Bike orders last quarter.

McCarthy also noted that since purchases of equipment on the secondary market has been growing, it is important to recognize that new subscribers to the Peloton platform include individuals who buy equipment from someone else. The number of users that have more than one piece of equipment is currently less than 10% but is increasing. The vast majority of users start out with some version of the bike, then some add another piece of equipment, with the Tread being the most likely purchase and with purchases of the rower as a second (or third) piece of equipment growing. McCarthy pointed out that although the cost customers are paying to have equipment delivered and installed is less than what the company is actually paying, but that it would be difficult for consumers to put together the tread or rower themselves. McCarthy also noted during the earnings call that the retail store footprint will grow even smaller this year, with more retail stores closing.

#### PELOTON IS TRYING TO MAKE THE MEMBER EXPERIENCE MORE PERSONAL

McCarthy wants to make sure that the content you want is being purchased to you (he credits his experience with Spotify and Netflix for understanding the importance of this - we also want to note that in our [October The Clip Out Book Club meeting](#), we predicted that this might be a focus!) Peloton's strategy is to offer connected fitness products for "anyone, anytime, anywhere," with a range of price points from the free tier of the App to the most expensive piece of equipment, the soon to be reintroduced, Tread+ (for which preorders are already being taken, and which McCarthy noted has a "fanatically obsessed" fan base, who are, as he described them, "exponentially and emotionally engaged with that product more than any other" and thus predicts high sales.)

McCarthy noted on the Earnings Call that the \$24 subscription level on the Peloton App is more popular than the \$12 version, and that the focus will be to personalize content to encourage free app users to convert to a subscription. This includes trying to find the content that specific app users will want the most and pushing it towards them. One million consumers downloaded the free version of the app despite limited marketing, and future marketing will focus on the paid app. All access users are least likely to leave the Peloton platform, and rental customers are the most likely to leave.

#### ATTRACTING NEW DEMOGRAPHICS AND IMPROVING THE USER EXPERIENCE

Peloton wants to attract varied demographics to the Peloton platform and improve the user experience. McCarthy noted in the shareholder letter that the recent brand relaunch attracted

more male, GenZ, Black, and LatinX groups. Also, members are engaging with longer classes, and, on average, members are also taking more class types than they did a year ago. Peloton will continue to expand programming initiatives across their platforms (including recent [beta testing of gaming for the rower](#)). For those of you complaining about the multitude of shorter classes recently, McCarthy has heard you - be on the lookout for more lengthy classes. McCarthy stated that personalization of content will drive engagement and subscriptions, and promises to lean into performance and great programming in the future - news we like to hear!