



Neeley School of Business

Peloton Interactive, Inc. **Time to reinvent the wheel?**

January 2023

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A pioneer in the at-home fitness industry, Peloton created a cult following largely on the basis of its sleek, high performance stationary bicycles and virtual fitness classes led by world-class trainers. Peloton's stock performance hit an all-time high during the global COVID-19 pandemic, when fitness centers were forced to close, and the population spent most of its time at home. But as the world returned to normal and Peloton struggled with various publicity and supply chain issues, its performance took a dramatic turn for the worse. After increasing in value by 6x from \$27 per share to over \$162 per share between December 2019 and December 2021, Peloton's stock was trading at under \$10 per share at the beginning of 2023. With co-founders John Foley and Hisao Kushi leaving the company in September 2022, it fell on Peloton's new CEO, Barry McCarthy, to turn the company around.

COMPANY BACKGROUND

Peloton started in 2012 as a way for founder and former Barnes & Noble executive John Foley and his wife to work fitness into their busy schedules.¹ As they balanced household responsibilities with their demanding careers, the couple often struggled to find time for the high-energy, instructor-led fitness classes they desired to attend. "I figured there must be a way to make these workouts more convenient, more affordable, and more accessible. And my hunch was that if I could make it possible, others would want it as well," he said at the time.²

John Foley's idea of bringing world-class fitness classes to people's homes excited investors. In 2012, Foley received a \$3.5 million series A investment, enabling him and his team of fellow fitness enthusiasts to design a prototype bike and shoot a video to post on Kickstarter. The Kickstarter campaign raised awareness for the start-up, leading to a \$10.5 million series B investment in 2014 that allowed the company to improve its bike for consumer use and to open a studio in Manhattan for instructors to record their classes.³ In 2015 Peloton raised \$30 million through series C funding that allowed the company to increase bike production and improve its shipping times. By the time Peloton completed its IPO in September 2019, it had gained national prominence as an at-home alternative to gyms and group fitness classes. The company priced its IPO at \$29 per share, raising \$1.16 billion, for a valuation of \$8.1 billion.⁴

Peloton's mission is to use "technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime."⁵ Its main products and services include its internet-connected stationary bicycles and treadmills, and its fitness subscriptions. The price of the standard Peloton Bike is \$1,445, the Bike+ is \$2,495, and the Peloton Tread is \$3,495. The company also sells accessories such as cycling shoes, bike mats, dumbbells, heart monitors, etc. for an additional fee. Peloton has two connected fitness subscriptions. The All-Access Membership is priced at \$44 per month and allows customers and their households to virtually access live and on-demand instructor-led fitness classes from their Peloton equipment or any other internet-connected device. In addition to cycling and running classes, the company provides content for strength, meditation, and yoga.⁶ The additional content is available through the Peloton App, which is part of the All-Access Membership, but can also be purchased separately for \$12 per month through the Peloton App Membership plan. This plan may only be used by a single user, does not allow

¹ <https://www.builtinnyc.com/2017/06/16/history-peloton>

² <https://hbswk.hbs.edu/item/peloton-changed-the-exercise-game-can-the-company-push-through-the-pain>

³ <https://joicolossus.com/research/peloton.pdf>

⁴ <https://www.cnn.com/2019/09/25/peloton-prices-ipo-at-29-per-share.html>

⁵ <https://www.onepeloton.com/company>

⁶ Exhibit 1 presents a timeline of how the company evolved its modalities over time.

users to track performance metrics, and does not provide access to classes via the Bike, Bike+, or Tread.⁷

Peloton also had a partnership with fitness apparel company Lululemon between 2016 and 2021, before launching its own apparel brand, Peloton Apparel, in September 2021. A few months after the launch, Lululemon sued Peloton, alleging infringement over the designs of its leggings and sports bras.⁸ But the companies ultimately settled, with Peloton agreeing to discontinue a few designs but continuing to operate in the segment.^{9,10} The company also launched Peloton Row towards the end of 2022 for \$3,195, with features like real-time feedback, rowing classes, and scenic rows.¹¹

At the end of 2022, Peloton had 3,700 employees worldwide, with distribution channels in five countries: the United States (U.S.), the United Kingdom, Canada, Australia, and Germany.¹² It had also registered trademarks in 215 countries, including China, India, Israel, Korea, Mexico, and Switzerland.¹³

PELTON'S RISE AND FALL DURING THE PANDEMIC

The global COVID-19 pandemic brought with it a unique combination of gym closures, work-from-home initiatives, and increased disposable income that led to a sharp increase in demand for at-home fitness alternatives. As wholesales of exercise equipment to health and fitness clubs were falling, the consumer segment of the exercise equipment industry was booming.¹⁴ And with its high-quality home exercise equipment and live-streamed fitness classes, Peloton seemed well positioned to benefit from the shifting demand. The company's revenues doubled between 2019 and 2020, from \$915 million to \$1.8 billion, and then doubled again from 2020 to 2021, rising to over \$4 billion. Peloton subscribers also increased dramatically over that period, from about 270 thousand to more than 2.3 million.^{15,16}

Such extreme growth did not come without growing pains. Due to higher-than-expected demand, microchip shortages, and supply chain bottlenecks at shipping ports, delivery times increased, and some customers had to wait months before receiving orders on their stationary bikes.¹⁷ Many customers opted to cancel their orders rather than wait for them to be delivered.¹⁸ Peloton's struggles also received significant attention from the media, putting further pressure on Foley and Peloton to respond. In February 2021, Foley announced that

⁷ <https://support.onepeloton.com/hc/en-us/articles/360040396351-Peloton-App-Membership-vs-Peloton-All-Access-Membership>

⁸ <https://www.nytimes.com/2021/11/30/business/lululemon-peloton-lawsuit.html>

⁹ <https://www.reuters.com/legal/peloton-lululemon-settle-lawsuit-over-apparel-line-2022-09-30/>

¹⁰ <https://www.retaildive.com/news/lululemon-peloton-settle-lawsuits/633091/>

¹¹ <https://mashable.com/article/peloton-announces-rowing-machine>

¹² <https://www.macrotrends.net/stocks/charts/PTON/peloton-interactive/number-of-employees>

¹³ The number of registered trademarks reported is based on searches on the [WIPO IP portal](https://www.wipo.int/ipportal/) on January 11, 2023.

¹⁴ Exhibit 2 shows wholesales for sports exercise equipment in the U.S. from 2007 to 2021. The figures demonstrate that the increase in overall wholesales in 2020 and 2021 (see Panel A) was driven by the consumer segment (Panel B), as the institutional segment experienced a drop over that same period (Panel C).

¹⁵ <https://www.businessofapps.com/data/peloton-statistics/>

¹⁶ Exhibits 3 and 4 provide consolidated financial statements for Peloton from 2019 to 2022.

¹⁷ <https://www.cnbc.com/2021/10/22/how-peloton-is-trying-to-stay-ahead-of-supply-chain-issues.html>

¹⁸ <https://nypost.com/2020/11/24/peloton-customers-are-canceling-their-orders-amid-months-long-waits/>

Peloton would invest \$100 million to improve delivery times as demand for home workout equipment remained strong.¹⁹

Just as Foley began to address the delivery issues for Peloton's stationary bikes, the company faced a different kind of issue with its treadmills. In April 2021, the Consumer Product Safety Commission issued an "urgent warning" for Peloton Tread+ users with small children or pets to stop using the product, citing the death of a child and injuries to 70 others caused by the treadmills.²⁰ After initially refuting the statement as "inaccurate and misleading,"²¹ Peloton reversed course, recalling about 125,000 treadmills and offering full refunds for returned equipment.²² To demonstrate its commitment to safety, Peloton also announced updates to its software that included a password lock to prevent children from using it without parental supervision. For those wanting to keep the treadmill, it also offered a free service to move the equipment to a different room away from children and pets. Still, the estimated \$165 million in lost sales prompted a drop of nearly 15% in Peloton's stock price, and \$4 billion in its market value, the day the recall was announced.²³

By the time COVID-19 restrictions began to lift in early 2022, Peloton had already lost all the additional stock value it had gained during the height of the pandemic. The timing of the waning pandemic only brought additional challenges. To better meet the demand that the company saw at the onset of the pandemic, Peloton had built up and was now sitting on a large inventory of equipment. With gyms reopening and a recession looming, Peloton's prospects looked bleak.

SHAKING THINGS UP AT THE TOP

Amid the turmoil, Peloton announced in February 2022 that John Foley would be stepping down as Chief Executive Officer (CEO).²⁴ In September, Foley also relinquished his role as Executive Chairman and fully exited the company, along with co-founder and Chief Legal Officer Hisao Kush and several other top-level executives.²⁵ The CEO position was filled by Barry McCarthy, former Chief Financial Officer of Netflix and Spotify.

As he stepped into the chief executive role, McCarthy acknowledged the extent of the issues at Peloton. In an earnings conference call shortly after taking over, McCarthy told investors that the company was "weaker on everything supply chain" than he had initially anticipated.²⁶ But McCarthy also saw reason for optimism. In the same call, McCarthy noted Peloton's ability to quickly address cash flow issues and indicated that he was pleasantly surprised by the amount of talent he found within Peloton's headquarters. "I don't mean to sound Pollyannaish, but I'm hopeful that someday soon we're going to look back on this call as one of the important turning points in the business," McCarthy said.

¹⁹ <https://www.cnn.com/2021/02/05/business/peloton-wait-time-investment/index.html>

²⁰ <https://www.cpsc.gov/Newsroom/News-Releases/2021/CPSC-Warns-Consumers-Stop-Using-the-Peloton-Tread>

²¹ <https://www.businessinsider.com/peloton-ceo-response-us-safety-regulator-warning-treadmill-tread-plus-2021-4>

²² <https://www.cnbc.com/2021/05/05/peloton-recalling-all-treadmills-after-reports-of-injuries-one-death.html>

²³ <https://www.cnn.com/2021/05/06/business/peloton-recall-losses/index.html>

²⁴ <https://www.cnbc.com/video/2022/02/08/peloton-ceo-john-foley-steps-down-company-plans-to-slash-2800-jobs.html>

²⁵ <https://www.cnbc.com/2022/09/12/peloton-co-founders-john-foley-hisao-kushi-are-leaving-company.html>

²⁶ <https://www.cnbc.com/2022/05/10/peloton-ceo-surprised-by-how-deep-some-issues-ran-at-the-company.html>

With McCarthy at the helm, the company took several quick steps to reduce inventory levels, cut costs, and boost sales. Changes included introducing rental options for bikes, certifying pre-owned bikes for resale, and selling Peloton products on Amazon.²⁷ The company also cut thousands of jobs, terminating over 1,300 employees between July and August 2022, and it shifted its logistics network to a third party.²⁸ In addition, Peloton announced plans to reduce the number of stores in the U.S. and to stop producing its own equipment, outsourcing those responsibilities to Taiwanese manufacturer Rexon Industrial.²⁹

Still, investors seemed skeptical. Throughout 2022, Peloton's stock price only continued to fall, dropping below \$10 per share as of January 2023.

COMPETITIVE LANDSCAPE

Peloton faces various competitors in the fitness industry. Since its inception, high-end fitness centers have been a main competitor. With the world returning to normal, those competitors are beginning to represent a threat once again to Peloton's business. Peloton also faces competition from established fitness equipment manufacturers, and it is increasingly having to account for competitors that have sought to replicate Peloton's business model by providing connected products like fitness mirrors and training apps.

Mirror (Lululemon Studio)

Mirror was founded in 2016 by Brynn Putnama, a former professional dancer, and the entrepreneur behind New York-based boutique fitness studio chain Refine Method.³⁰ Lululemon acquired Mirror for \$500 million in 2020 and rebranded its connected subscription service as Lululemon Studio.³¹ The Mirror is priced at \$1,495, plus a \$39 per month subscription fee for its 10,000+ workouts on the Lululemon Studio app.³² The product acts as a full-length mirror when it is off, but becomes an interactive home fitness device when turned on, capable of streaming thousands of live and on-demand workout classes, such as yoga, ballet, boxing, weight training, and Pilates. While in use, an instructor appears on the screen, but individuals can still see their reflection, monitor progress, and track metrics like heart rate and calories burned. A membership also provides additional benefits, such as unlimited access to group fitness classes at Lululemon's "experiential" stores³³ and discounted prices on Lululemon gear as well as in-person classes at hundreds of partner fitness studios nationwide.³⁴

NordicTrack (iFIT Health & Fitness)

NordicTrack was founded in 1975 by Edward and Florence Pauls, originally to produce ski machines for at-home use by cross-country skiers.³⁵ The company was acquired by CML

²⁷ <https://www.cnn.com/2022/08/25/heres-how-peloton-ceo-barry-mccarthys-turnaround-plan-is-going.html>

²⁸ <https://www.businessinsider.com/peloton-company-history-rise-fall-2022-2>

²⁹ <https://www.cnn.com/2022/07/12/peloton-to-outsource-all-manufacturing-as-part-of-its-turnaround-efforts.html>

³⁰ <https://techcrunch.com/2019/06/03/fitness-startup-mirror-nears-300m-valuation>

³¹ <https://www.nytimes.com/2020/06/29/business/lululemon-buys-mirror.html>

³² <https://www.tomsguide.com/news/lululemon-studio-price-membership-perks-and-what-it-means-for-mirror>

³³ <https://mspmag.com/shop-and-style/lululemon-o/>

³⁴ <https://www.mirror.co/membership>

³⁵ <https://www.nordicparts.com/history-of-nordictrack.html>

Group in 1988 and expanded its product line to include other equipment shortly thereafter, such as treadmills, elliptical machines, and weight training machines. As the fitness industry became more saturated throughout the 1990s CML struggled to turn a profit, and the company was ultimately forced into Chapter 11 bankruptcy in 1998.³⁶ As part of its downsizing efforts, CML sold NordicTrack to Utah-based fitness company iFIT Health & Fitness Inc.³⁷ Under iFIT, NordicTrack reclaimed its position as a leading fitness equipment manufacturer. In 2019, the company's T Series treadmill, which sells for under \$1,000 on Amazon, received an award as the "Best Overall" at-home treadmill by the Boy Genius Report.³⁸ NordicTrack offers a wide-range of equipment at various price points, including treadmills from \$1,299 to \$2,999; upright, recumbent, and commercial studio bikes from \$999 to \$2,499; front-drive and free-stride ellipticals from \$1,499 to \$2,499; and rowers from \$999 to \$1,499. The company's subscription plan, NordicTrack+, provides access to unlimited workouts for \$39 per month.³⁹ NordicTrack also offers certain equipment for free (a \$1,200 to \$1,500 value) for customers who sign up for a 4-year subscription.⁴⁰

Life Fitness

Life Fitness is one of the oldest and largest fitness companies in the world. It began in 1968 with the Lifecycle exercise bike and has changed ownership multiple times over the years. Life Fitness was acquired by Bally Fitness in 1984, before being sold to Brunswick Corporation in 1997, and most recently to KPS Capital Partners for \$490 million in 2019.⁴¹ The company consists of a family of brands that include Life Fitness, Hammer Strength, Cybex, SciFit, and the Indoor Cycling Group.⁴² Through its family of brands, it offers a vast array of products for both commercial and home use. Its cardio equipment includes treadmills (\$3,179 to \$11,659), bikes (\$1,839 to \$5,189), ellipticals (\$2,899 to \$6,589), rowers (\$1,849 to \$2,999), and arc trainers (\$9,119 to \$10,399). The company also sells strength training equipment like pulley machines, squat racks, and benches; and accessories, like dumbbell racks, bars, mats, slam balls, and plyometrics boxes.⁴³ Through SciFit the company designs and offers fitness equipment for individuals with disabilities.⁴⁴ It also provides various services to its customers, from digital coaching solutions to facility design consultations. It is regarded as a high-quality and reliable brand and is especially well-known as a top provider of fitness equipment to health and fitness centers. The company has distribution channels in over 160 countries around the world.⁴⁵

CONCLUSION

After peaking during the global COVID-19 pandemic, things quickly went downhill for Peloton. Supply chain issues, a lawsuit from Lululemon, and the Treadmill+ fiasco each contributed to millions in financial losses and reduced investor confidence in founder John

³⁶ <https://multichannelmerchant.com/news/the-sun-sets-on-the-cml-group/>

³⁷ <https://www.crunchbase.com/acquisition/icon-health-fitness-acquires-nordictrack--bcc011fe>

³⁸ <https://bgr.com/deals/best-at-home-treadmill/>

³⁹ <https://www.nordictrack.com>

⁴⁰ <https://connectthewatts.com/2022/07/18/nordictrack-offers-free-equipment/>

⁴¹ <https://www.chicagotribune.com/business/ct-biz-life-fitness-brunswick-sale-20190506-story.html>

⁴² <https://www.lifefitness.com/en-us/family-of-brands>

⁴³ <https://www.lifefitness.com/en-us>

⁴⁴ <https://www.lifefitness.com/en-us/scifit>

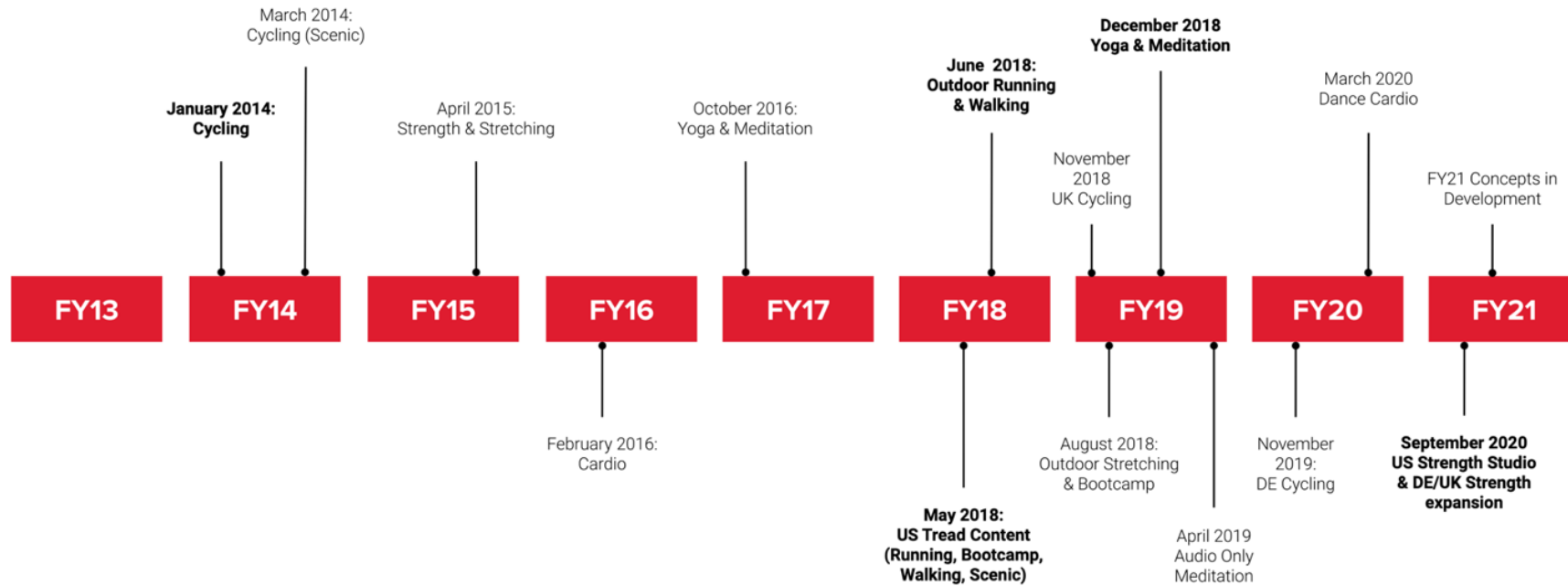
⁴⁵ <https://www.lifefitness.com/en-us/press-releases/life-fitness-acquisition-by-kps-capital-partners-completed-38278>

Foley's management of the company, leading to his exit in 2022. Peloton's new CEO, Barry McCarthy, has already taken various steps to improve the company's competitive position. But as of January 2023, Peloton's share price had yet to show signs of improvement.

How can McCarthy reverse course and help Peloton regain its prominence as an at-home fitness company? Should he just stay the course and trust that his recent moves will start paying dividends? Or should he be taking more drastic actions to restructure or reposition the company to better compete against its wide range of competitors? Would it make sense to approach Amazon, Nike, or one of the other companies that showed interest in buying Peloton in early 2022?⁴⁶ Or does Peloton already have the resources and capabilities to turn things around on its own?

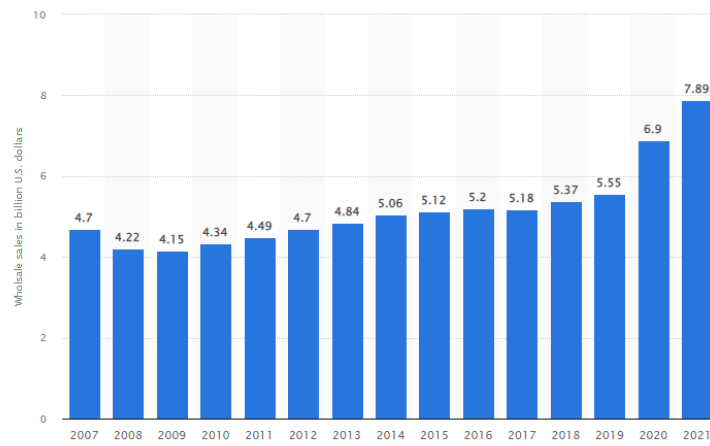
⁴⁶ <https://www.forbes.com/sites/shephyken/2022/02/13/amazon-or-nike-who-should-buy-peloton/?sh=22434573485c>

Exhibit 1. Peloton Modalities Timeline



Source: [Peloton Investor & Analyst Session, September 15, 2020](#)

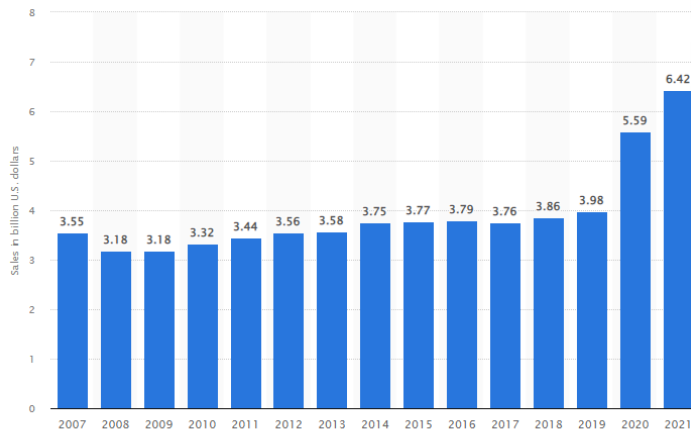
Exhibit 2. Sports exercise equipment wholesales in the U.S. (2007 to 2021)



Details: United States; SFIA; Sports Marketing Surveys USA; 2007 to 2021

© Statista

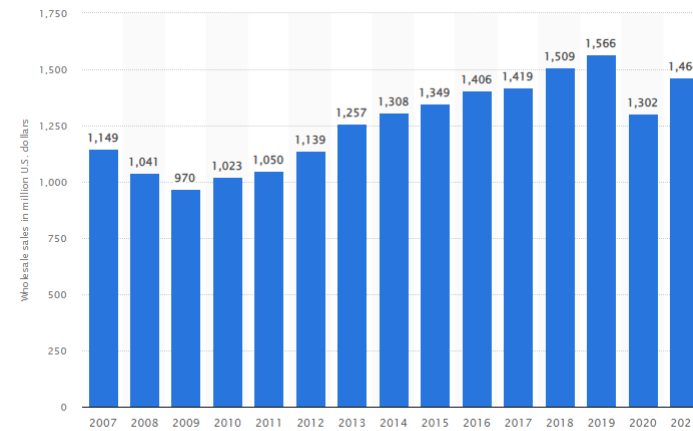
Panel A: All equipment (Billions of USD)



Details: United States; SFIA; Sports Marketing Surveys USA; 2007 to 2021

© Statista

Panel B: Consumer fitness equipment (Billions of USD)



Details: United States; SFIA; Sports Marketing Surveys USA; 2007 to 2021

© Statista

Panel C: Fitness center equipment (Millions of USD)

Source: [Statista](#)

Exhibit 3. Peloton Consolidated Statement of Operations

	Fiscal Year Ended June 30,				
	2022	2021	2020	2019	2018
	(in millions of USD)				
Revenue:					
Connected Fitness Products	\$ 2,187.50	\$ 3,149.60	\$ 1,462.20	\$ 733.90	\$ 354.70
Subscription	1,394.70	872.20	363.70	181.10	80.30
Total revenue	3,582.10	4,021.80	1,825.90	915.00	435.00
Cost of revenue:					
Connected Fitness Products	2,433.80	2,236.90	832.50	427.80	199.90
Subscription	450.00	330.50	155.70	103.70	45.50
Total cost of revenue	2,883.80	2,567.40	988.20	531.40	245.40
Gross profit	698.40	1,454.40	837.70	383.60	189.60
Operating expenses:					
Sales and marketing	1,018.90	728.30	476.70	324.00	151.40
General and administrative	963.40	661.80	351.40	207.00	62.40
Research and development	359.50	247.60	89.10	54.80	23.40
Goodwill impairment	181.90	—	—	—	—
Impairment expense	390.50	4.50	1.20	—	—
Restructuring expense	180.70	—	—	—	—
Supplier settlements	337.60	—	—	—	—
Total operating expenses	3,432.40	1,642.20	918.40	585.80	237.10
Loss from operations	(2,734.00)	(187.80)	(80.70)	(202.30)	(47.50)
Other (expense) income, net	(74.10)	(10.40)	12.30	6.70	(0.30)
Loss before provision for income taxes	(2,808.10)	(198.20)	(68.40)	(195.60)	(47.80)
Income tax expense (benefit)	19.60	(9.20)	3.30	0.10	0.10
Net loss	\$(2,827.70)	\$ (189.00)	\$ (71.60)	\$ (195.60)	\$ (47.90)

Source: Peloton 2020 and 2022 Annual Reports

Exhibit 4: Peloton Consolidated Balance Sheet

	Fiscal Year Ended June 30,			
	2022	2021	2020	2019
(in millions of USD)				
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,253.90	\$ 1,134.80	\$ 1,035.50	\$ 162.10
Marketable securities	—	472.00	719.50	216.00
Accounts receivable, net	83.60	71.40	34.60	18.50
Inventories, net	1,104.50	937.10	244.50	136.60
Prepaid expenses and other current assets	192.50	202.80	124.50	48.40
Total current assets	2,634.60	2,818.10	2,158.60	581.70
Property and equipment, net	610.90	591.90	242.30	249.70
Intangible assets, net	41.30	247.90	16.00	19.50
Goodwill	41.20	210.10	39.10	4.30
Restricted cash	3.80	0.90	1.50	0.80
Right-of-use assets, net	662.50	580.10	492.50	—
Other assets	34.30	36.70	31.80	8.50
Total assets	\$ 4,028.50	\$ 4,485.60	\$ 2,981.80	\$ 864.50
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable and accrued expenses	\$ 797.40	\$ 989.10	\$ 361.70	\$ 196.70
Current portion of long-term debt	7.50	—	46.90	3.30
Customer deposits and deferred revenue	201.10	164.80	363.60	90.80
Other current liabilities	99.50	89.10	—	—
Total current liabilities	1,105.50	1,243.00	772.20	290.80
Long-term liabilities	2,330.10	1,488.50	531.60	171.20
Total liabilities	3,435.60	2,731.50	1,303.80	462.00
Stockholders' equity (deficit):				
Common stock				
Additional paid-in capital	4,291.30	2,618.90	2,361.80	90.70
Accumulated other comprehensive income	12.20	18.20	10.10	0.20
Accumulated deficit	(3,710.60)	(883.00)	(693.90)	(629.50)
Total stockholders' equity (deficit)	592.90	1,754.10	1,678.00	(538.60)
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	\$ 4,028.50	\$ 4,485.60	\$ 2,981.80	\$ 864.50

Source: Peloton 2020 and 2022 Annual Reports