BLACKWELLS CAPITAL

PELOTON

A CALL FOR ACTION

PRESENTED BY BLACKWELLS CAPITAL

February 2022

Peloton Interactive, Inc. (NASDAQ: **PTON**)

DISCLAIMER

The views expressed in this presentation (the "Presentation") represent the opinions of Blackwells Capital LLC and/or certain of its affiliates ("Blackwells") and the investment funds it manages that hold shares in Peloton Interactive, Inc. (the "Company", "Peloton", or "PTON"). The Presentation is for informational purposes only, and it does not have regard to the specific investment objective, financial situation, suitability or particular need of any specific person who may receive the Presentation, and should not be taken as advice on the merits of any investment decision. The views expressed in the Presentation represent the opinions of Blackwells, and are based on publicly available information and Blackwells' analyses.

Certain financial information and data used in the Presentation have been derived or obtained from filings made with the Securities and Exchange Commission ("SEC") by the Company or other companies that Blackwells considers comparable, as well as from third party sources. Blackwells has not sought or obtained consent from any third party to use any statements or information indicated in the Presentation as having been obtained or derived from a third party. Any such statements or information should not be viewed as indicating the support of such third party for the views expressed in the Presentation. Information contained in the Presentation has not been independently verified by Blackwells. Blackwells disclaims any obligation to correct or update the Presentation or to otherwise provide any additional materials. Blackwells recognizes that the Company may possess confidential information that could lead it to disagree with Blackwells' views and/or conclusions.

Blackwells currently beneficially owns, and/or has an economic interest in, shares of the Company. Blackwells is in the business of trading—buying and selling—securities. Blackwells may buy or sell or otherwise change the form or substance of any of its investments in any manner permitted by law and expressly disclaims any obligation to notify any recipient of the Presentation of any such changes. There may be developments in the future that cause Blackwells to engage in transactions that change its beneficial ownership and/or economic interest in the Company.

The securities or investment ideas listed are not presented in order to suggest or show profitability of any or all transactions. There should be no assumption that any specific portfolio securities identified and described in the Presentation were or will be profitable. Under no circumstances is the Presentation to be used or considered as an offer to sell or a solicitation of an offer to buy any security.

This document is the property of Blackwells and may not be published or distributed without the express written consent of Blackwells. All registered or unregistered service marks, trademarks and trade names referred to in the Presentation are the property of their respective owners, and Blackwells' use herein does not imply an affiliation with, or endorsement by, the owners of these service marks, trademarks and trade names.

The information herein contains "forward-looking statements." Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," "seeks," "could," "should" or the negative of such terms or other variations on such terms or comparable terminology. Similarly, statements that describe our objectives, plans or goals are forward-looking. Forward-looking statements are subject to various risks and uncertainties and assumptions. There can be no assurance that any idea or assumption herein is, or will be proven, correct. If one or more of the risks or uncertainties materialize, or if Blackwells' underlying assumptions prove to be incorrect, the actual results may vary materially from outcomes indicated by these statements. Accordingly, forward-looking statements should not be regarded as a representation by Blackwells that the future plans, estimates or expectations contemplated will ever be achieved.

TABLE OF CONTENTS

PELOTON INTERACTIVE, INC.

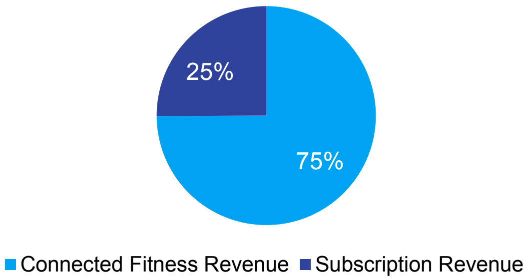
Executive Summary

EXECUTIVE SUMMARY: OVERVIEW OF PELOTON

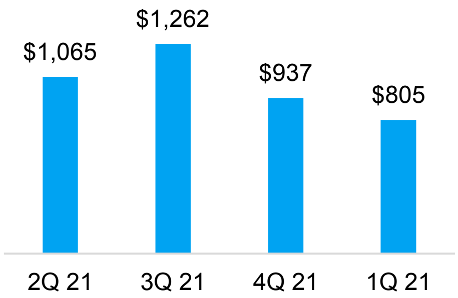
PELOTON

- 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

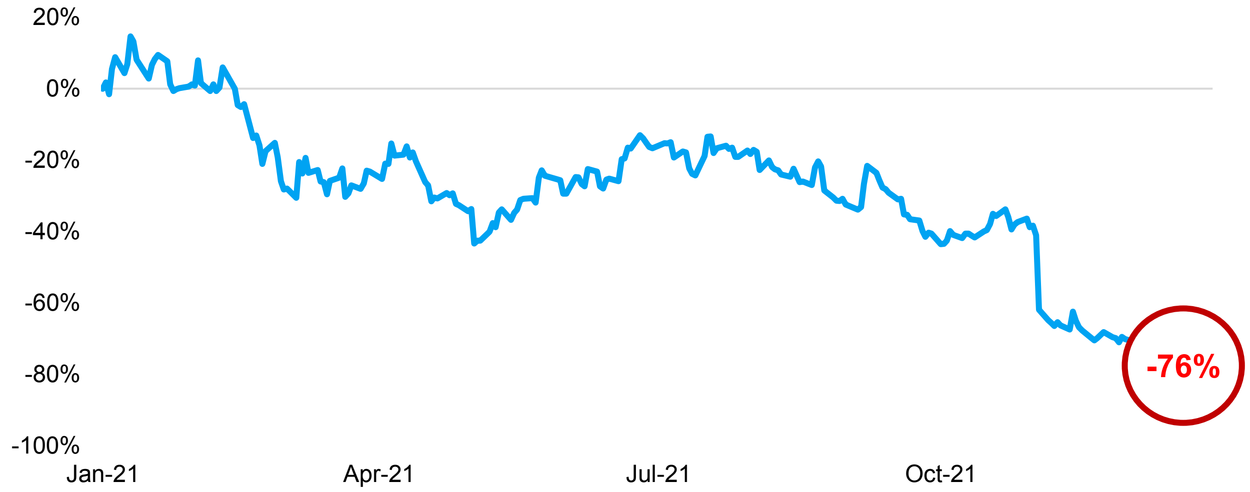
LTM Revenue by Source



Total Revenue ($M)



2021 Total Shareholder Returns



Nasdaq

Enterprise Value	$8,753 Million
Market Cap	$8,043 Million
LTM Revenue	$4,069 Million
LTM Adj. EBITDA	($99) Million
EV/LTM Revenue	2.2x
Employees (as of June 30, 2021)	8,976
LTM Revenue/Employee	$453,342

Source: Bloomberg, Company filings. Note: Data as of February 4, 2022 unless specified otherwise.

EXECUTIVE SUMMARY: A HIGHLY COVETED ASSET

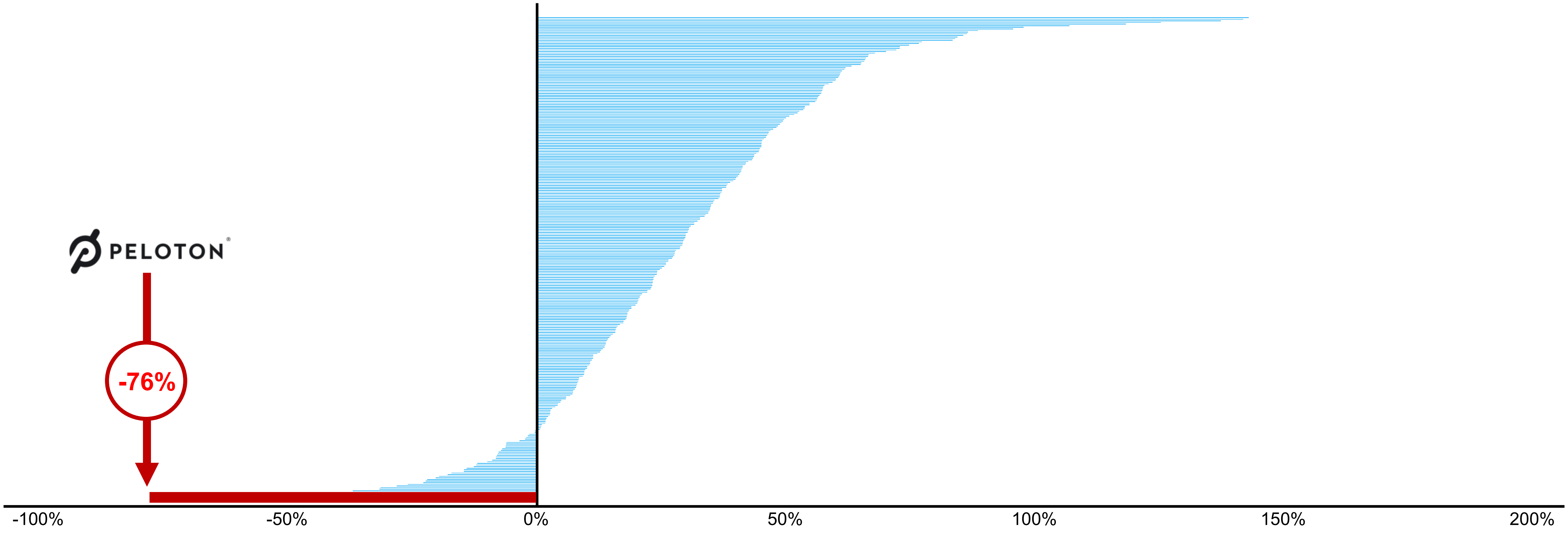
Peloton has the hallmarks of an extremely valuable and attractive business, which need to be protected

- 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

2021 Total Shareholder Return of Nasdaq 300 Companies



BLACKWELLS CAPITAL

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**

EXECUTIVE SUMMARY: THE BOARD MUST EXAMINE A SALE OF THE COMPANY

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

Potential Acquirors Could Include

Types of Acquirers	Examples		
Media and Content	Disney	ViacomCBS	Comcast
Technology and Devices	Apple	amazon	Google
Sporting Goods	adidas	lululemon	Nike
Online Subscriptions	NETFLIX	Spotify	SiriusXM

PELOTON INTERACTIVE, INC.

Peloton is an Attractive Business

BLACKWELLS CAPITAL

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

DISRUPTIVE BUSINESS UPENDING TRADITIONAL HEALTH & FITNESS MODELS

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

Global Digital Disruption

	Disrupted	Disruptor
Movies	~40,000 local and regional theater operators	Amazon, Apple, HBO, Disney, Netflix
Video Games	~13,000 local and regional dedicated arcades	Nintendo, Microsoft, Sony
Music	~3,300 independent record stores	Amazon, Apple, Spotify
Books	~38,500 local and national bookstores	Amazon, Apple
Fitness	~36,500 health clubs and boutique fitness operators	Peloton

Source: Company website and Company filings.

LARGE ADDRESSABLE MARKET IN EARLY INNINGS OF MARKET PENETRATION

Numerous drivers as Peloton transitions from a largely US bike business into a global fitness platform

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**

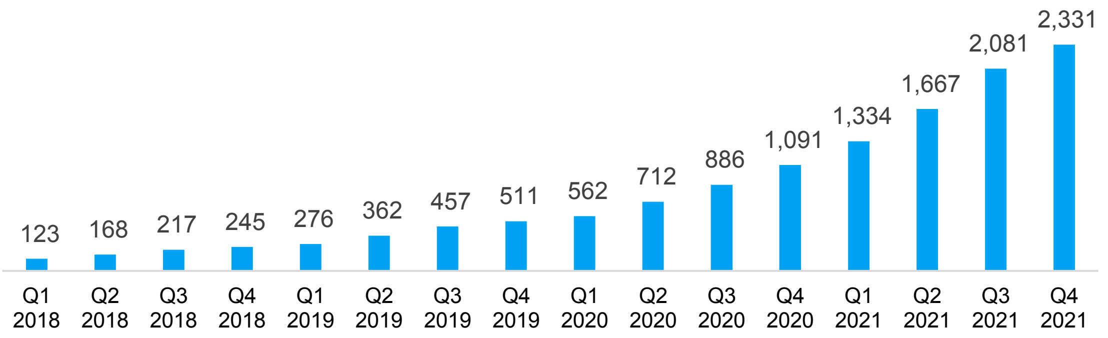
Expanded Connected Fitness Product Portfolio

Source: Global Wellness Institute, Gym membership data per JPMorgan Equity Research, BMO Connected Fitness Primer, Livestrong.com.

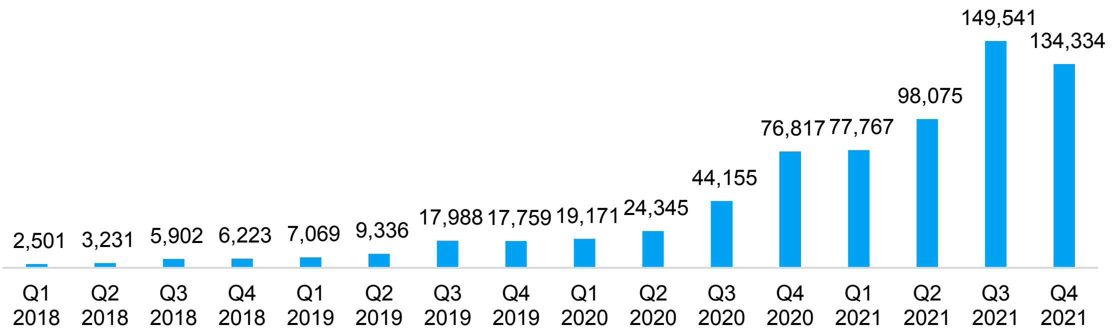
HIGHLY ENGAGED SUBSCRIBER BASE WITH LOW CHURN & SAAS BUSINESS UNIT ECONOMICS

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

Connected Fitness Subscribers



Total Workouts



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

BLACKWELLS CAPITAL

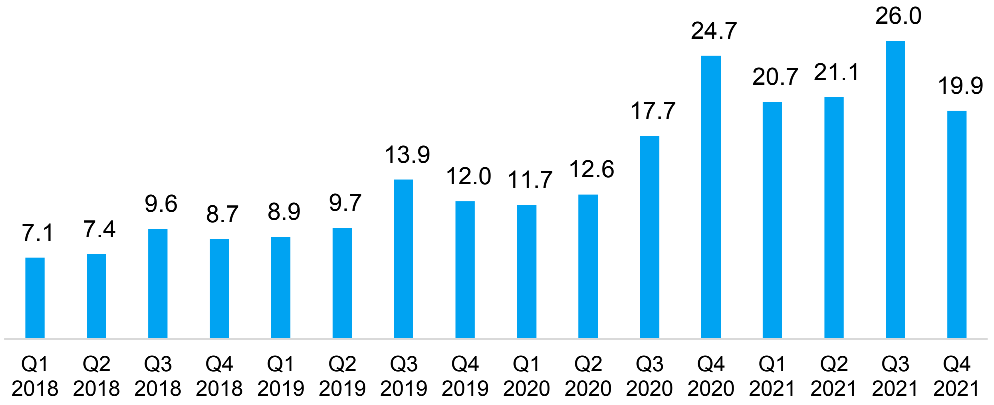
Source: Company filings.

POWERFUL NETWORK EFFECTS

"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

Monthly Workouts Per Subscriber



Instructors Instagram Followings

Robin Arzon	Ally Love	Cody Rigsby	Emma Lovewell	Jess King	Alex Toussaint	Kendall Toole	Matt Wilpers	Erik Jager	Hannah Corbin
946 k	**826 k**	**1 m**	**555 k**	**412 k**	**536 k**	**632 k**	**218 k**	**82.5 k**	**213 k**

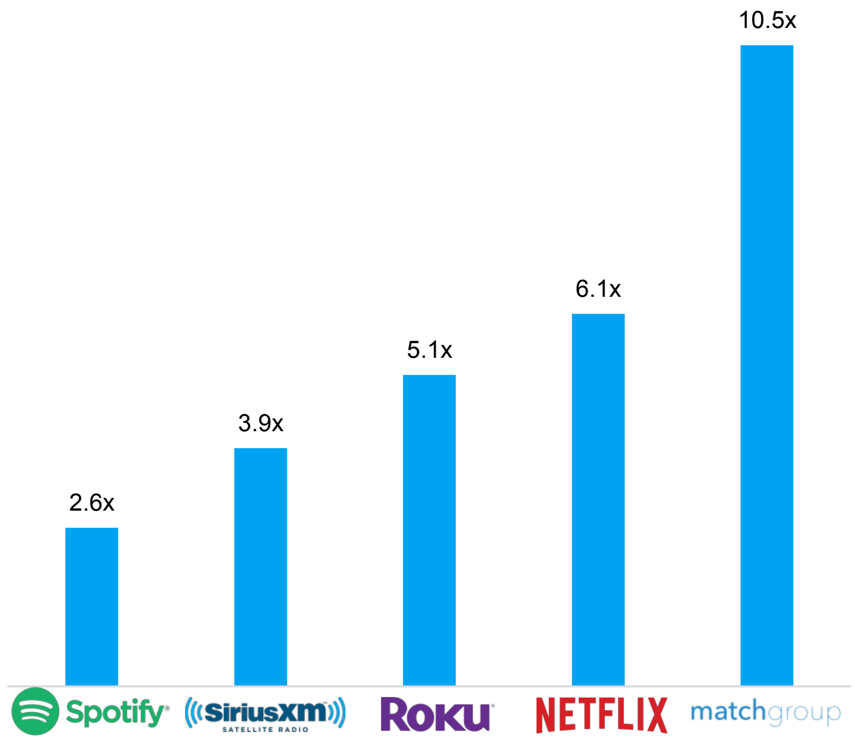
Source: Company filings and Instagram. Instagram follower data as of February 4, 2022.

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**

Peloton Est. Revenue ($ in million) FYE 6/2023		**$4,986**	
EV/Revenue Multiple	**4x**	**5x**	**6x**
Implied Share Price	**$57.79**	**$72.77**	**$87.75**

Peers EV / NTM Revenue



BW BLACKWELLS CAPITAL

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.

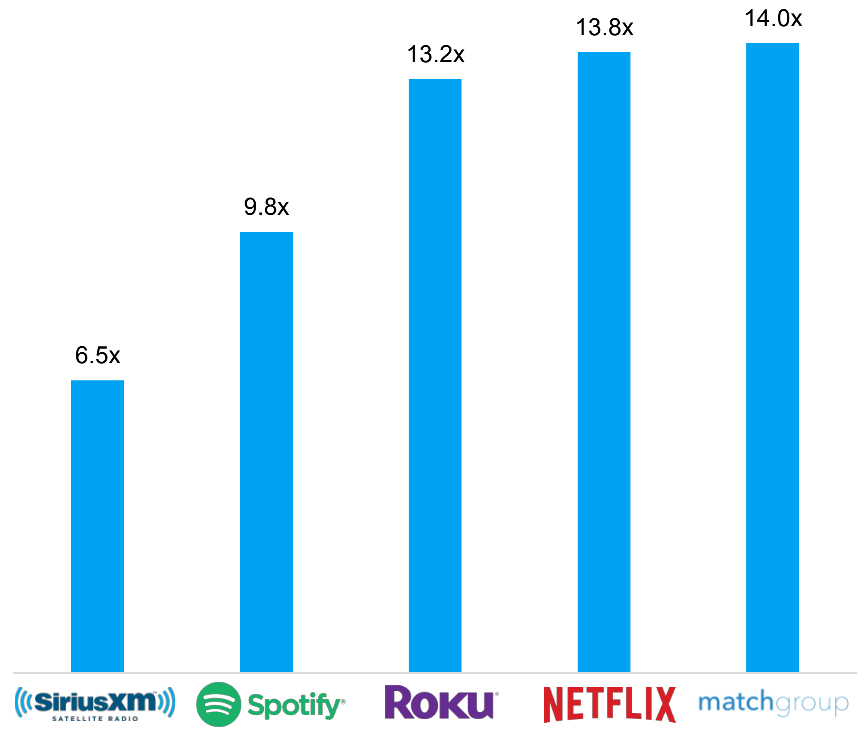
PELOTON STOCK IS UNDERVALUED: EV/GROSS PROFIT

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**

Peloton Est. Gross Profit ($ in millions) FYE 6/2023		**$2,047**	
EV/Gross Profit Multiple	**10x**	**12x**	**14x**
Implied Share Price	**$59.36**	**$71.66**	**$83.96**

Peers EV / NTM Gross Profit



BW BLACKWELLS CAPITAL

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 INTERACTIVE, INC.

Peloton’s Underperformance

PELOTON'S STOCK HAS PERFORMED POORLY

Peloton One-Year Stock Price Performance

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

JOHN FOLEY BELIEVES PELOTON IS PERFORMING WELL

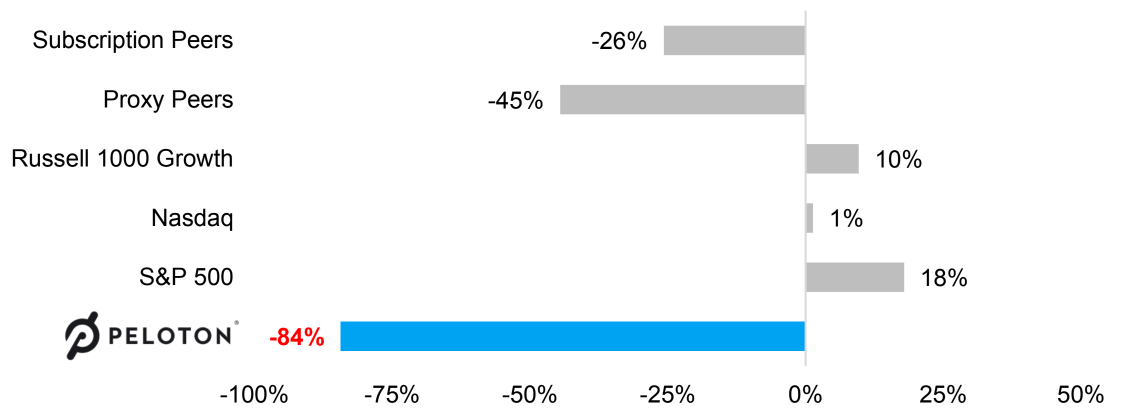
“**We think we are playing chess where others are – to be honest, aren’t even playing checkers.**”

John Foley
September 22, 2021

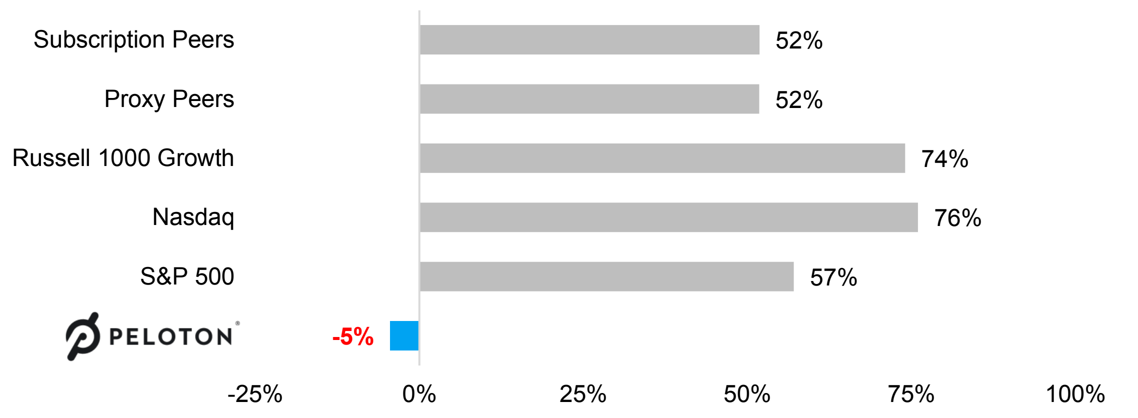
Source: Peloton Interactive Goldman Sachs Communacopia Conference transcript.

YET, PELOTON'S RELATIVE SHAREHOLDER RETURNS HAVE BEEN ABYSMAL…

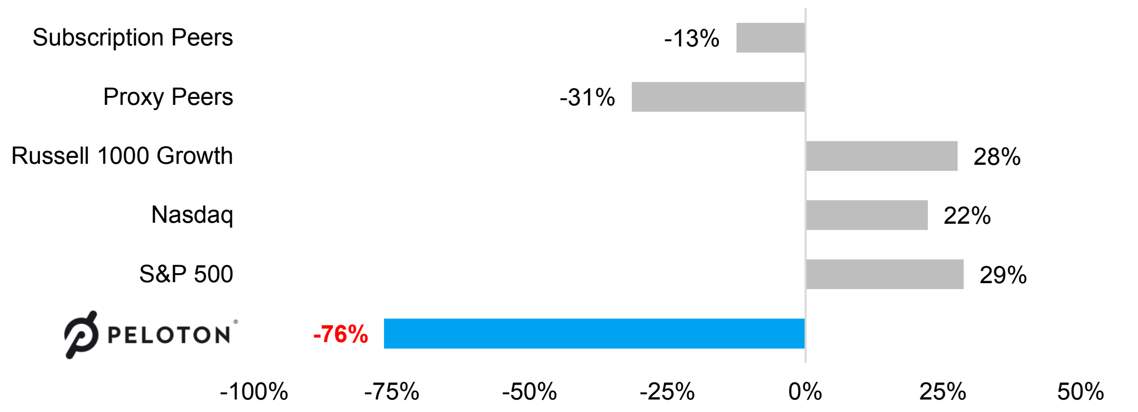
1-Year Total Shareholder Return



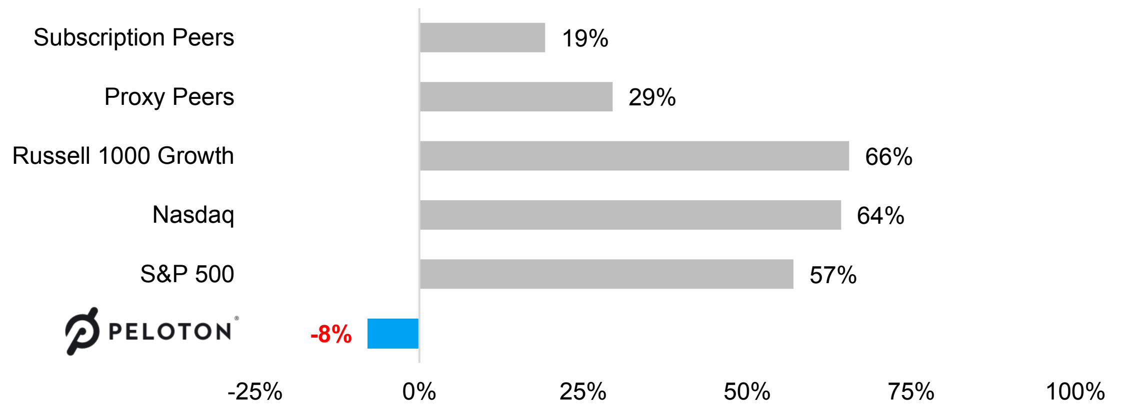
Total Shareholder Return Since IPO



2021 Total Shareholder Return



Total Shareholder Return Since March 2020



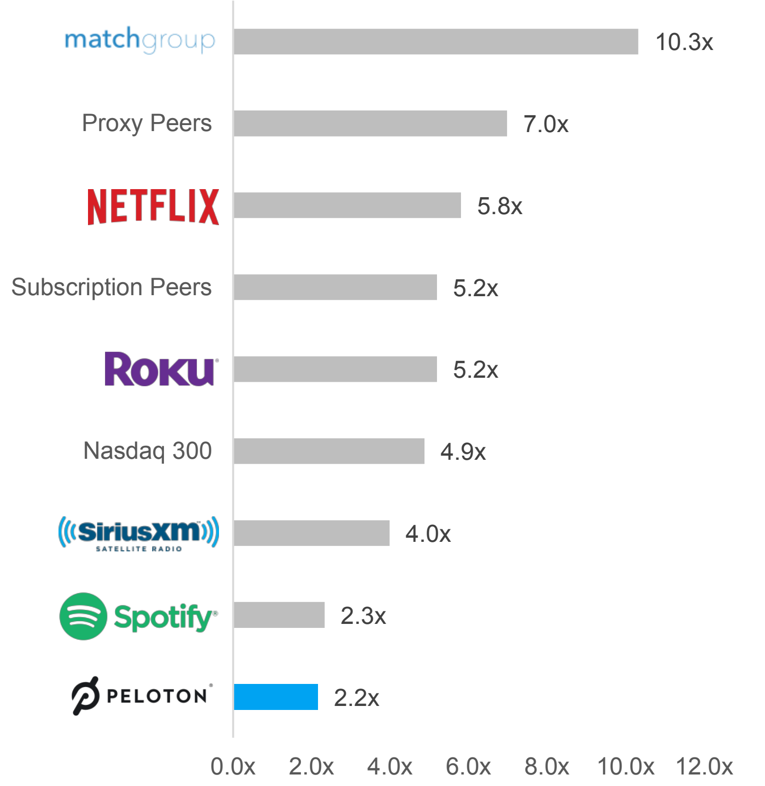
BLACKWELLS CAPITAL

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.

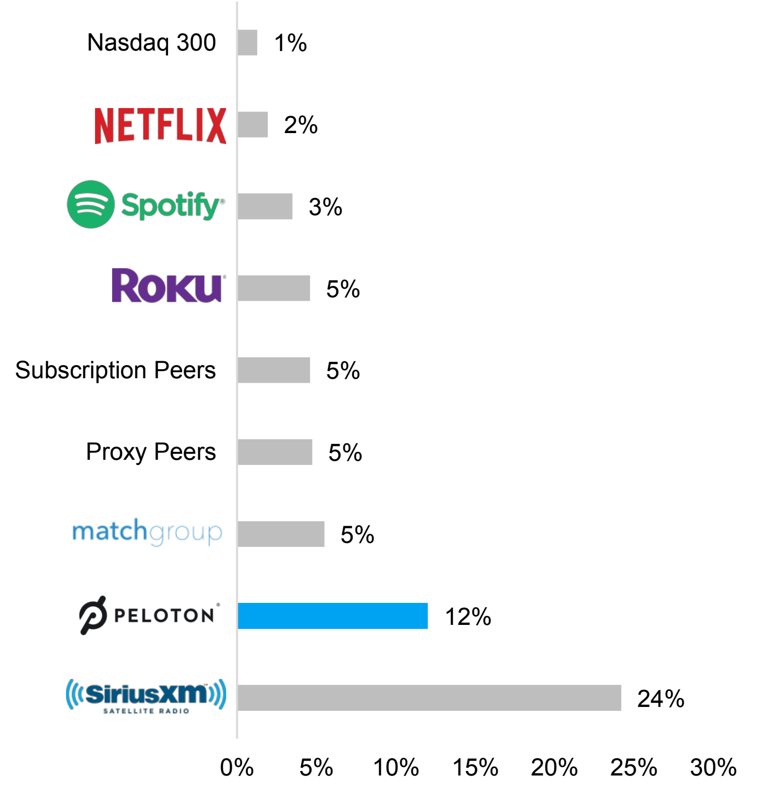
…AND INVESTORS AND ANALYSTS REMAIN SKEPTICAL

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

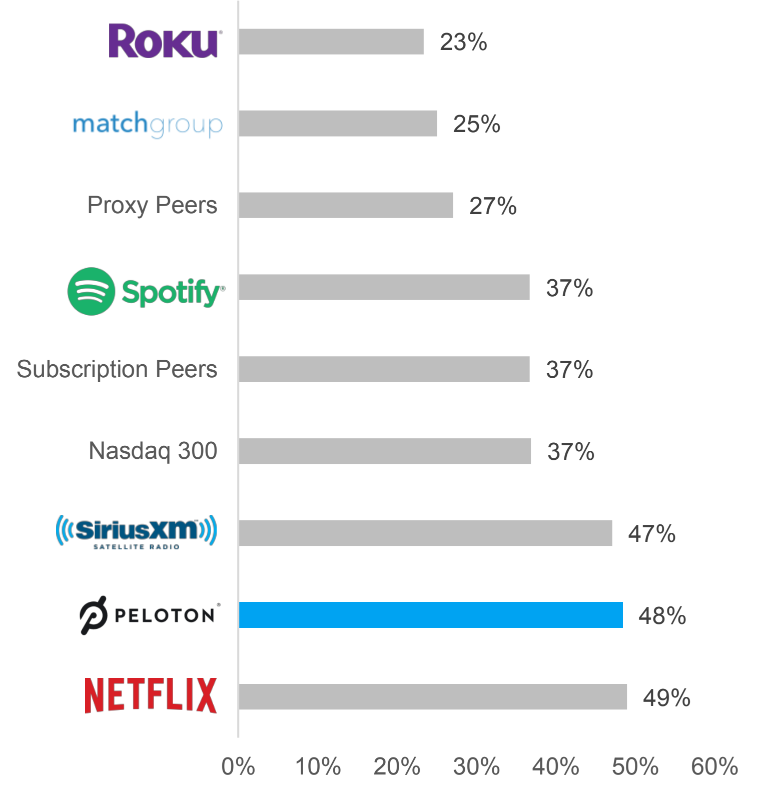
EV/2022E Revenue



Short Interest



% "Sell" or "Hold" Ratings



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

BLACKWELLS CAPITAL

PELOTON'S UNDERPERFORMANCE IS DUE TO MISMANAGEMENT

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

1	**Lack of Qualification:**	CEO John Foley is right to be insecure about his capabilities and qualifications
2	**Poor Decision Making:**	Mr. Foley has made a series of poor decisions relating to product, pricing, demand, safety and capital allocation
3	**Lack of Financial Discipline:**	Under Mr. Foley's management, the Company suffers from a lack of financial discipline and ineffective internal controls
4	**Misalignment of Interests:**	Mr. Foley's interests and incentives are misaligned with employees and shareholders
5	**Loss of Credibility:**	Mr. Foley has lost credibility with discontent employees, shareholders and analysts

1 LACK OF QUALIFICATION: FOLEY ON FOLEY

"I think I'm not a very good manager"[1]

"I interview almost nobody"[2]

TIME Interview with John Foley, Peloton CEO[3]

Is there anything about being CEO that you don't like, that you like to delegate?

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.**"

How would your colleagues, your co-founders, describe your strengths as a manager?

John Foley's Response

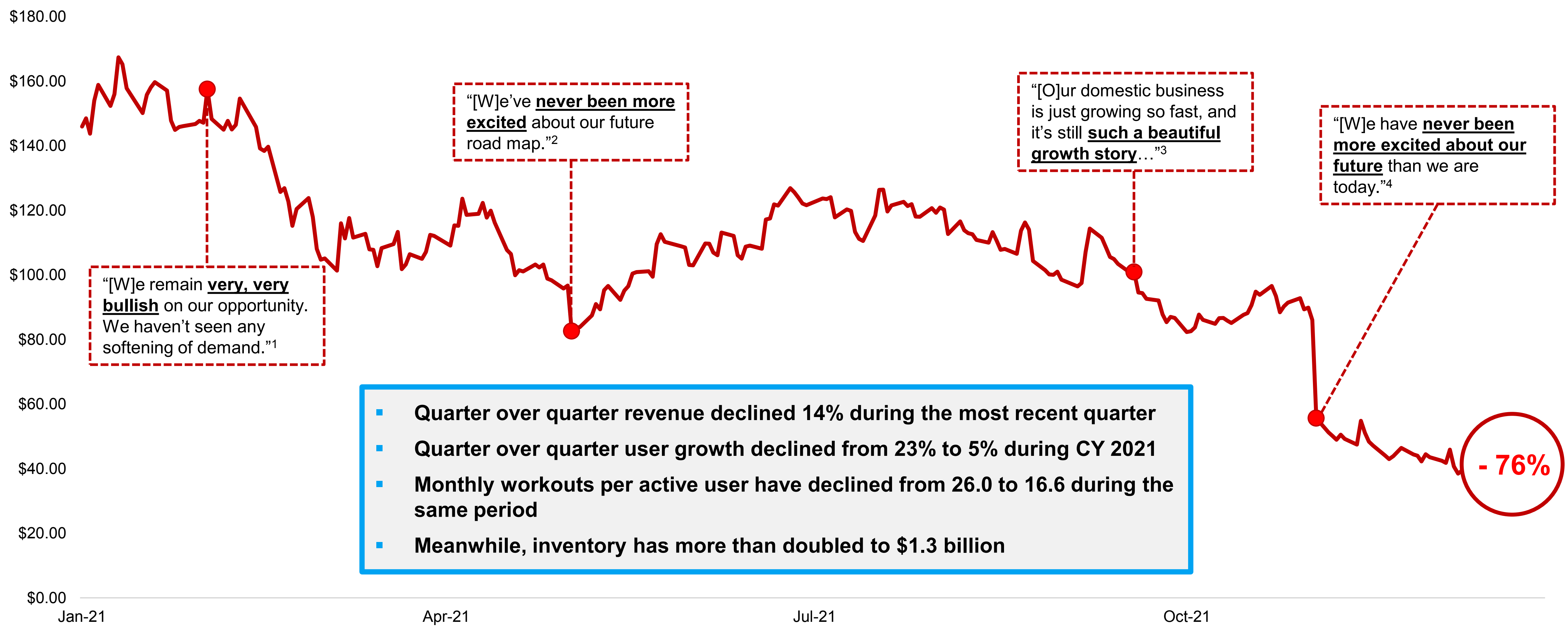
"I'm not sure they'd say I have many strengths at all."

BLACKWELLS CAPITAL

1. ABC News interview, May 5, 2016: https://abcnews.go.com/Business/peloton-fitness-apple-technology/story?id=38886911.
2. LinkedIn interview, March 13, 2019: https://www.linkedin.com/pulse/one-believed-pelotons-ceo-he-built-company-heres-how-john-daniel-roth/
3. Time Magazine interview, May 26, 2020: https://time.com/5839552/peloton-ceo-john-foley/

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

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**

BW BLACKWELLS CAPITAL

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.

2 POOR DECISION MAKING: INCONSISTENT GO-TO-MARKET STRATEGY

"What's the optimal price point, $1000?"[1]

"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

---

August 26, 2021

CNBC

Peloton is slashing the price of its Bike by hundreds of dollars to $1,495

PUBLISHED THU, AUG 26 2021-4:04 PM EDT | UPDATED THU, AUG 26 2021-8:27 PM EDT

Lauren Thomas
@LAURENTHOMAS

SHARE

KEY POINTS

- Peloton said it's cutting the price of its less expensive Bike product by about 20% to $1,495, starting Thursday.
- The price drop will also take effect in the U.K., Canada, Germany and Australia.
- When the company debuted its Bike+ machine last September at $2,495, it cut the original Peloton Bike's price from $2,245 to $1,895.

January 18, 2022

THE WALL STREET JOURNAL.

BUSINESS

Peloton Bikes, Treadmills Are About to Cost You More

By Camille Furst Follow
Updated Jan. 18, 2022 4:36 pm ET

The prices people pay for some Peloton Interactive Inc. PTON 2.52% ▲ products are about to increase.

The at-home fitness company, hurt by slowing demand, is set to start charging customers hundreds of dollars in delivery and setup fees for its basic stationary bike and treadmill products, according to a banner notice on its website.

1. Interview question to Mr. Foley regarding pricing: "Peloton CEO John Foley Talks Cheaper Bikes and Making the Most of Staying Home", Time Magazine, May 26, 2020.

2 **POOR DECISION MAKING:** INABILITY TO FORECAST DEMAND

“ **The actual hardware sales are incredibly predictable. It’s a beautiful business.** ” [1]

- 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.”[4]
- But then demand slowed. Foley noted (at the same February conference): “**We're now making more bikes and treads than we're selling**”[4]
  - “One employee said warehouses resembled ‘jigsaw puzzles’ with **employees trying to figure out where to stuff another bike**.”[2]
- Peloton has now been forced to moth-ball production[2]

“How [do] you envision managing, meeting the incredible demand that you’re seeing now versus the risk of overbuilding [supply]…”

John Foley’s Response

“[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.”[3]

BW BLACKWELLS CAPITAL

1. Source: John Foley on CNBC. November 5, 2019. https://www.youtube.com/watch?v=jZO-IBmp39o
2. Source: https://www.businessinsider.com/leaked-slides-show-peloton-planning-production-pause-2022-1.
3. Mr. Foley responding to a question from a Goldman Sachs analyst on Q4 2020 Earnings Call.
4. Mr. Foley at Goldman Sachs Investor Conference, February 11, 2021.

2

POOR DECISION MAKING: DISASTROUS BUNGLING OF TREADMILL SAFETY ISSUES

The New York Times

Child Dies in Accident Involving Peloton Treadmill [1]

April 17

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."*[2]

April 17

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+…**"*[3]

May 5

Peloton Belatedly Acknowledges Issues and Apologizes

Statement from John Foley

*"**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.**"*[4]

Foley's lack of leadership has jeopardized health and safety

BW BLACKWELLS CAPITAL

1. Source: https://www.nytimes.com/2021/03/18/business/peloton-tread-death.html.
2. Source: "CPSC Warns Consumers: Stop Using the Peloton Tread+": https://www.cpsc.gov/Newsroom/News-Releases/2021/CPSC-Warns-Consumers-Stop-Using-the-Peloton-Tread.
3. Source: Peloton press release issued April 17, 2021.
4. Source: https://www.onepeloton.com/press/articles/tread-and-tread-recall.

2 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…"*** [1]

  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."* [2]

- 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

MARKETS INSIDER

"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."*** [3]

1. Source: Peloton Interactive Q2 2021 Earnings Call transcript.
2. Source: Peloton Interactive Q1 2022 Earnings Call transcript.
3. Source: https://markets.businessinsider.com/news/stocks/peloton-stock-falls-below-ipo-price-production-halt-demand-drop-2022-1.

2

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.

3 LACK OF FINANCIAL DISCIPLINE: BLOATED SG&A COSTS WEIGHS ON CASH BALANCE

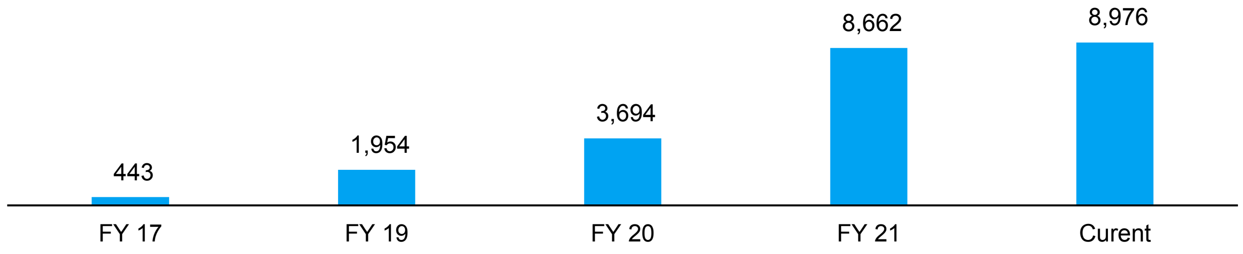
Out-of-control employee and SG&A expenses reflect a lack of discipline

- **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

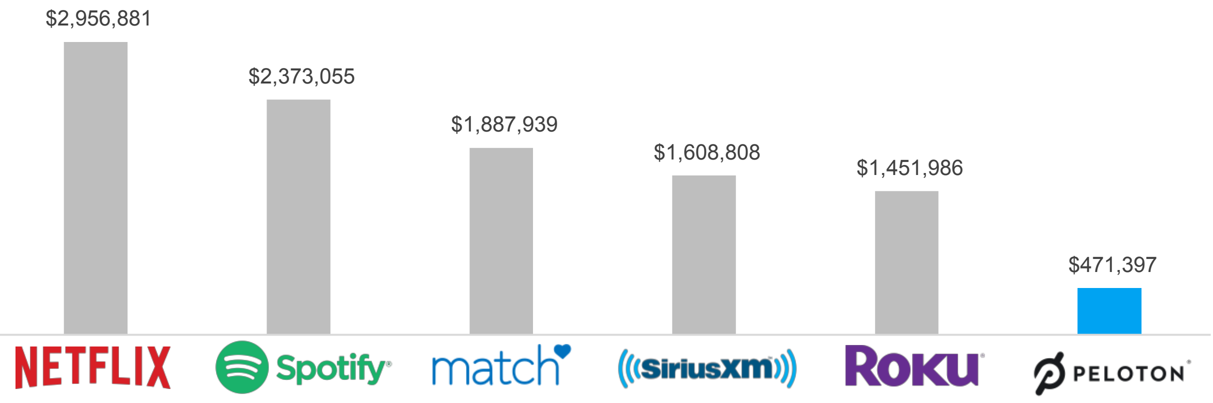
"We're insanely disciplined"[1]

– Foley, on CNBC the day of Peloton's IPO

Peloton Employee Growth 2017 – Today



Revenue Per Employee Peloton Vs. Subscription Peers



Source: CapIQ, Company filings.
1. Source: Mr. Foley on CNBC September 26, 2019: https://www.youtube.com/watch?v=L-PcR2f0EKE.

3

LACK OF FINANCIAL DISCIPLINE: INTERNAL CONTROLS ISSUES

Peloton fails to maintain adequate internal accounting controls

- 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

We have identified a material weakness in our interna
material weakness is not effective, or if we fail to dev
internal control over financial reporting, our ability to
applicable laws and regulations could be impaired.

In the course of preparing our financial statements for fisc
financial reporting. A material weakness is a deficiency, or
such that there is a reasonable possibility that a material
prevented or detected on a timely basis. The material w
concluded that this material weakness arose because our
verify that our physical inventory counts were correctly cou

To address our material weakness, we are evaluating o
implementing a global inventory count policy and standard
and implementing enhanced document review for validati
not be able to fully remediate this material

26

Source: Peloton Interactive, Inc. Fiscal Year 2021 10-K. Filed on August 27, 2021.

4 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.”[1]

- 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...”[2]

CNBC

“[Apparel] penetration into our member base is so low. How do we drive more revenue from our existing member base?”[2]

- Tim Shannehan, Global Chief Sales Officer

“[I]t’s just... the dynamic is a little awkward with Jill and John.”

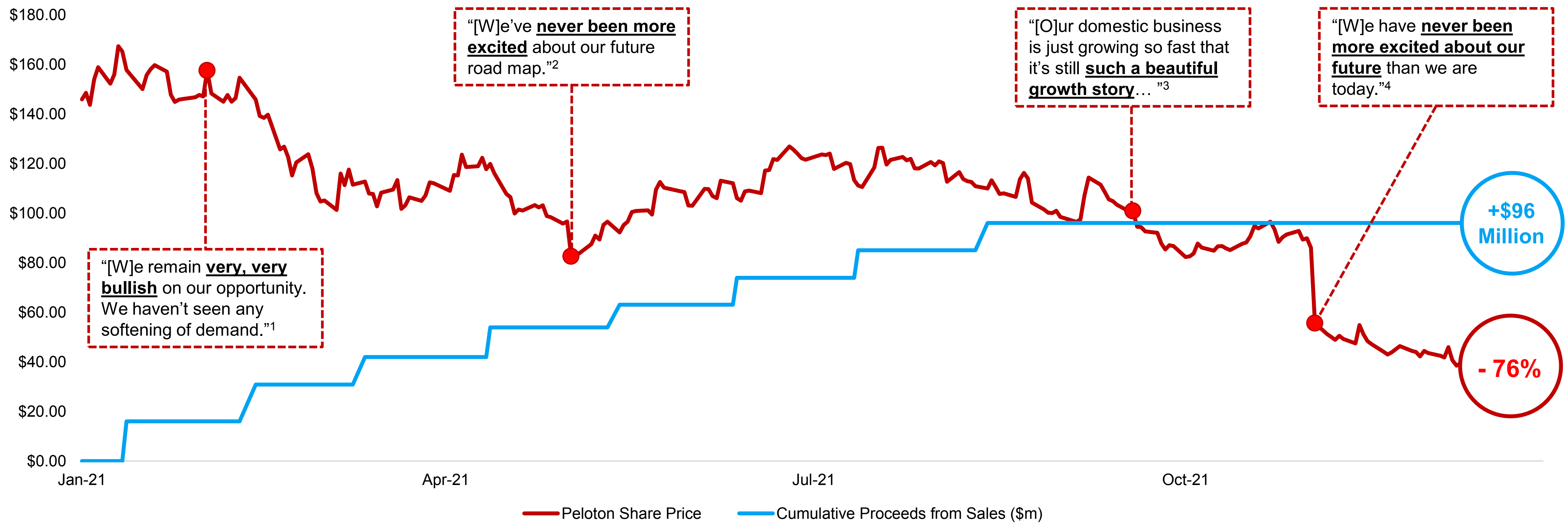
- Tim Shannehan, Global Chief Sales Officer[2]

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.

4 MISALIGNMENT OF INTERESTS: EXCESSIVE INSIDER SELLING

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



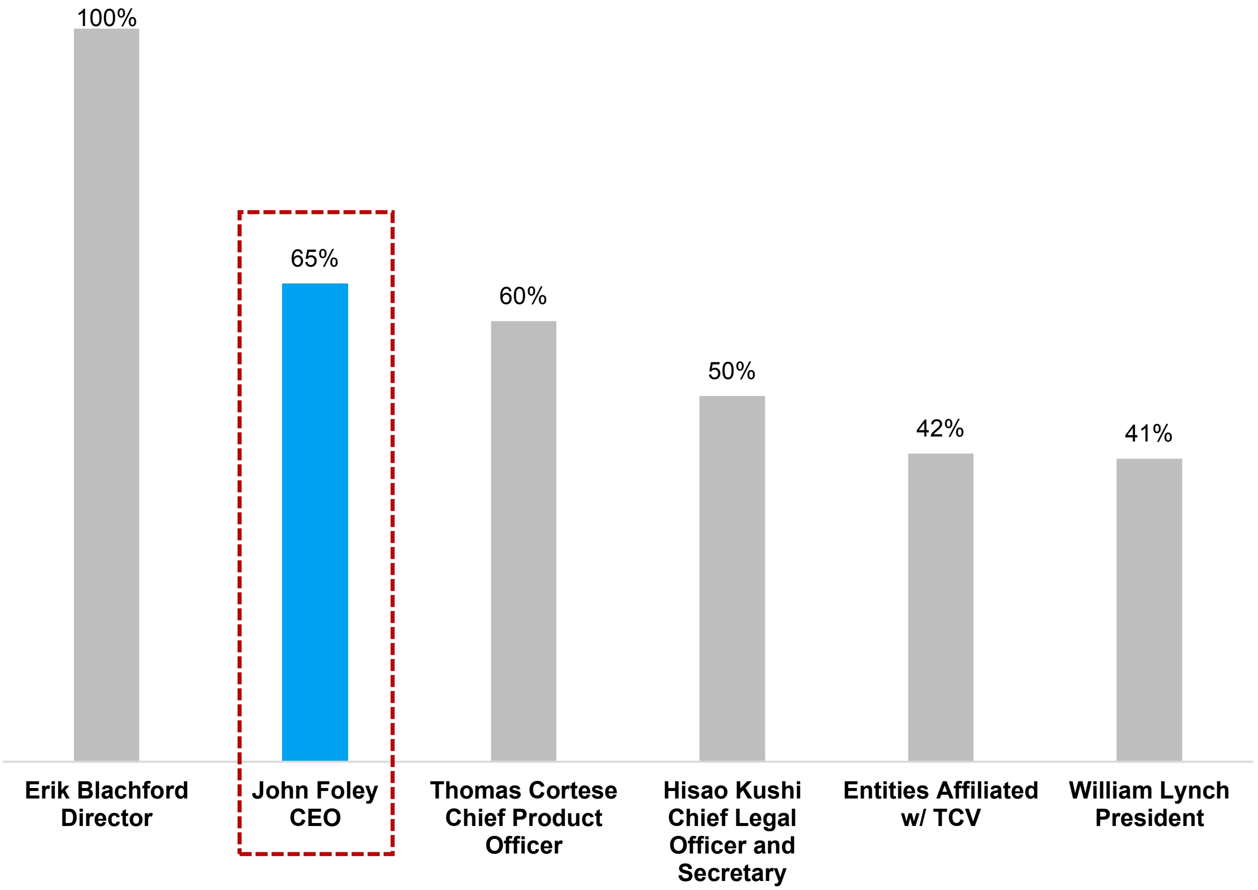
BW BLACKWELLS CAPITAL

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.

4 MISALIGNMENT OF INTERESTS: INSIDER SHARE PLEDGING

- 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**

% of Economic Interest Pledged as of September 30, 2021



Source: Company filings.
Note: Ownership excludes options and restricted stock that had not been exercised or vested as of September 30, 2021.

5 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."[1]

Bloomberg[2]

Business | Legal

Peloton's Extreme Sales Quotas Shortchanged Workers, Lawsuit Says

By Chris Dolmetsch
January 28, 2022, 12:41 PM EST

LAW | STREET[3]

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.

1. Source: https://markets.businessinsider.com/news/stocks/peloton-stock-falls-below-ipo-price-production-halt-demand-drop-2022-1.
2. Source: https://www.bloomberg.com/news/articles/2022-01-28/peloton-s-extreme-sales-quotas-led-to-unpaid- overtime-suit-says.
3. Source: https://lawstreetmedia.com/news/tech/peloton-hit-with-minnesota-wage-and-hour-class-action/.

5 LOSS OF CREDIBILITY: MISLED INVESTORS ON NEAR-TERM CAPITAL NEEDS

MarketWatch

Peloton stock dives further after $1 billion public stock offering[1]

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

Jill Woodworth, Peloton CFO

"…we don't see the need for any additional capital raise based on our current outlook."[2]

Just <u>twelve days later</u>, on November 16, 2021, **Peloton announced a new $1.1 billion public stock offering[3]**

"[Peloton] today announced the pricing of an underwritten public offering of 23,913,043 shares of its Class A common stock…"[3]


PELOTON

Peloton Interactive, Inc. Announces Pricing of Public Offering of Class A Common Stock

November 16, 2021

PELOTON

Peloton's stock declined to a new 17-month low on the news

BW BLACKWELLS CAPITAL

1. Source: https://www.marketwatch.com/story/peloton-stock-dives-further-after-1-billion-public-stock-offering-2021-11-16.
2. Jill Woodworth on Peloton Interactive Q1 2022 Earnings Call.
3. Source: Peloton Interactive, Inc. Announces Pricing Of Public Offering Of Class A Common Stock Press Release on November 16, 2021.

LOSS OF CREDIBILITY: PATTERN OF PROMOTIONAL PUFFERY

Inc.

TECHNOLOGY

Peloton's IPO Filing Reveals Years of Losses, Contradicting the CEO's Previous Claim That It Was 'Weirdly' Profitable

The seven-year-old startup reported a net loss of $245.7 million in fiscal 2019, compared with a loss of $47.9 million in 2018.

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"*[1]

"We have built a team that I believe is ***ready to run a $500 billion company. Pick a number.*** *A FAANG-style leadership team"*[2]

"I see a couple hundred million people on the Peloton platform in 15 years."[2]

1. Source: Peloton CEO John Foley: We're 'Weirdly Profitable' For A Growing, Young Company | CNBC, May 23, 2018: https://www.youtube.com/watch?v=kAdp0R8B_rU
2. Source: Time Magazine interview, May 26, 2020: https://time.com/5839552/peloton-ceo-john-foley/.

LOSS OF CREDIBILITY: VISIONS OF GRANDEUR

5

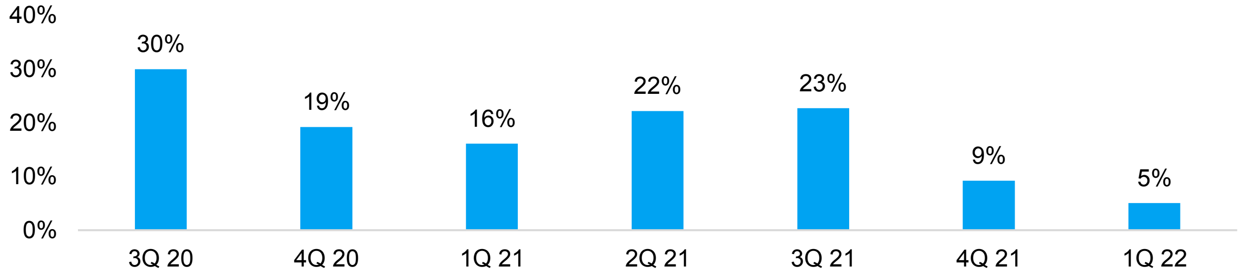
Estimates of lofty growth are at odds with the current demand environment and further erode investor trust

- Mr. Foley once claimed that Peloton could reach "a couple hundred million" members in 15 years[1]
- 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

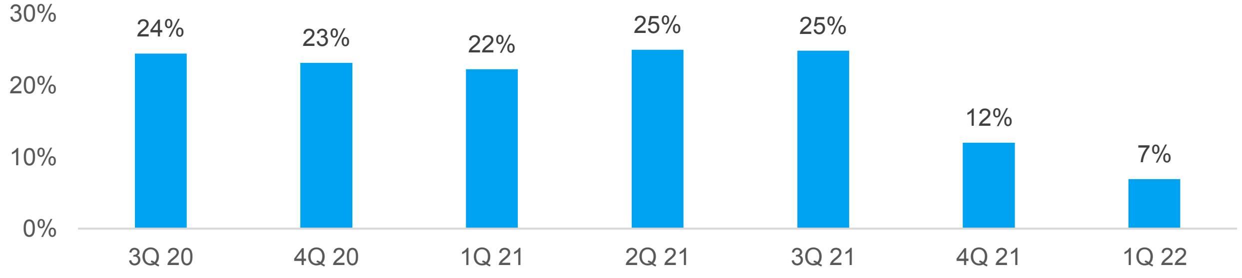
"We'll continue to be a high or hyper growth company for years and years to come"[2]

– Foley, Earnings Call, August 26, 2021

QoQ Member Growth[3]



QoQ Connected Fitness Subscription Growth[3]



BW BLACKWELLS CAPITAL

1. Source: Time Magazine interview, May 26, 2020: https://time.com/5839552/peloton-ceo-john-foley/.
2. Source: Peloton Interactive Q4 2021 Earnings Call transcript.
3. Source: Company filings.

LOSS OF CREDIBILITY: SELL-SIDE COMMUNITY IS SKEPTICAL

BMO

"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

BAIRD

"Time will be needed to restore investor confidence"

Baird Equity Research, January 20, 2022

5

LOSS OF CREDIBILITY: MANAGEMENT ADMITS IT NEEDS HELP

- 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

CNBC

RETAIL

Peloton hires McKinsey to review cost structure; cycle maker may cut jobs, close stores

PUBLISHED TUE, JAN 18 2022·9:01 AM EST | UPDATED WED, JAN 19 2022·7:06 AM EST

Lauren Thomas
@LAURENTHOMAS

SHARE

Peloton is working with management consulting group McKinsey & Co. to review its cost structure and potentially eliminate some jobs, CNBC has learned.

The possible job cuts were discussed in a recent call with members of Peloton's management team, according to a recording obtained by CNBC. The apparel division, which has seen particularly weak sales, is one area that could be targeted. The company doesn't disclose revenue from its apparel business.

Peloton is also considering asking employees at its brick-and-mortar retail stores to take customer service calls during less busy times, according to the call. At one point, a Peloton executive on the call said that 15 stores are "on the cut line." Peloton operated 123 showrooms as of June 30, in the U.S., Canada, the U.K. and Germany.

CNBC also viewed more than a dozen messages from an internal app for employees, as well as Slack messages, where workers have been discussing the expected job cuts and Peloton's plummeting stock price.

PELOTON INTERACTIVE, INC.

Peloton’s Board & Governance Lack Accountability and Alignment

BLACKWELLS CAPITAL

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.

1 PELOTON'S CORPORATE GOVERANCE IS AMONG THE WORST IN AMERICA

- X Peloton has an overall Governance QualityScore of 9/10 and a 10/10, the worst score possible, for Shareholder Rights from ISS
- X ISS recommended against every Peloton director up for election at the 2020 and the 2021 Annual Meetings
- X Peloton has the worst possible score for environmental disclosure and governance risk, and nearly the worst possible score for social and human rights disclosure
- X **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

ISS

Quality Score

10 = Highest Possible Risk

Governance	10
Environment	10
Social	9

QualityScore

Governance	10	Environment	10	Social	9
Lower Risk – Higher Risk		Higher Disclosure – Lower Disclosure		Higher Disclosure – Lower Disclosure	
Board Structure	8	Management of Environmental Risks and Opportunities	9	Human Rights	9
Compensation	10	Carbon and Climate	9	Labor, Health, and Safety	9
Shareholder Rights	10	Natural Resources	7	Stakeholders and Society	8
Audit & Risk Oversight	9	Waste and Toxicity	8	Product Safety, Quality, and Brand	5

Governance Scores As Of: Nov. 23, 2021
Last Data Profile Update: Nov. 23, 2021

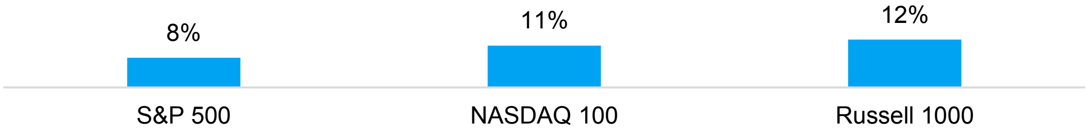
Environmental and Social Scores As Of: Nov. 23, 2021
Last Data Profile Update: July 29, 2021

Source: ISS Report, Peloton Interactive, Inc., November 23, 2021

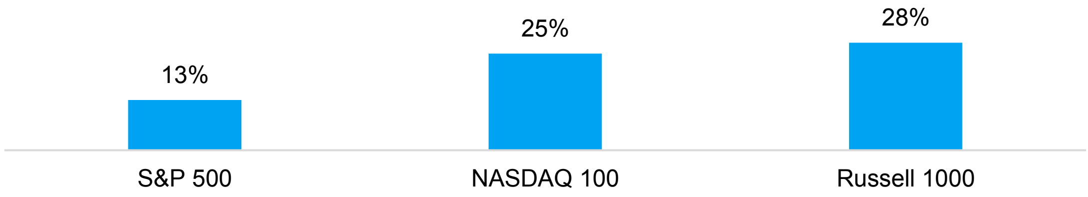
PELOTON'S CORE GOVERNANCE PRACTICES ARE OUT-OF-STEP

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

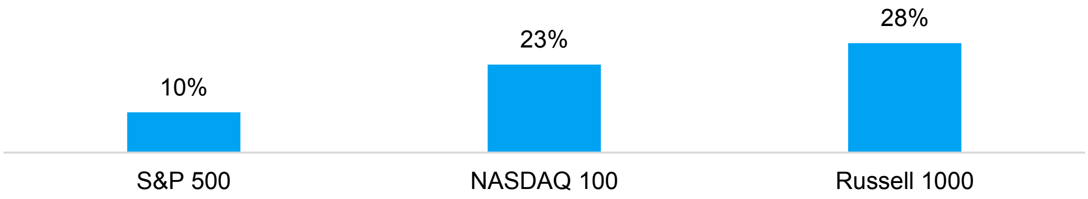
% of Companies with Dual-Class Shares with Unequal Voting



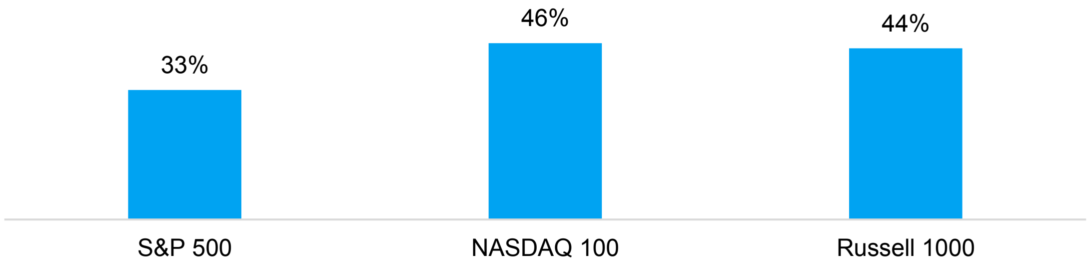
% of Companies with a Classified Board



% of Companies with No Majority Voting Standard for Director Elections



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



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

PELOTON'S BOARD LACKS TRUE INDEPENDENCE

2

John Foley

Erik Blachford

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

IAC

William Lynch

BARNES & NOBLE

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

Jon Callaghan

true Ventures

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

Jay Hoag

Zillow

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

Modern Animal

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

Pamela Thomas-Graham

RIVIAN

Ms. Thomas-Graham and Ms. Boone both currently serve as directors for Rivian

Karen Boone

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

Director		ISS Recommendation
Jon Callaghan *Independent Director*		**WITHHOLD**
Jay Hoag *Independent Director*		**WITHHOLD**

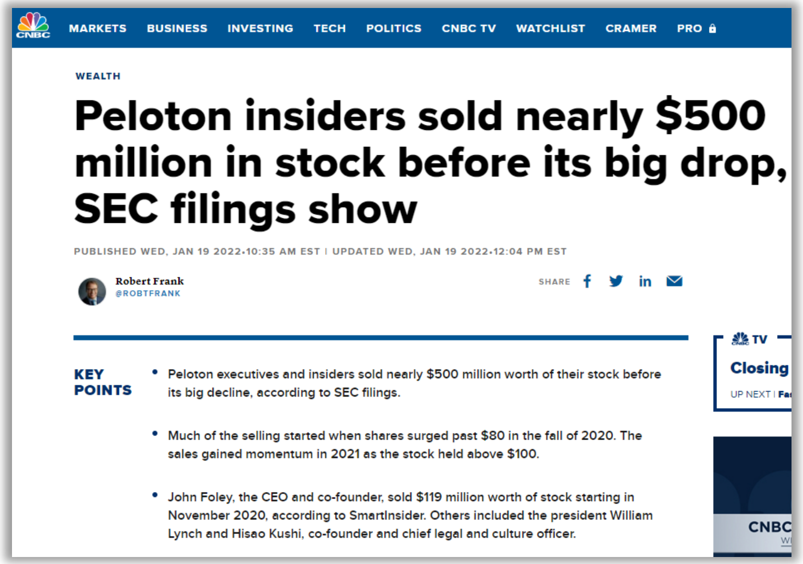
Director		ISS Recommendation
Erik Blachford *Independent Director*		**WITHHOLD**
Howard Draft *Ex-Independent Director*		**WITHHOLD**
Pamela Thomas-Graham *Independent Director*		**WITHHOLD**

Source: ISS Report, Peloton Interactive, Inc., November 20, 2020 and November 23, 2021

TROUBLING INSIDER SELLING AND PLEDGING

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

- 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**



MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV WATCHLIST CRAMER PRO

WEALTH

Peloton insiders sold nearly $500 million in stock before its big drop, SEC filings show

PUBLISHED WED, JAN 19 2022•10:35 AM EST | UPDATED WED, JAN 19 2022•12:04 PM EST

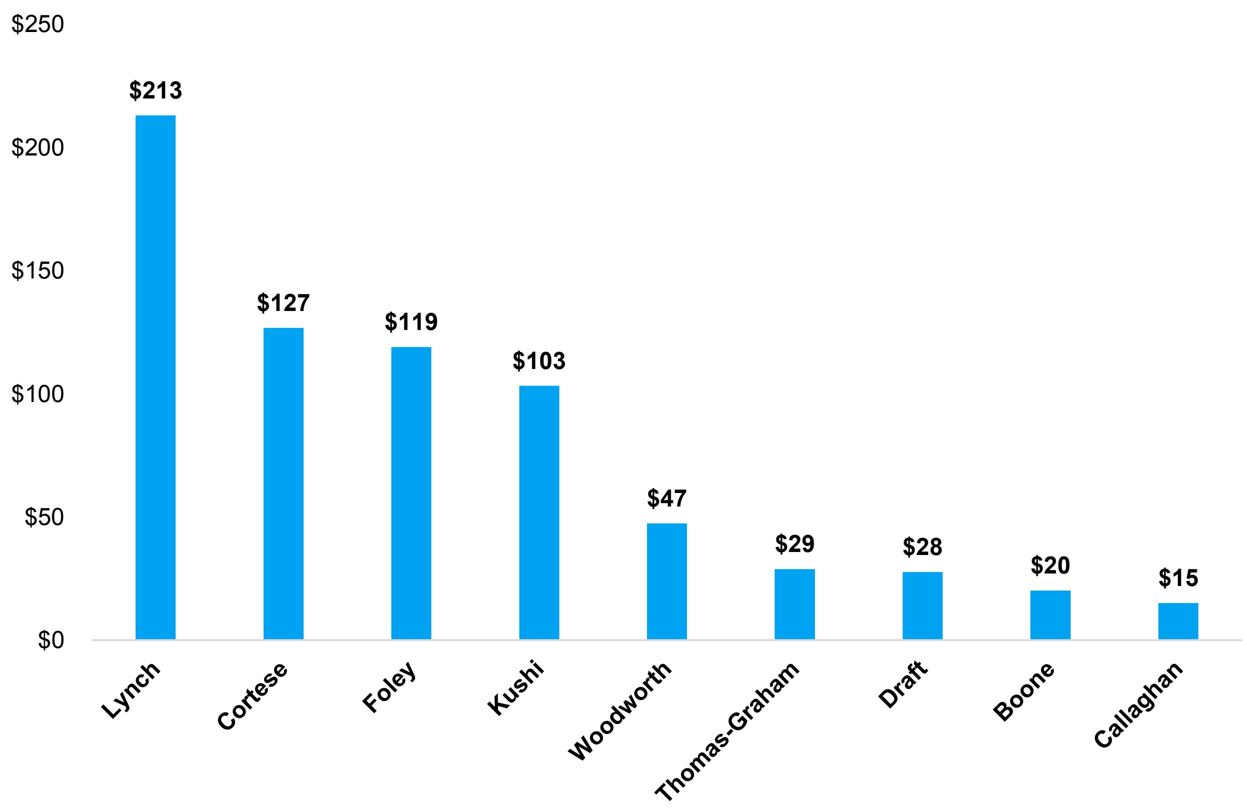
Robert Frank
@ROBTFRANK

SHARE

KEY POINTS

- Peloton executives and insiders sold nearly $500 million worth of their stock before its big decline, according to SEC filings.
- Much of the selling started when shares surged past $80 in the fall of 2020. The sales gained momentum in 2021 as the stock held above $100.
- John Foley, the CEO and co-founder, sold $119 million worth of stock starting in November 2020, according to SmartInsider. Others included the president William Lynch and Hisao Kushi, co-founder and chief legal and culture officer.

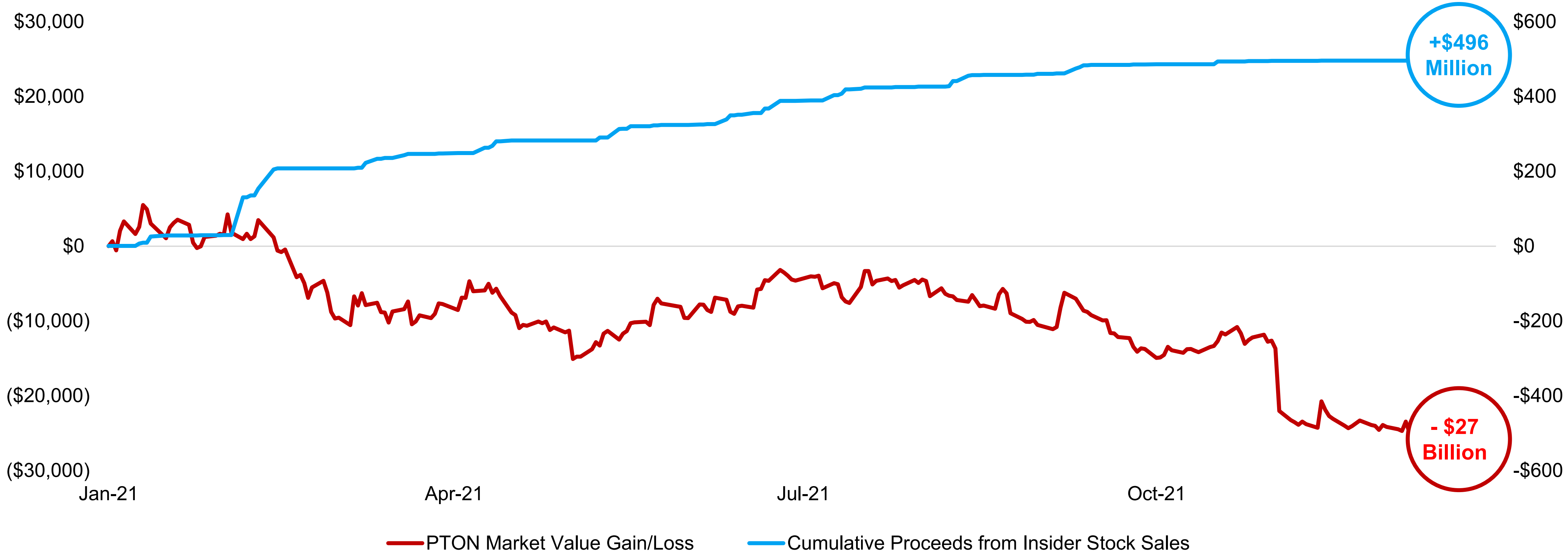
Proceeds from Stock Sales Since IPO ($ in millions)[1]



Source: ISS Report, Peloton Interactive, Inc., November 23, 2021.

TROUBLING INSIDER SELLING AND PLEDGING (CONT'D)

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



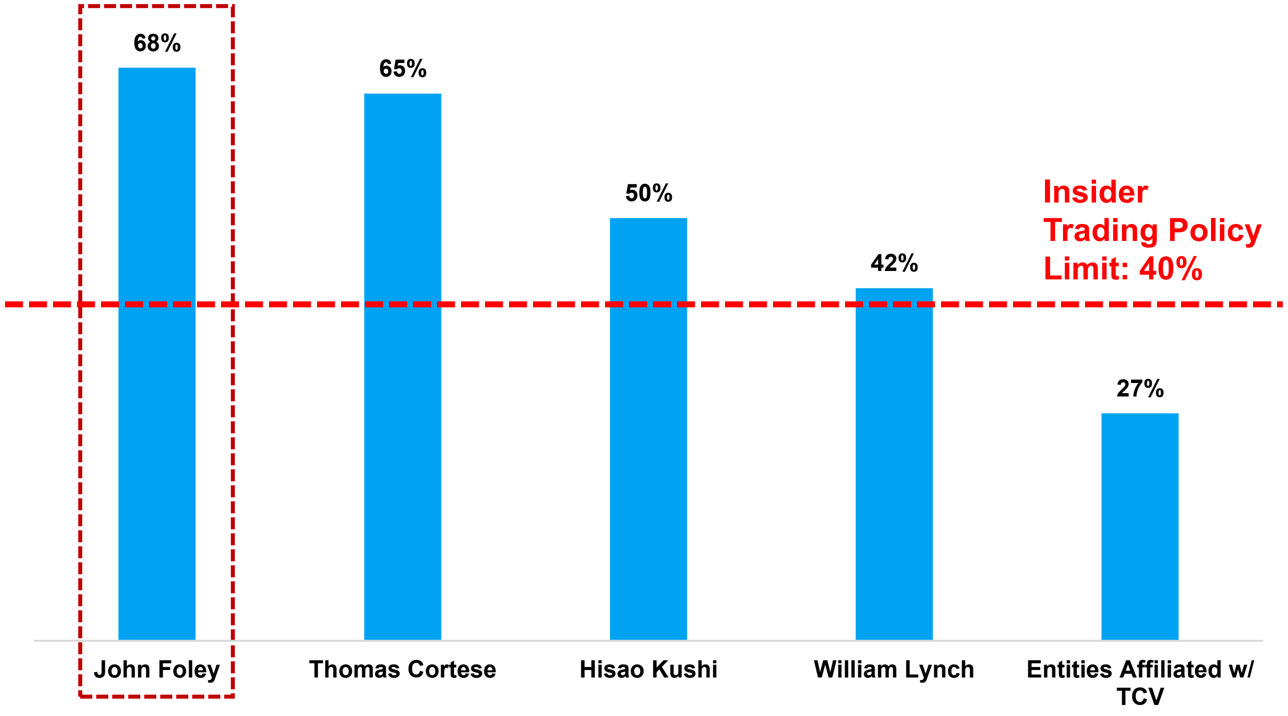
BLACKWELLS CAPITAL

Source: FactSet.

3 TROUBLING INSIDER SELLING AND PLEDGING (CONT'D)

- 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

% of Class B Shares Pledged[2]



BW BLACKWELLS CAPITAL

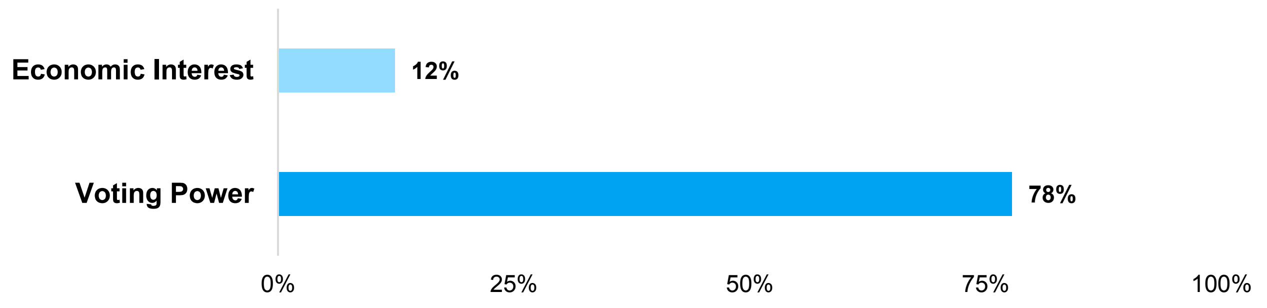
1. Based on the closing stock price of $87.05 on September 30, 2021.
2. Source: ISS Report, Peloton Interactive, Inc., November 23, 2021.

4 DUAL-CLASS STRUCTURE RESULTS IN SHAREHOLDER MISALIGNMENT

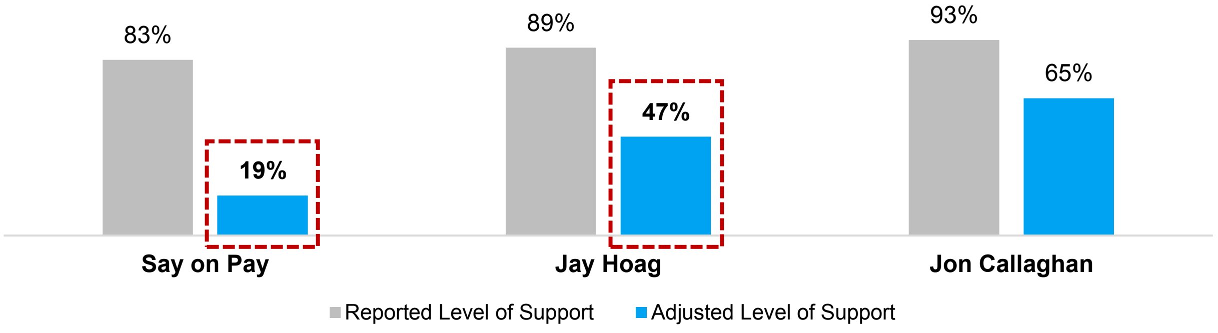
The voting power of Peloton's top five executives is vastly disproportionate with their economic interest in the Company

- 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

Voting Power of Executives vs. Economic Interest[1]



2021 Annual Meeting Reported vs. Adjusted Vote Results[2]



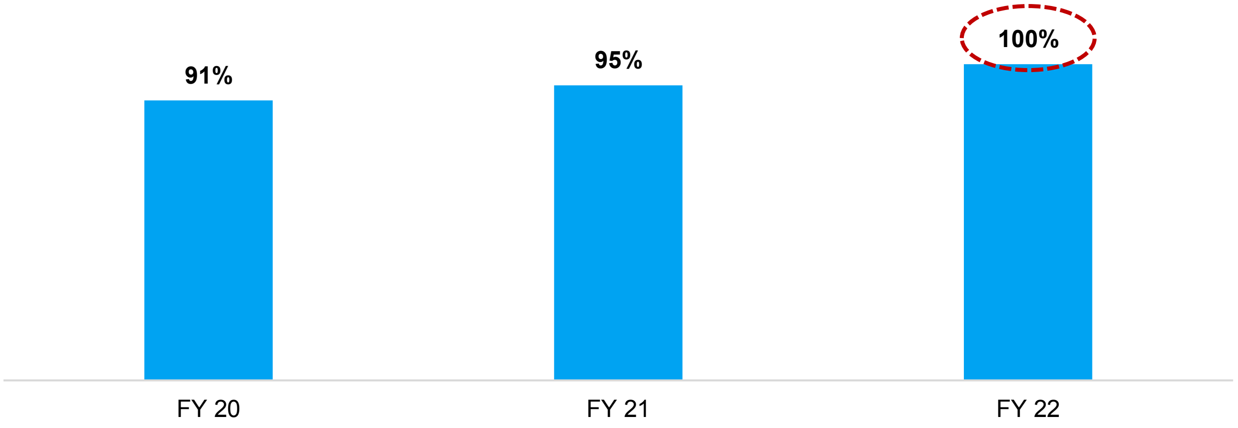
BW BLACKWELLS CAPITAL

1. Source: ISS Report, Peloton Interactive, Inc., November 23, 2021. "Executives" based on ISS' definition of "Strategic Shareholders," which include John Foley, William Lynch, Thomas Cortese, Hisao Kushi and Jill Woodworth.
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.

5 COMPENSATION STRUCTURE DOES NOT INCENTIVIZE PERFORMANCE

- 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

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



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

Source: Company filings.

PELOTON'S BOARD NEEDS TO BE RECONSTITUTED AND ITS GOVERNANCE ENHANCED

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

- 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

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

- ✓ **M&A**
- ✓ **Supply Chain Management**
- ✓ **Logistics**
- ✓ **Operations**
- ✓ **Capital Allocation**

PELOTON INTERACTIVE, INC.

The Board Should Immediately Put Peloton Up For Sale

BLACKWELLS CAPITAL

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

WEDBUSH

Company Report

February 6, 2022

Rating:
OUTPERFORM
Price:
$172.39
12-Month Price Target:
$200.00

Analysts
Daniel Ives
212-344-2073
Dan.Ives@wedbush.com
John Katsingris
212-931-7097
John.Katsingris@wedbush.com

Company Information

Market Cap (M)	$2,630,202
Enterprise Value (M)	$2,550,404
Shares Outst (M)	16,519.3
52-Week Range	$116.21 - $182.94

REV (M)			In $
FYE Sep	2021A	2022E	2023E
Q1 Dec	111,439.0A	123,945.0A	133,779.0E
Q2 Mar	89,584.0A	90,869.0E	95,073.6E
Q3 Jun	81,434.0A	83,711.5E	89,065.9E
Q4 Sep	83,360.0A	88,170.6E	95,239.9E
Year*	365,817.0A	386,696.2E	413,158.5E

EPS			In $
FYE Sep	2021A	2022E	2023E
Q1 Dec	1.68A	2.10A	2.03E
Q2 Mar	1.40A	1.38E	1.35E
Q3 Jun	1.30A	1.25E	1.38E
Q4 Sep	1.24A	1.37E	1.48E
Year*	5.61A	6.11E	6.25E
P/E	30.7x	28.2x	27.6x

Pricing data provided by Thomson Reuters.
**Numbers may not add up due to rounding.*

Apple (AAPL)

Could Apple Make a Bid For Peloton? Would Make Strategic Sense for Cupertino

The Wedbush View

With media reports swirling that Peloton could be up for sale with Amazon and Nike potential suitors, we would be shocked if Apple is not aggressively involved in this potential deal process. With Peloton stock down 80%+ from pandemic highs on the heels of demand/growth concerns, WFH waning, and a handful of execution issues (treadmill debacle), we believe there will be a handful of technology and consumer brand stalwarts circling for a potential bid with activists also pushing a sale. ***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. With ~2.8 million paid subscriptions today and a very strong/unique competitive moat, Apple acquiring Peloton would be both an offensive and defensive acquisition in our opinion.***

Apple vs. Amazon/Nike/Disney for Peloton potentially in the cards. On the defensive front, if Peloton was acquired by Amazon or Nike this would propel the winning bidder on the health and fitness front as well as gain a major foothold into the living rooms of consumers globally. With the Peloton bike and roughly 3 million subscriptions in tow, cross-selling other consumer services into the Peloton ecosystem would make a ton of strategic sense for the likes of Disney, Nike, Amazon or Apple. Within the walls of Cupertino the prospects of another stalwart getting their hands on Peloton would be a business model risk for its healthcare segment and future endeavors. On the offensive front, Apple through its Fitness + subscription service and Apple Watch strategy would be able to leverage the Peloton services and flywheel to significantly bulk up its healthcare initiatives which have been a key strategic linchpin for Cook. Clearly Apple is not an acquisitive company and outside of its Beats acquisition in 2014 for $3.2 billion has been very shy and hesitant to head down the M&A path historically speaking given the Cupertino DNA.

Peloton a unique asset and customer base in a crowded landscape. Peloton would likely be an acquisition in the $12 billion to $15 billion range depending on timing/ competitive process in our opinion and be a very easy asset to digest into the Apple ecosystem with ~$200 billion in the treasure chest and another strong FCF year ahead. We believe Peloton is a unique asset that would fit well into Apple's golden consumer ecosystem which makes us believe Cupertino could be a real bidder for this asset. Importantly, Apple may be forced into this deal if Amazon, Nike, or potentially Disney aggressively goes after Peloton in a defensive blocking strategic move. We look forward to hearing more about any updates on this potential process over the coming weeks/months with the Peloton sweepstakes having a ripple impact across the fitness/healthcare competitive environment for years to come if a formal/informal bidding process does kick off.

We maintain our OUTPERFORM and $200 price target on Apple.

Page 1

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."

REUTERS

Peloton surges on reports of buyout interest from Amazon, Nike

FILE PHOTO: A Peloton exercise bike is seen after the ringing of the opening bell for the company's IPO at the Nasdaq Market site in New York City

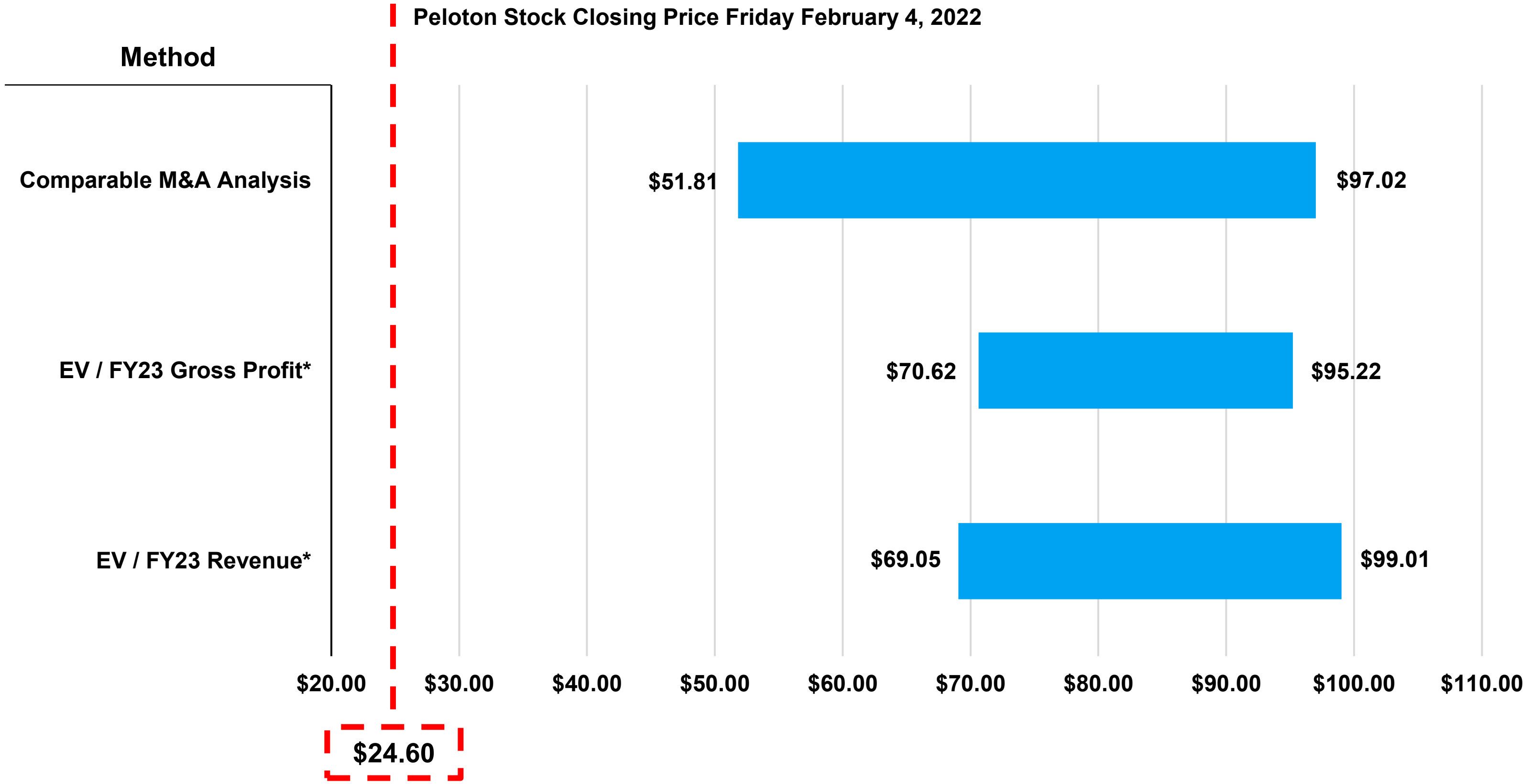
Source: Wedbush Equity Research, February 6, 2022.

POTENTIAL STRATEGIC ACQUIRORS FOR PELOTON

		PTON Subscriber Base Valuable	Existing Health & Fitness Business	Cost Synergies	Can Lower Cost of Customer Acq.	Complementary Hardware / Wearables	Ability to Sell Additional Products
Sporting Goods	adidas	✓	✓	✓	✓	✓	✓
Sporting Goods	Berkshire Hathaway Inc.	✓	✓	✓	✓	✓	✓
Sporting Goods	lululemon	✓	✓	✓	✓	✓	✓
Sporting Goods		✓	✓	✓	✓	✓	✓
Content and Subscription	amazon	✓	✓	✓	✓	✗	✓
Content and Subscription	Meta	✓	✗	✓	✓	✓	✓
Content and Subscription	Google	✓	✓	✓	✓	✓	✓
Content and Subscription	Disney	✓	✗	✓	✓	✗	✓
Content and Subscription	COMCAST	✓	✗	✓	✓	✗	✓
Content and Subscription	FOX	✓	✗	✓	✓	✗	✓
Content and Subscription	VIACOMCBS	✓	✗	✓	✓	✗	✓
Content and Subscription	Discovery	✓	✗	✓	✓	✗	✓
Content and Subscription	NETFLIX	✓	✗	✓	✓	✗	✓
Content and Subscription	Spotify	✓	✗	✓	✓	✗	✓
Content and Subscription	SiriusXM	✓	✗	✓	✓	✗	✓
Technology		✓	✓	✓	✓	✓	✓
Technology	SoftBank	✓	✓	✓	✓	✓	✓
Technology	ORACLE	✓	✗	✓	✓	✗	✓
Technology	SONY	✓	✗	✓	✓	✓	✓

FAIR VALUE FOR PELOTON IN A SALE IS AT LEAST $65 PER SHARE

Illustrative Value of Peloton Using Myriad Valuation Metrics



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. Source: Company closing stock price trading session as of February 4, 2022, per Bloomberg.
* Assumes $375 million of SG&A savings at 15x, split two-thirds to Peloton shareholders.

STRATEGIC BUYERS COULD EASILY PAY $75 / SHARE

- 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

	Subscribers	Conversion of Existing Subs Required for Value Accretion	Value Creation at 2.5% Penetration of Subscribers	Value Creation at 5% Penetration of Subscribers
NETFLIX	**222 mm**	1.3%	$42 bn	$84 bn
Spotify	**180 mm**	0.3%	$45 bn	$91 bn
amazon Prime	**172 mm**	2.3%	$24 bn	$49 bn
Disney+	**118 mm**	3.0%	$18 bn	$36 bn
HBO max	**74 mm**	5.2%	$11 bn	$21 bn
Paramount+	**47 mm**	20.6%	$3 bn	$5 bn
hulu	**44 mm**	8.1%	$7 bn	$14 bn
SiriusXM	**35 mm**	17.2%	$3 bn	$6 bn

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

Conclusion

CONCLUSION

Urgent action is needed to protect shareholder value

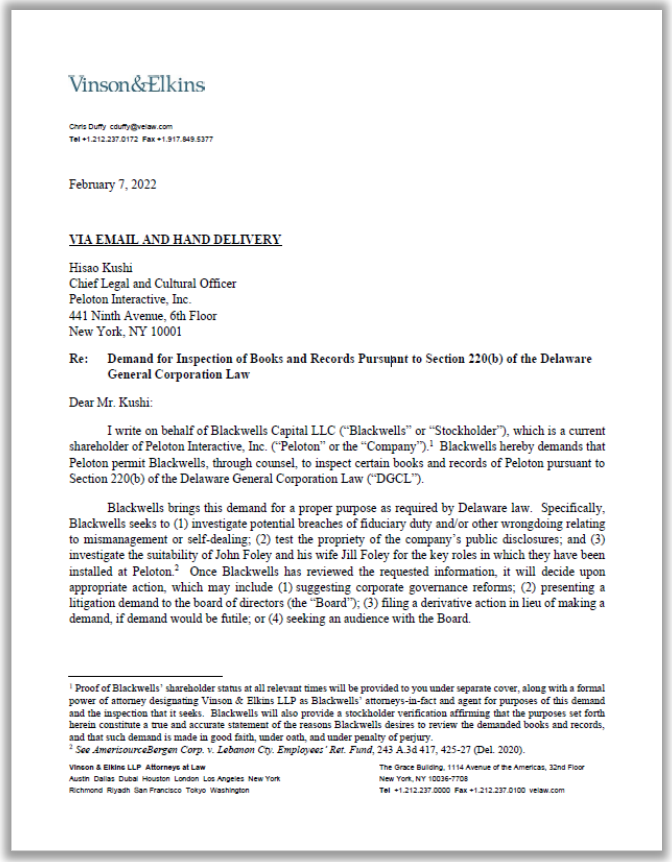
Issue	Key Considerations	Action Item	When?
Peloton has been horribly mismanaged, with unbridled enthusiasm taking the place of disciplined leadership	• Failures to manage pricing, product safety, manufacturing capacity, capital allocation, real estate, SG&A costs, productivity and culture • Significant misalignment of interest between management and shareholders	▪ **Fire CEO, John Foley** ▪ **Fire CFO, Jill Woodworth**	RIGHT NOW
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	▪ **Run strategic alternatives process**	RIGHT NOW
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	▪ **Eliminate dual-class voting** ▪ **Change Board composition** ▪ **Improve governance**	RIGHT NOW

SHAREHOLDERS DESERVE MORE INFORMATION

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

Blackwells' Demand to Inspect Peloton's Books and Records



Vinson&Elkins

Chris Duffy cduffy@velaw.com
Tel +1.212.237.0172 Fax +1.917.849.5377

February 7, 2022

VIA EMAIL AND HAND DELIVERY

Hisao Kushi
Chief Legal and Cultural Officer
Peloton Interactive, Inc.
441 Ninth Avenue, 6th Floor
New York, NY 10001

Re: Demand for Inspection of Books and Records Pursuant to Section 220(b) of the Delaware General Corporation Law

Dear Mr. Kushi:

I write on behalf of Blackwells Capital LLC ("Blackwells" or "Stockholder"), which is a current shareholder of Peloton Interactive, Inc. ("Peloton" or the "Company").[1] Blackwells hereby demands that Peloton permit Blackwells, through counsel, to inspect certain books and records of Peloton pursuant to Section 220(b) of the Delaware General Corporation Law ("DGCL").

Blackwells brings this demand for a proper purpose as required by Delaware law. Specifically, Blackwells seeks to (1) investigate potential breaches of fiduciary duty and/or other wrongdoing relating to mismanagement or self-dealing; (2) test the propriety of the company's public disclosures; and (3) investigate the suitability of John Foley and his wife Jill Foley for the key roles in which they have been installed at Peloton.[2] Once Blackwells has reviewed the requested information, it will decide upon appropriate action, which may include (1) suggesting corporate governance reforms; (2) presenting a litigation demand to the board of directors (the "Board"); (3) filing a derivative action in lieu of making a demand, if demand would be futile; or (4) seeking an audience with the Board.

[1] Proof of Blackwells' shareholder status at all relevant times will be provided to you under separate cover, along with a formal power of attorney designating Vinson & Elkins LLP as Blackwells' attorneys-in-fact and agent for purposes of this demand and the inspection that it seeks. Blackwells will also provide a stockholder verification affirming that the purposes set forth herein constitute a true and accurate statement of the reasons Blackwells desires to review the demanded books and records, and that such demand is made in good faith, under oath, and under penalty of perjury.
[2] *See AmerisourceBergen Corp. v. Lebanon Cty. Employees' Ret. Fund*, 243 A.3d 417, 425-27 (Del. 2020).

Vinson & Elkins LLP Attorneys at Law
Austin Dallas Dubai Houston London Los Angeles New York
Richmond Riyadh San Francisco Tokyo Washington

The Grace Building, 1114 Avenue of the Americas, 32nd Floor
New York, NY 10036-7708
Tel +1.212.237.0000 Fax +1.212.237.0100 velaw.com

Source: https://www.blackwellscap.com/wp-content/uploads/2022/02/2022.02.07-Letter-from-C.-Duffy-to-H.-Kushi.pdf

BLACKWELLS CAPITAL

CONTACT INFORMATION

Daniel W. Lawrence
Chief Operating Officer & Portfolio Manager

W. Gage Holzhauer
Executive Director | Investments

Investor Relations
IR@blackwellscap.com

Media Relations
Gagnier Communications
Dan Gagnier / Jeffrey Mathews
646-569-5897
Blackwells@gagnierfc.com