

Citron Updates Peloton (\$PTON)

Peloton Investors Must “Eat the Apple” and Accept the Truth

2020 Tgt. Price – \$5

While Citron Research is widely known as a “short selling” research firm, we must first say that we are deeply concerned about the turn of events in this country and would never use this platform to spread fear or undue panic as we wish for a speedy economic recovery for all countries.

But as a short seller, we have to point out that any major downturn in the market presents unique asymmetrical opportunities from a stock market that has long been infected with bullish optimism on the even the most faddish of companies.

To think less than one year ago Wayfair was \$170 – the stupidity of it all.

This brings us to the stock that will be down 80% in the next 52 weeks.

While \$PTON stock has maintained somewhat of a bid during this market demolition based on the narrative of benefiting from the stay at home trend, the financials are so stretched that recent analyst coverage justified price targets by using 2030 financials (if we are still afraid to leave our homes in our homes in 2030 having a few extra pounds is the least of our worries).

First and most important. As reported by Mac Rumors and then confirmed by CNBC, Apple’s new IOS system will contain Apple produced guided workout videos from “cycling to yoga”. They can integrate with your iPad, Apple watch, or Apple TV. So, guess who the Apple of fitness is going to be... APPLE!



<https://www.cnn.com/2020/03/11/apple-iphone-app-codenamed-seymour-will-offer-workout-videos.html>

<https://www.macrumors.com/2020/03/09/apple-ios-14-fitness-app-guided-workouts/>

*Note this is not just an afterthought by Apple, but like everything else they do it has been carefully crafted with a world-class team for years.

And to think a \$2K Peloton bike does not even have a monitor to watch content on the Internet or attach an iPad or even have a USB plug in. The Peloton screen cannot even pivot to do yoga.

How will this Apple app hurt Peloton? Well just look at the comments of \$PTON CEO John Foley on the Q2 2020 earnings call:

“One important aspect of our strategy to maintain leadership in connected fitness is to also win in digital-only fitness... We believe more digital members will lead to the sale of more connected fitness products.”

If you can imagine how much money Peloton lost selling the first 500K bikes to enthusiasts and the affluent during an economic boom... what does the next year look like? Who buys the next 500k – and don't say Europe.

We are not even going to beat a dead horse about:

- Financing and churn
- Immense hardware competition
- TAM for Cycling
- Soul Cycle initiative
- Unknown settlement with music industry
- Share structure
- Tepid guidance
- Mall traffic

Let's get right to valuation. If there is one thing we learned the past month, it is important to know what you own so you can sleep at night and decide whether to sell or buy more. Well here is Citron's optimistic assumptions for Peloton. Note the word OPTIMISTIC.

We are going to ignore the headwinds facing the business and focus on its current value per subscriber as compared to other “Stay at home stocks”. This will make it more valuable than it should be, but lets stay optimistic.

<u>Company</u>	<u>Enterprise Value in BN</u>	<u>Subscribers in MN</u>	<u>EV per Subscriber</u>
Peloton	\$5.2	0.7	\$7,303
Teladoc	\$9.5	36.7	\$259
Netflix	\$164.1	167.1	\$982
Peer Average			\$620
Peloton vs. Peer Average			1077%
Peer Group Average EV per Subscriber			\$620
PTON Subscribers in MN			0.7
PTON Enterprise Value			\$442
Debt			\$496
Minority Interest			\$0
Cash			\$1,487
PTON Market Cap			\$1,433
Shares Outstanding			280
PTON Price Target			\$5

Note – at \$5 Peloton is still a \$1 bil company that sells spin bikes and classes, still one heck of an achievement.

Conclusion

With a potential recession on the horizon, selling \$2k bikes with a \$39 a month subscription might not be the best business model. Apple will no doubt deliver a quality product with the highest technologic integration that we look forward to as a consumer. The dream of Peloton becoming the official platform of home health will soon be a distant memory like when GoPro was going to be our platform for “life logging”.

Maybe next year for Christmas our favorite confused and anxious Peloton wife can get an iPad and a standard bike for Christmas and use the \$2k and \$39 a month she saved for couples counseling.

Cautious Investing to All

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