Peloton

A CALL FOR ACTION

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| I  | Executive Summary                  | 4 |
| II | Peloton Is An Attractive Business  | 10 |
| III| Peloton’s Underperformance         | 18 |
| IV | Peloton Has Been Grossly Mismanaged| 23 |
| V  | Peloton’s Board and Governance Lack Accountability and Alignment | 43 |
| VI | The Board Should Immediately Put Peloton Up For Sale           | 55 |
| VII| Conclusion                                               | 62 |
Executive Summary
EXECUTIVE SUMMARY: OVERVIEW OF PELOTON

- Peloton is an interactive fitness platform with millions of members, offering connected, technology-enabled fitness classes that utilize its proprietary hardware.
- The Company’s Connected Fitness products include the Peloton Bike, Bike+, Peloton Tread and Tread+.
- Peloton generates strong recurring revenue from its Members, who pay subscription fees to access Peloton’s app or Connected Fitness products.
- The Company has been challenged by a series of execution errors; as a result, Q1 2022 revenue was down ~36% from the Company’s peak in Q3 2021.

Source: Bloomberg, Company filings. Note: Data as of February 4, 2022 unless specified otherwise.
EXECUTIVE SUMMARY: A HIGHLY COVETED ASSET

Peloton has the hallmarks of an extremely valuable and attractive business, which need to be protected

- Large addressable market; early days for market penetration
- Largest interactive fitness platform
- Admired brand with top-ranked NPS scores
- Recurring subscription-based revenue model with high incremental margins
- Network effects from ecosystem and stickiness from “star” instructors
- Highly engaged subscriber base with low churn
- Multiple growth drivers, including unrealized pricing power
- Significant intellectual property
EXECUTIVE SUMMARY: PELOTON’S PERFORMANCE HAS BEEN ABYSMAL

Peloton’s 2021 total shareholder return of -76% was the worst of any company in the Nasdaq 300 Index.

Source: FactSet. Calendar year 2021
EXECUTIVE SUMMARY: UNDERPERFORMANCE CAN BE TRACED TO SEVERAL FACTORS

Peloton’s escalating problems stem from poor decisions and misaligned incentives

1. Lack of Management Qualifications
2. Poor Decision Making
3. Lack of Financial Discipline
4. Misalignment of Interests
5. Loss of Credibility
Peloton's Board should compare the risk-adjusted standalone value to a sale

- A stand-alone Peloton cannot achieve its full potential given:
  - Lack of management capability and credibility
  - A stressed balance sheet and ongoing significant cash burn

- It will take years of operational restructuring, organizational re-development and positive results for the company to regain investor confidence and multiple expansion

- Peloton would be extremely attractive to several technology, streaming, media, metaverse and sportswear companies interested in extending into the rapidly growing health and wellness category

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### Potential Acquirors Could Include

<table>
<thead>
<tr>
<th>Types of Acquirers</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Media and Content</td>
<td>Disney, ViacomCBS, Comcast</td>
</tr>
<tr>
<td>Technology and Devices</td>
<td>Apple, Amazon, Google</td>
</tr>
<tr>
<td>Sporting Goods</td>
<td>adidas, lululemon, Nike</td>
</tr>
<tr>
<td>Online Subscriptions</td>
<td>Netflix, Spotify, SiriusXM</td>
</tr>
</tbody>
</table>
Peloton is an Attractive Business
PELOTON HAS UNIQUE AND APPEALING CHARACTERISTICS

✓ High quality, intelligently-designed products that become the centerpiece of a home gym

✓ Subscription model with a wide variety of fresh, immersive fitness classes leading to resilient memberships

✓ Talented “star” instructors, great music, cool technology and an interactive competitive experience (live and on-demand)

✓ Top-ranked brand and industry-leading Net Promotor Scores (NPS) enable new product extensions into additional fitness equipment, apparel and accessories

✓ Extremely difficult for competitors to replicate the business model, technological innovation and community supporters

✓ Retail stores and direct-to-consumer delivery and service capabilities create a powerful advantage over competitors
Peloton’s disruptive business model fundamentally improves the fitness experience across two key variables: Convenience and Cost

- **Convenience**
  - Unlimited fitness classes anytime, anywhere, on any device
  - Nearly 1,000 new classes per month: cycling, running, strength training, bootcamp, stretching, yoga and meditation

- **Cost**
  - Entire household for $39.00 per month compares favorably to ~$300 per month per person for boutique fitness classes
  - Financing program for bikes and treadmills unlocks demand from cohort of gym goers that would otherwise be unable to afford the offering

<table>
<thead>
<tr>
<th>Disrupted</th>
<th>Disruptor</th>
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<tbody>
<tr>
<td>Movies</td>
<td>~40,000 local and regional theater operators</td>
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<tr>
<td>Video Games</td>
<td>~13,000 local and regional dedicated arcades</td>
</tr>
<tr>
<td>Music</td>
<td>~3,300 independent record stores</td>
</tr>
<tr>
<td>Books</td>
<td>~38,500 local and national bookstores</td>
</tr>
<tr>
<td>Fitness</td>
<td>~36,500 health clubs and boutique fitness operators</td>
</tr>
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Source: Company website and Company filings.
Large Addressable Market
- Global wellness spending ~ $4.2 trillion of which fitness is ~ $600 billion
- Approximately 180 million gym memberships globally in 2018 including approximately 62 million in the U.S.

Early Innings of Market Penetration
- In 2020, there were 74 million people who went to gyms in the United States
- Planet Fitness alone has ~14 million members

Increased Penetration of Existing Markets
- U.S.
- Canada
- U.K.
- Germany
- Australia

New International Markets
- Northern Europe
- Western Europe
- Mexico
- Asia

Expanded Connected Fitness Product Portfolio

Source: Global Wellness Institute, Gym membership data per JPMorgan Equity Research, BMO Connected Fitness Primer, Livestrong.com.
HIGHLY ENGAGED SUBSCRIBER BASE WITH LOW CHURN & SAAS BUSINESS UNIT ECONOMICS

Highly engaged subscriber base with low churn creates a strong, recurring revenue stream

Connected Fitness Subscribers

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<tbody>
<tr>
<td>Subscribers</td>
<td>123</td>
<td>168</td>
<td>217</td>
<td>245</td>
<td>276</td>
<td>362</td>
<td>457</td>
<td>511</td>
<td>562</td>
<td>712</td>
<td>886</td>
<td>1,091</td>
<td>1,334</td>
<td>1,667</td>
<td>2,081</td>
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Total Workouts

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</tr>
</thead>
<tbody>
<tr>
<td>Workouts</td>
<td>2,501</td>
<td>3,231</td>
<td>5,902</td>
<td>6,223</td>
<td>7,069</td>
<td>9,336</td>
<td>17,988</td>
<td>17,759</td>
<td>19,171</td>
<td>24,345</td>
<td>44,155</td>
<td>76,817</td>
<td>77,767</td>
<td>98,075</td>
<td>149,541</td>
<td>134,334</td>
</tr>
</tbody>
</table>

Attractive Underlying Unit Economics

- Ability to drive significant operating leverage as business scales
  - High subscription contribution margin of 60% to 70%
  - Significant content leverage across existing studios (U.S. and U.K.) and instructors
- Attractive Lifetime Value
  - Low churn
  - Historically offset cost of customer acquisition with gross profit earned on Connected Fitness Products

Source: Company filings.
"Star" instructors and social media creates competitive moat and network effect

- Peloton’s instructors provide differentiated experience and have grown significant social media followings.
- Frequency of workouts has increased, reflecting customer satisfaction.
- The platform has a social aspect, so satisfied customers are likely to refer friends.
- This virtuous circle that allows company to invest in more content and the social aspects of the platform.

<table>
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<tr>
<th>Monthly Workouts Per Subscriber</th>
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<tbody>
<tr>
<td>------</td>
</tr>
<tr>
<td>7.1</td>
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</table>

<table>
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<tr>
<th>Instructors Instagram Followings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robin Arzon</td>
</tr>
<tr>
<td>946 k</td>
</tr>
</tbody>
</table>

Source: Company filings and Instagram. Instagram follower data as of February 4, 2022.
Peloton is worth substantially more than its current stock price using Revenue multiples

- Peloton’s peers currently trade at an average of 5.6x EV / NTM Revenue
- Applying a range of EV / Revenue on Peloton’s FYE 6/30/23 expected revenue yields an implied price per share of $57.79 - $87.75

<table>
<thead>
<tr>
<th>Peloton Est. Revenue</th>
<th>$4,986</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ in million) FYE 6/2023</td>
<td></td>
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<table>
<thead>
<tr>
<th>EV/Revenue Multiple</th>
<th>Implied Share Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>4x</td>
<td>$57.79</td>
</tr>
<tr>
<td>5x</td>
<td>$72.77</td>
</tr>
<tr>
<td>6x</td>
<td>$87.75</td>
</tr>
</tbody>
</table>

Sources: Company filings. Consensus data from CapitalIQ. Company closing stock price trading session as of February 4, 2022, per Bloomberg.
Note: Based on net debt of $711 million and 333 million shares outstanding.
Peloton is worth substantially more than its current stock price using Gross Profit multiples

- Peloton’s peers currently trade at an average of 11.5x EV / NTM Gross Profit
- Applying a range of EV / Gross Profit on Peloton’s FYE 6/30/23 expected gross profit yields an implied price per share of **$59.36 - $83.96**

Peers EV / NTM Gross Profit

<table>
<thead>
<tr>
<th>Peers</th>
<th>EV / NTM Gross Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>SiriusXM</td>
<td>6.5x</td>
</tr>
<tr>
<td>Spotify</td>
<td>9.8x</td>
</tr>
<tr>
<td>Roku</td>
<td>13.2x</td>
</tr>
<tr>
<td>Netflix</td>
<td>13.8x</td>
</tr>
<tr>
<td>matchgroup</td>
<td>14.0x</td>
</tr>
</tbody>
</table>

**Peloton Est. Gross Profit**

<table>
<thead>
<tr>
<th>FYE 6/2023 (in millions)</th>
<th><strong>$2,047</strong></th>
</tr>
</thead>
</table>

**EV/Gross Profit Multiple**

- 10x
- 12x
- 14x

**Implied Share Price**

- $59.36
- $71.66
- $83.96

Sources: Company filings. Consensus data from CapitalIQ. Company closing stock price trading session as of February 4, 2022, per Bloomberg.

Note: Based on net debt of $711 million and 333 million shares outstanding.
Peloton’s Underperformance
PELOTON’S STOCK HAS PERFORMED POORLY

Peloton One-Year Stock Price Performance

Source: FactSet. Note: Data as of February 4, 2022.

IPO Price $29.00

-84%
"We think we are playing chess where others are – to be honest, aren’t even playing checkers."

John Foley
September 22, 2021
YET, PELOTON’S RELATIVE SHAREHOLDER RETURNS HAVE BEEN ABYSMAL…

1-Year Total Shareholder Return

<table>
<thead>
<tr>
<th>Category</th>
<th>1-Year Total Shareholder Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription Peers</td>
<td>-26%</td>
</tr>
<tr>
<td>Proxy Peers</td>
<td>-45%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>10%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>1%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>18%</td>
</tr>
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</table>

2021 Total Shareholder Return

<table>
<thead>
<tr>
<th>Category</th>
<th>2021 Total Shareholder Return</th>
</tr>
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<tbody>
<tr>
<td>Subscription Peers</td>
<td>-13%</td>
</tr>
<tr>
<td>Proxy Peers</td>
<td>-31%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>28%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>22%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>29%</td>
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</table>

Total Shareholder Return Since IPO

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Shareholder Return Since IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription Peers</td>
<td>52%</td>
</tr>
<tr>
<td>Proxy Peers</td>
<td>52%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>74%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>76%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>57%</td>
</tr>
</tbody>
</table>

Total Shareholder Return Since March 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Shareholder Return Since March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription Peers</td>
<td>19%</td>
</tr>
<tr>
<td>Proxy Peers</td>
<td>29%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>66%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>64%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>57%</td>
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Despite Peloton’s low multiple, investors are still actively betting against the stock, and the analyst community appears to doubt management’s ability to execute.

<table>
<thead>
<tr>
<th>EV/2022E Revenue</th>
<th>Short Interest</th>
<th>% “Sell” or “Hold” Ratings</th>
</tr>
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<tbody>
<tr>
<td><strong>matchgroup</strong></td>
<td>Nasdaq 300: 1%</td>
<td><strong>Roku</strong>: 23%</td>
</tr>
<tr>
<td>Proxy Peers: 7.0x</td>
<td>Netflix: 2%</td>
<td>matchgroup: 25%</td>
</tr>
<tr>
<td><strong>NETFLIX</strong></td>
<td>Spotify: 3%</td>
<td>Proxy Peers: 27%</td>
</tr>
<tr>
<td>Subscription Peers: 5.2x</td>
<td>Roku: 5%</td>
<td>Subscription Peers: 37%</td>
</tr>
<tr>
<td><strong>Roku</strong></td>
<td>Subscription Peers: 5%</td>
<td>Nasdaq 300: 37%</td>
</tr>
<tr>
<td>Nasdaq 300: 4.9x</td>
<td>Proxy Peers: 5%</td>
<td>Subscription Peers: 37%</td>
</tr>
<tr>
<td>matchgroup: 4.0x</td>
<td><strong>PELOTON</strong>: 12%</td>
<td><strong>PELOTON</strong>: 48%</td>
</tr>
<tr>
<td>Spotify: 2.3x</td>
<td>Subscription Peers: 5%</td>
<td><strong>Netlix</strong>: 49%</td>
</tr>
<tr>
<td>PELOTON: 2.2x</td>
<td>matchgroup: 5%</td>
<td><strong>Netlix</strong>: 49%</td>
</tr>
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</table>

Source: FactSet. Note: Data as of February 4, 2022. Peer data refers to peer median. “Subscription Peers” include Match Group, Netflix, Roku, Sirius XM Holdings and Spotify.
PELOTON INTERACTIVE, INC.

Peloton Has Been Grossly Mismanaged
PELOTON’S UNDERPERFORMANCE IS DUE TO MISMANAGEMENT

Peloton’s escalating problems stem from poor decisions and misaligned incentives

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<tbody>
<tr>
<td>1</td>
<td>Lack of Qualification: CEO John Foley is right to be insecure about his capabilities and qualifications</td>
</tr>
<tr>
<td>2</td>
<td>Poor Decision Making: Mr. Foley has made a series of poor decisions relating to product, pricing, demand, safety and capital allocation</td>
</tr>
<tr>
<td>3</td>
<td>Lack of Financial Discipline: Under Mr. Foley’s management, the Company suffers from a lack of financial discipline and ineffective internal controls</td>
</tr>
<tr>
<td>4</td>
<td>Misalignment of Interests: Mr. Foley’s interests and incentives are misaligned with employees and shareholders</td>
</tr>
<tr>
<td>5</td>
<td>Loss of Credibility: Mr. Foley has lost credibility with discontent employees, shareholders and analysts</td>
</tr>
</tbody>
</table>
I think I’m not a very good manager

I interview almost nobody

John Foley's Response

Finance. Our CFO does 99% of finance. I engage because I want to know how we’re doing. But to say I don’t add value to her operation is an understatement. You can also say the same with technology. Our CTO doesn’t get any help from me. I'll go sometimes months without talking to our CTO, which as a CEO of a technology company, that's kind of rare.

John Foley's Response

I'm not sure they'd say I have many strengths at all.
Peloton’s Share Price in 2021

- Quarter over quarter revenue declined 14% during the most recent quarter
- Quarter over quarter user growth declined from 23% to 5% during CY 2021
- Monthly workouts per active user have declined from 26.0 to 16.6 during the same period
- Meanwhile, inventory has more than doubled to $1.3 billion

"[W]e remain very, very bullish on our opportunity. We haven’t seen any softening of demand."¹
"[W]e’ve never been more excited about our future road map."²
"[O]ur domestic business is just growing so fast, and it’s still such a beautiful growth story..."³
"[W]e have never been more excited about our future than we are today."⁴

LACK OF QUALIFICATION: MR. FOLEY MANAGES WITH UNBRIDLED OPTIMISM RATHER THAN DISCIPLINE

¹ Peloton Interactive Q2 2021 Earnings Call transcript.
² Peloton Interactive Q3 2021 Earnings Call transcript.
³ Peloton Interactive Goldman Sachs Communacopia Conference transcript.
⁴ Peloton Interactive Q1 2022 Earnings Call transcript.
POOR DECISION MAKING: INCONSISTENT GO-TO-MARKET STRATEGY

“What’s the optimal price point, $1000?”

“I don’t know.” – John Foley

Management does not have a well-informed pricing strategy and continues to vacillate on pricing strategy, confusing the market and harming shareholders.

POOR DECISION MAKING: INABILITY TO FORECAST DEMAND

The actual hardware sales are incredibly predictable. It’s a beautiful business.

- Foley insisted demand would only ever increase
  - Foley massively increased production capacity in 2020, building inventory
  - In February 2021, Foley boasted: “We've increased the [manufacturing] capacity by 6x, which is pretty herculean, but we're definitely not going to stop there. We bought Precor. We're going to be investing in U.S. manufacturing.”

- But then demand slowed. Foley noted (at the same February conference): “We're now making more bikes and treads than we're selling”
  - “One employee said warehouses resembled ‘jigsaw puzzles’ with employees trying to figure out where to stuff another bike.”

- Peloton has now been forced to moth-ball production

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1. “How [do] you envision managing, meeting the incredible demand that you’re seeing now versus the risk of overbuilding [supply]…”
   - John Foley’s Response

2. “[T]hat's a term that's never come up in the Peloton senior leadership rooms or boardrooms…We see that we're going to be able to market into a massive opportunity that we're going to need supply chain capacity for years and years.”

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3. Mr. Foley responding to a question from a Goldman Sachs analyst on Q4 2020 Earnings Call.
POOR DECISION MAKING: DISASTROUS BUNGLING OF TREADMILL SAFETY ISSUES

The New York Times

Child Dies in Accident Involving Peloton Treadmill

CPSC Issues Statement Warning Consumers About Peloton’s Tread+

“The U.S. CPSC is warning consumers about the danger of popular Peloton Tread+ exercise machine after multiple incidents of small children and a pet being injured beneath the machines.”

Peloton Irresponsibly and Reflexively Denies the Issue

“The company is troubled by the Consumer Product Safety Commission’s (CPSC) unilateral press release about the Peloton Tread+ because it is inaccurate and misleading. There is no reason to stop using the Tread+…”

Peloton Belatedly Acknowledges Issues and Apologizes

“Peloton made a mistake in our initial response to the Consumer Product Safety Commission’s request that we recall the Tread+. We should have engaged more productively with them from the outset.”

Foley’s lack of leadership has jeopardized health and safety

POOR DECISION MAKING: POOR CAPITAL ALLOCATION

- Foley invested $800 million in acquisitions and capex with pride as his lodestar

- Foley bought troubled Precor for $431 million believing he could fix it and expand Peloton’s reach into different types of commercial customers: “Precor’s product portfolio and sales team will also accelerate our commercial business, where we see a significant opportunity to grow Precor’s franchise while introducing the Peloton platform…”

Months later, he was forced to admit it was a mistake:
“[W]e have reduced expectations for our commercial channel or legacy Precor business, given both supply and demand dynamics.”

- Then, Foley invested another $400 million to develop 1 million square feet of production capacity

Seven months later, Foley delayed the progress, admitting the capacity was not needed

“The slowdown in demand for Peloton makes its past decisions particularly challenging. The company acquired exercise equipment manufacturer Precor for $420 million in 2020 and announced it would build a US manufacturing facility for about $400 million. But Peloton may not need that extra capacity if demand doesn’t recover to the levels it saw during the pandemic.”

1. Source: Peloton Interactive Q2 2021 Earnings Call transcript.
2. Source: Peloton Interactive Q1 2022 Earnings Call transcript.
POOR DECISION MAKING: UNNECESSARY & EXPENSIVE OFFICE SPACE IN NYC

Peloton signed a 15-year lease that totals more than $450 million to be paid over the period.

- At the end of 2018, Peloton signed a 15-year lease for 300,000 square feet in Manhattan.
- The move represented a +6x increase of space from the company’s prior location in Manhattan.

Source: Company filings.
LACK OF FINANCIAL DISCIPLINE: BLOATED SG&A COSTS WEIGHS ON CASH BALANCE

Out-of-control employee and SG&A expenses reflect a lack of discipline

- Over the past four years Peloton’s employee count has grown by over 20x
- SG&A costs have nearly tripled in the last three years
- Compared to other subscription-based companies, Peloton has the lowest revenue per employee
- The Company now appears to be reversing course: rumors are that it will fire a significant portion of its workforce

"We’re insanely disciplined"1
– Foley, on CNBC the day of Peloton’s IPO

Source: CapIQ, Company filings.
1. Source: Mr. Foley on CNBC September 26, 2019: https://www.youtube.com/watch?v=LPcR2iOKE.
Peloton has failed to develop basic public company accounting processes under Mr. Foley

There is no excuse for having inadequate accounting procedures and controls at a multi-billion-dollar company

We have identified a material weakness in our internal control
MISALIGNMENT OF INTERESTS: MR. FOLEY’S WIFE RUNS ONE OF THE BUSINESSES

 “…[W]e don’t really need to make money on our apparel business, because it’s not our core business.”
- John Foley, CEO Peloton

- John Foley put his wife in charge of the Peloton apparel business
- Recent results in the apparel line have been disappointing and it appears internal projections have been cut
- It is unclear if Ms. Foley is the best person to lead this business, or is just the person closest to Mr. Foley
- Shareholders deserve leadership from the best available managers, not nepotism

Performance Has Suffered

“Momentum in the [Apparel] unit, which is run by Chief Executive John Foley’s wife, seems to be fading heading into the next year…”

“[Apparel] penetration into our member base is so low. How do we drive more revenue from our existing member base?”
- Tim Shannehan, Global Chief Sales Officer

“[I]t’s just... the dynamic is a little awkward with Jill and John.”
- Tim Shannehan, Global Chief Sales Officer

1. Source: Goldman Sachs Technology & Internet Virtual Conference (February 11, 2021) transcript.
2. Source: “Peloton internal docs show it slashed 2022 sales goals for apparel unit after segment revenue more than doubled last year.” CNBC, January 31, 2022.
While managing with unbridled optimism, Mr. Foley sold nearly $100 million in Peloton shares in 2021

Peloton’s Share Price vs. John Foley’s Cumulative Proceeds from Stock Sales in 2021

Jan-21  Apr-21  Jul-21  Oct-21

$0.00  $20.00  $40.00  $60.00  $80.00  $100.00  $120.00  $140.00  $160.00  $180.00

"[W]e remain very, very bullish on our opportunity. We haven’t seen any softening of demand."¹

"[W]e’ve never been more excited about our future road map."²

"[O]ur domestic business is just growing so fast that it’s still such a beautiful growth story..."³

"[W]e have never been more excited about our future than we are today."⁴

MISALIGNMENT OF INTERESTS: EXCESSIVE INSIDER SELLING

1. Peloton Interactive Q2 2021 Earnings Call transcript.
2. Peloton Interactive Q3 2021 Earnings Call transcript.
4. Peloton Interactive Q1 2022 Earnings Call transcript.
- Mr. Foley and five other insiders have **pledged a large portion** of their Peloton shares.

- Pledging is problematic because it **can lead to forced stock sales** in the event of a margin call and **accelerate a downward spiral** in the stock price.

- The pledges also **appear to violate** Peloton’s own Insider Trading Policy.

Source: Company filings.
Note: Ownership excludes options and restricted stock that had not been exercised or vested as of September 30, 2021.
LOSS OF CREDIBILITY: MIS-EXECUTION HAS CRUSHED EMPLOYEE MORALE

Foley has lost credibility internally, driving employee morale to an all-time low

“Morale is at an all-time low. The Company is spinning out so fast.”

Peloton Hit with Minnesota Wage and Hour Class Action

By CHRISTINA TABACCO
October 29, 2021

A lawsuit filed on Wednesday accuses tech-fitness company Peloton Interactive Inc. of skimping on wages owed to some hourly employees.

On Peloton’s first quarter 2022 earnings call on November 4, 2021, CFO Jill Woodworth reiterated that Peloton did not need any additional capital.

“...we don’t see the need for any additional capital raise based on our current outlook.”

Just twelve days later, on November 16, 2021, Peloton announced a new $1.1 billion public stock offering.

“[Peloton] today announced the pricing of an underwritten public offering of 23,913,043 shares of its Class A common stock...”

Peloton’s stock declined to a new 17-month low on the news.
Peloton declined to comment on Foley’s puzzling statement, or his definition of “weirdly,” citing quiet period restrictions leading up to the company’s IPO. The company said on Tuesday that it plans to list shares on the Nasdaq exchange under the ticker symbol “PTON.”

“You know, this thing, I see clear as day, it’s going to be one of the few trillion-dollar companies…I don’t see any other way that we’re not worth some staggering valuation”

“We have built a team that I believe is ready to run a $500 billion company. Pick a number. A FAANG-style leadership team”

“I see a couple hundred million people on the Peloton platform in 15 years.”
Mr. Foley once claimed that Peloton could reach “a couple hundred million” members in 15 years.

Meeting Mr. Foley’s target of 200 million users in 2035 would require a compound annual growth rate of over 30% for the next 15 years.

“We’ll continue to be a high or hyper growth company for years and years to come” – Foley, Earnings Call, August 26, 2021

Estimates of lofty growth are at odds with the current demand environment and further erode investor trust.

2. Source: Peloton Interactive Q4 2021 Earnings Call transcript.
3. Source: Company filings.
“We’ve been discussing the fact that management has been pitching long-term excitement while selling over ~$700 million in shares since September 2020.”

BMO Equity Research, January 20, 2022

“Time will be needed to restore investor confidence”

Baird Equity Research, January 20, 2022
Seemingly admitting the lack of internal capability, discipline and experience, Foley is looking to outsiders for answers.

Hiring McKinsey is a clear declaration of failure.

Even if McKinsey is able to develop a rescue plan, it is unclear that Mr. Foley is capable of executing it.

The Company needs a new CEO, rather than consultants to rectify past errors.
Peloton’s Board & Governance Lack Accountability and Alignment
PELOTON’S BOARD & GOVERNANCE LACK ACCOUNTABILITY AND ALIGNMENT

1. Inadequate Shareholder Rights
   - Peloton’s governance structure frustrates accountability and lacks basic protections
   - The Company’s corporate governance scores are among the worst in corporate America

2. Lack of Board Independence
   - Directors have prior or current relationships that impair effective oversight

3. Troubling Insider Selling and Pledging
   - Insiders have sold more than $700 million in shares since Peloton’s IPO
   - The notional value of pledged shares by insiders exceeds $500 million

4. Misalignment of Executive Economic Interest
   - The Company’s dual-class share structure decouples economic interests from voting interests
   - Peloton’s executives control more than 75% of the voting power despite an economic interest of less than 15%

5. Pay-for-Performance Misalignment and Poor Compensation Plan Design
   - There is no performance-based compensation within any of the executives’ compensation plans

Source: Company filings.
Peloton has an overall Governance Quality Score of 9/10 and a 10/10, the worst score possible, for Shareholder Rights from ISS.

ISS recommended against every Peloton director up for election at the 2020 and the 2021 Annual Meetings.

Peloton has the worst possible score for environmental disclosure and governance risk, and nearly the worst possible score for social and human rights disclosure.

Peloton’s governance provides very few mechanisms to hold the Board accountable:

- A second class of supervoting shares (at a ratio of 20-to-1)
- No Proxy Access provision
- No ability to call a special meeting or act by written consent
- No majority vote standard to elect directors
- Classified Board structure
- Bylaw amendments require a supermajority vote
PELOTON’S CORE GOVERNANCE PRACTICES ARE OUT-OF-STEP

Peloton’s governance is not in line with peers or market practice

% of Companies with Dual-Class Shares with Unequal Voting

<table>
<thead>
<tr>
<th>Index</th>
<th>Russell 1000</th>
<th>NASDAQ 100</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>8%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

% of Companies with a Classified Board

<table>
<thead>
<tr>
<th>Index</th>
<th>Russell 1000</th>
<th>NASDAQ 100</th>
<th>S&amp;P 500</th>
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</thead>
<tbody>
<tr>
<td>44%</td>
<td>25%</td>
<td>28%</td>
<td>13%</td>
</tr>
</tbody>
</table>

% of Companies with No Majority Voting Standard for Director Elections

<table>
<thead>
<tr>
<th>Index</th>
<th>Russell 1000</th>
<th>NASDAQ 100</th>
<th>S&amp;P 500</th>
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</thead>
<tbody>
<tr>
<td>46%</td>
<td>23%</td>
<td>28%</td>
<td>10%</td>
</tr>
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</table>

% of Companies That Do Not Allow Shareholders to Call Special Meetings

<table>
<thead>
<tr>
<th>Index</th>
<th>Russell 1000</th>
<th>NASDAQ 100</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>44%</td>
<td>13%</td>
<td>25%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: FactSet. Note: Data as of February 4, 2022.
PELOTON’S BOARD LACKS TRUE INDEPENDENCE

Blachford was President & CEO of Expedia and IAC Travel at the same time Foley was President & CEO of Evite while both were owned by IAC

Lynch was CEO of Barnes & Noble while Foley was President of ecommerce

Callaghan is managing member of True Ventures which led Peloton’s Series C in 2015

Hoag and Callaghan are both VC Investors who serve on the Zillow Board

Callaghan’s VC Fund led Modern Animal’s Series A, where Karen Boone is a Board member

Source: Company filings and publicly available information.
THE BOARD NEEDS TO BE REFRESHED

Through all election cycles as a public company, ISS has not recommended voting for **ANY** directors

<table>
<thead>
<tr>
<th>Director</th>
<th>ISS Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jon Callaghan, Independent Director</td>
<td>WITHHOLD</td>
</tr>
<tr>
<td>Jay Hoag, Independent Director</td>
<td>WITHHOLD</td>
</tr>
<tr>
<td>Erik Blachford, Independent Director</td>
<td>WITHHOLD</td>
</tr>
<tr>
<td>Howard Draft, Ex-Independent Director</td>
<td>WITHHOLD</td>
</tr>
<tr>
<td>Pamela Thomas-Graham, Independent Director</td>
<td>WITHHOLD</td>
</tr>
</tbody>
</table>

Since the IPO, Peloton’s Management and Board have sold over $700 mm worth of stock while maintaining outsized voting power through their Class B shares; they sold $500 million in 2021 alone.

Peloton’s executives have realized hundreds of millions of dollars in proceeds from selling their stock.

In 2021, Peloton’s insiders enriched themselves by selling shares as the Company’s market value plunged, generating nearly $500 million in proceeds for themselves.

Source: FactSet.
As of September 30, Peloton executives had pledged approximately 6 million shares of stock with a notional value of more than $500 million\(^1\).

Pledging of company stock by directors or executive officers can pose a substantial risk to outside shareholders.

Entities affiliated with TCV – of which director Jay Hoag is a General Partner – have 27% of their Class B shares and an incredible 89% of their Class A shares pledged.

The Company has an Insider Trading Policy that, even though extremely liberal, does purport to restrict pledging, so the Board is seemingly aware of the risk.

However, this policy appears to be only loosely enforced, as John Foley, William Lynch, Thomas Cortese and Hisao Kushi all appear to be in violation of the policy.

\(^1\) Based on the closing stock price of $87.05 on September 30, 2021.

The Company’s executives control more than 75% of the voting power, despite only having an economic interest in Peloton of approximately 12%.

As a result, Peloton’s annual meetings are essentially formalities; proposals with management support are guaranteed to pass.

Public shareholders have expressed deep discontent.

---

### 2021 Annual Meeting Reported vs. Adjusted Vote Results

<table>
<thead>
<tr>
<th>Say on Pay</th>
<th>Adjusted Level of Support</th>
<th>Reported Level of Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>83%</td>
<td>19%</td>
<td>83%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Jay Hoag</th>
<th>Adjusted Level of Support</th>
<th>Reported Level of Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>89%</td>
<td>47%</td>
<td>89%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Jon Callaghan</th>
<th>Adjusted Level of Support</th>
<th>Reported Level of Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>93%</td>
<td>65%</td>
<td>93%</td>
</tr>
</tbody>
</table>

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2. Source: Company filings. Adjusted vote results calculated by subtracting the aggregate voting power of Peloton’s outstanding Class B shares from the reported “For” votes.
Historically, Peloton’s compensation structure was heavily weighted towards time-based equity awards.

The Company characterizes these awards as “variable,” but the equity awards (options and RSUs) are entirely time-based, with no performance-based vesting criteria.

Peloton allows executives to choose RSUs instead of options, effectively ensuring that Peloton executives will receive substantial value from their equity awards regardless of whether Peloton’s stock value increases.

Incredibly, in the first quarter of fiscal year 2022, Peloton’s compensation committee removed the last vestige of performance-based compensation from the Company’s pay program by eliminating the cash bonus plan for fiscal year 2022.

### Other Negative Aspects of the Company’s Compensation Program Include:

- Permissive policy permits executives to pledge up to 40% of their equity holdings.
- Insufficient claw back policy.
- No executive stock ownership requirements.

### Base Salary + Time-Based Equity as a % of Total CEO Compensation Opportunity

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 20</td>
<td>91%</td>
</tr>
<tr>
<td>FY 21</td>
<td>95%</td>
</tr>
<tr>
<td>FY 22</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Company filings.
PELOTON’S BOARD NEEDS TO BE RECONSTITUTED AND ITS GOVERNANCE ENHANCED

We believe the Board should immediately **begin to search for new, fully independent directors** with no prior ties to the current Board and management team.

We urge the Board to insist on collapsing the dual-class structure to allow for “one share, one vote,” which we believe is a fundamental principle of good corporate governance and especially important at an underperforming company like Peloton.

The Board should also **revamp the Company’s executive compensation programs** by introducing performance-based compensation triggers such that at least 50% of each executive’s compensation is performance-based.

Given the magnitude of Peloton’s governance failures, we believe urgent action is needed to reconstitute the Board.

---

New independent directors with relevant skills should be added to the Board

- M&A
- Supply Chain Management
- Logistics
- Operations
- Capital Allocation
The Board Should Immediately Put Peloton Up For Sale
PELOTON STOCK WILL CONTINUE TO LANGUISH AS STANDALONE PUBLIC COMPANY

The Board should immediately examine a sale of the company to the highest bidder

- **Managerial and operational failures** have de-rated Peloton’s stock from high multiple SaaS valuation to low multiple hardware valuation
  - Ongoing cash burn, constrained balance sheet, materially higher cost of capital, and significantly bloated cost structure with excess manufacturing capacity will weigh on the Company’s valuation and limit its ability to execute a fast turnaround
  - Peloton’s stock will remain in the penalty box for many quarters and will likely continue to trade at a significant valuation discount

- Peloton **management and the Board have lost credibility** with investors
  - Even under new management, it will take years for stock to regain a reasonable growth multiple
  - A new, competent management team will need 6-12 months to assess problems and another 1-2 years to fix them

- High quality and premium subscriber base represents **significant strategic value** for a myriad of potential acquirors
PELOTON IS A STRATEGICALLY VALUABLE ASSET TO MULTIPLE SUITORS

Significant value creation opportunities

- Bundle with existing subscription and streaming services (e.g., Plug and Play)
- Lowered cost of acquisition in combined entity
- Ability to raise prices for subscriptions
- Significant SG&A savings
- Distribution & logistics synergies

✓ Largest interactive fitness platform in the world with premium brand and content
✓ Engaged subscriber base with low churn creates strong recurring revenue stream
✓ Large addressable market in early innings of market penetration
✓ Unrealized pricing power
✓ Network effects from ecosystem
✓ Significant value creation opportunities
A SALE PROCESS WILL LIKELY ATTRACT SEVERAL STRATEGIC BIDDERS

February 6, 2022
Wedbush issued a research report highlighting several reasons why Peloton would be a strong strategic fit for Apple

“For Cook & Co., acquiring Peloton would be a major strategic coup and catalyze the company’s aggressive health and fitness initiatives over the coming years.”
<table>
<thead>
<tr>
<th>POTENTIAL STRATEGIC ACQUIRORS FOR PELOTON</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>PTON Subscriber Base Valuable</strong></td>
</tr>
<tr>
<td>------------------------------------------</td>
</tr>
<tr>
<td><strong>Berkshire Hathaway Inc.</strong></td>
</tr>
<tr>
<td><strong>Lululemon</strong></td>
</tr>
<tr>
<td><strong>Amazon</strong></td>
</tr>
<tr>
<td><strong>Meta</strong></td>
</tr>
<tr>
<td><strong>Google</strong></td>
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<tr>
<td><strong>Disney</strong></td>
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<tr>
<td><strong>Comcast</strong></td>
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<tr>
<td><strong>FOX</strong></td>
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<tr>
<td><strong>ViacomCBS</strong></td>
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<tr>
<td><strong>Discovery</strong></td>
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<tr>
<td><strong>Netflix</strong></td>
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<tr>
<td><strong>Spotify</strong></td>
</tr>
<tr>
<td><strong>SiriusXM</strong></td>
</tr>
<tr>
<td><strong>SoftBank</strong></td>
</tr>
<tr>
<td><strong>Oracle</strong></td>
</tr>
<tr>
<td><strong>Sony</strong></td>
</tr>
</tbody>
</table>
FAIR VALUE FOR PELOTON IN A SALE IS AT LEAST $65 PER SHARE

Illustrative Value of Peloton Using Myriad Valuation Metrics

<table>
<thead>
<tr>
<th>Method</th>
<th>Peloton Stock Closing Price Friday February 4, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable M&amp;A Analysis</td>
<td>$51.81 - $97.02</td>
</tr>
<tr>
<td>EV / FY23 Gross Profit*</td>
<td>$70.62 - $95.22</td>
</tr>
<tr>
<td>EV / FY23 Revenue*</td>
<td>$69.05 - $99.01</td>
</tr>
</tbody>
</table>

Key M&A Assumptions

- **3.3 million Connected Fitness subscribers by FYE 6/30/23**
- **1.3 million Digital subscribers by FYE 6/30/23**
- **Low End**: Analysis applies the price per subscriber Google paid to acquire Fitbit in 2019 to the Connected Fitness subscriber base and applies a 25% discount to the same price per subscriber to the Digital subscriber base.
- **High End**: Analysis applies the price per subscriber Lululemon paid to acquire Mirror to the Connected Fitness subscriber base and applies zero value to the Digital subscriber base.

Source: Company filings and consensus data per Capital IQ.

* Assumes $375 million of SG&A savings at 15x, split two-thirds to Peloton shareholders.

Source: Company closing stock price trading session as of February 4, 2022, per Bloomberg.
At a $75 per share purchase price, an acquisition of Peloton would be accretive to many strategic buyers with very modest cross-selling and penetration assumptions.

Amazon, for example, would need just 2.3% penetration of its Prime subscribers to make the acquisition accretive.

<table>
<thead>
<tr>
<th></th>
<th>Subscribers</th>
<th>Conversion of Existing Subs Required for Value Accretion</th>
<th>Value Creation at 2.5% Penetration of Subscribers</th>
<th>Value Creation at 5% Penetration of Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netflix</td>
<td>222 mm</td>
<td>1.3%</td>
<td>$42 bn</td>
<td>$84 bn</td>
</tr>
<tr>
<td>Spotify</td>
<td>180 mm</td>
<td>0.3%</td>
<td>$45 bn</td>
<td>$91 bn</td>
</tr>
<tr>
<td>Amazon Prime</td>
<td>172 mm</td>
<td>2.3%</td>
<td>$24 bn</td>
<td>$49 bn</td>
</tr>
<tr>
<td>Disney +</td>
<td>118 mm</td>
<td>3.0%</td>
<td>$18 bn</td>
<td>$36 bn</td>
</tr>
<tr>
<td>HBO Max</td>
<td>74 mm</td>
<td>5.2%</td>
<td>$11 bn</td>
<td>$21 bn</td>
</tr>
<tr>
<td>Hulu</td>
<td>47 mm</td>
<td>20.6%</td>
<td>$3 bn</td>
<td>$5 bn</td>
</tr>
<tr>
<td>SiriusXM</td>
<td>35 mm</td>
<td>17.2%</td>
<td>$3 bn</td>
<td>$6 bn</td>
</tr>
</tbody>
</table>

Note: Assumes PTON incremental margin of 60%, below management’s guidance of 70%, on current subscription prices. Accretion based on 2022E EBITDA multiples per Capital IQ. Sources: Company filings and publicly available data.
Conclusion
### Issue

- **Peloton has been horribly mismanaged, with unbridled enthusiasm taking the place of disciplined leadership**
  - Failures to manage pricing, product safety, manufacturing capacity, capital allocation, real estate, SG&A costs, productivity and culture
  - Significant misalignment of interest between management and shareholders

- **Peloton is worth significantly more to a strategic acquiror than as a standalone business, especially given the difficult turnaround ahead**
  - Standalone Peloton faces a hard road, especially given the complete loss of credibility of its management team with investors
  - Meanwhile, strategic buyers in the media, technology, sporting goods and subscription businesses would find Peloton an attractive acquisitions, with many sources of synergy

- **Peloton’s controlling shareholders have lost the mandate to control the Company and its Board needs fresh perspectives**
  - Having lost $40 billion of shareholder value in the last year, shareholders no longer want Mr. Foley to control the Company; his mandate has been eroded by poor performance
  - The Board is too close to Mr. Foley and shareholders would welcome fresh directors, selected with the input of public market shareholders
  - Governance should be improved to provide better accountability

### Key Considerations

### Action Item

- **Fire CEO, John Foley**
- **Fire CFO, Jill Woodworth**
- **Run strategic alternatives process**
- **Eliminate dual-class voting**
- **Change Board composition**
- **Improve governance**

### When?

- **RIGHT NOW**
Blackwells has submitted a formal demand to inspect Peloton’s books and records for the following purposes:

- Investigating possible breaches of fiduciary duty, mismanagement, and other violations of law by members of the Company’s Board and management in connection with:
- Testing the veracity of the statements of Directors and Officers concerning revenue, profits, and inventory
- Testing the propriety of the Company’s public disclosures regarding safety of its Tread and Tread+ products
- Investigating Mr. Foley’s and Ms. Foley’s suitability for office
