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PTON.OQ - Peloton Interactive Inc at Goldman Sachs Communacopia + Technology Conference

EVENT DATE/TIME: SEPTEMBER 12, 2022 / 9:00PM GMT

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PRESENTATION

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. Just make sure this thing's on. Here it is. Okay. I know everyone is still getting into their seats. So once everyone gets settled, we're going to get started. Our next fireside chat is with Barry McCarthy, the CEO of Peloton. Barry, it's great to see you again. It's good to see you in person and looking forward to the conversation today.

QUESTIONS AND ANSWERS

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

So Barry, I think I wanted to just take a step back. The last time many public market investors saw you, you were working with Spotify and then you came into this new role at Peloton. Maybe just for those who don't know, give a little perspective of what attracted you to the role at Peloton? What you've been sort of top-of-mind focused on in terms of executing the strategy and the turnaround since getting going in the role? And then we'll go from there.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Easy question first. So I'm sure you all know, I came out of retirement to do this gig. I was an avid Peloton enthusiast and fitness has always been a big part of my life, and this is a company that's dedicated to helping people be the best version of themselves using technology and fitness. They had fallen on some hard times, having imagined that COVID was the new normal, which, of course, proved not to be the case. And I thought I had a skill set that was particularly relevant to that business at the particular point in time, and I came out of retirement to fix it. And when I'm done fixing it, I'll go back into retirement.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. There's been a lot of talk with Peloton around what the long-term market opportunity is. And as you referenced, there was a point in time during the pandemic where they didn't have to spend in marketing, the product could sell itself, and now we find ourselves more of a post-pandemic world. How do you think about the market opportunity broadly that Peloton as a company is going after when it has the brand it does but we're obviously trying to go back to a little bit more normalized times?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

I'm not sure what the question is but let me try it this way.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Look, it -- say what you want about John Foley. He's the reason that I'm here today and he's the reason Peloton is here. He invented the Connected Fitness category, which didn't exist before his vision for it. The question is, how big a business can that become? Today, Peloton is 70-plus percent of the premium Connected Fitness category, so not much bigger than that category can support.

Today, the category is shrinking. Will it shrink over the long term? I don't think so. I think that's a post-COVID phenomenon where people are traveling, going back to gyms, sort of rediscovering the lives that they've gotten away from. But in the fullness of time, living a healthy lifestyle I think is part of our value system, part of the fabric of today's aging economy. Question is, how much bigger can we make the TAM than the premium segment? And I think quite a bit bigger using a digital product strategy and going downmarket with a good-better-best sort of pricing strategy, which we outlined on the last quarterly earnings call.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Yes. You did talk a lot about that on the earnings call. Maybe just parsing it out a little bit, when you think about good-better-best and aligning the company against segmenting the market along multiple different paths to growth, how do you think about the hardware piece versus the media offering and the pricing of the entire dynamic? When you think about how to think about how important price is versus quality of product and how it feeds back into the strategy of good-better-best.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Well, in the premium segment, it'd be a little bit like asking Apple with respect to the iPhone, how do you think about the hardware versus the software piece? I think about them being this perfectly integrated thing that gives you a great user experience. The hardware is significantly better than anybody else's hardware, and the content is uniquely different and better than is otherwise available in the marketplace. And say what you want about the way in which the business was run, the Net Promoter Scores for the product are just off the charts. And there is an enthusiasm and that commitment amongst the users for the service, the likes of which I've never seen, and I've worked for some pretty good brands, at Spotify and Netflix, and it is really stunning.

So the question is, if you don't really get the Peloton experience until you've been on a Peloton, how do I -- the challenge from a marketing perspective is, how do I communicate that to you in a marketing campaign in a way that makes it tangible and real and is a call for action for you to become a user.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

How important is it when you think about subscription offerings or being less hardware-focused and more subscription-focused over time as you think as those being the keys to maybe unlock different market segmentation?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Let me try to answer it this way. I don't think of us as being a hardware company. We're a software company. We're in the business of engineering a great user experience. And it is hardware and software dependent, that 2 need to work together seamlessly in a compelling way. We need to understand how you intend to use the platform and we need to help you discover content that is uniquely relevant to you. This is a very similar challenge to what we had at Netflix and Spotify, by the way. So managing the whole discovery process, managing the culture problem, getting you deeply engaged in content.

A very small percentage of the monetary value we collect from users, we collect when you purchase a piece of hardware, the vast majority of the lifetime value is accumulated month over month over month in the form of the $44 worth of subscription fee that you pay, and you churn at a phenomenally low rate, like 1.4% a month, which were rates that were never seen in the Spotify or the Netflix model. So the challenge for us is to, as I said earlier, broaden that TAM.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. I want to turn a little bit to probably the #1 question we get from investors is, obviously, when the company is going through a turnaround and there's pulling costs out of the business, as you've announced over the last 2 quarters, there's a lot of focus on getting to free cash flow positive. And what are some of the building blocks to get from where we are now to where you want to go over the next 6, 12, 18 months and just sustained free cash flow? Can you just help us better understand what you see as the key unlocks there to get to free cash flow? Because I think you had an interesting perspective on the earnings call that it isn't just about cutting, it's about getting back to growth to get to your longer-term goals.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

In my very first e-mail to employees, which promptly leaked to the press, which I'm proud to say, none of my other e-mails have except the ones that we leak to the press so that they would properly report on it, I said that it's not enough to just cut costs. For the business to be successful, for us to have a successful turnaround, we need to be in the growth business, and we're going to lean into growth. The question is, when are we going to start leaning into growth? And the answer to that is now. And the reason that we're able to do that is because we've, for the most part, have stopped the bleeding around all the supply-side issues and some of the other challenges that the business faced when I walked into the door. It doesn't mean to say that all those problems are behind us, but it does mean to say that we -- I think we have properly capitalized the business for the challenges ahead.

We have been engaged with productive renegotiation of supply agreements with our Taiwanese partners. We have exited first-party manufacturing, which is not consistent with the strategy of doing exclusively Connected Fitness. And we have taken steps to rightsize the cost structure of the business for the current run rate of the business. So I believe that we will reach sustained positive cash flow by the Q4 of this fiscal year, which for us ends in June. And if we haven't gotten it by then, we'll be awfully darn close.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. And now...

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

And if we do that, we'll have $1 billion of cash in the balance sheet and $500 million revolver, which we will not have drawn down on.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. Perfect. Okay. In terms of beyond just this fiscal year, do you see other avenues to rationalize the cost structure? When you think beyond this fiscal year, do you think investors should be thinking about the company is pivoting from rationalizing costs to investing for growth and be more of a growth mode rather than a cutting mode?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Yes, I do. I think investors should think -- that should be their expectation. So for the remainder of the year, we will take steps to address the cost side. But I am shifting my focus now towards growth.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. And then with that in mind, you've made the manufacturing shift; you're looking at new channels to sell products through; you're possibly even looking at a do-it-yourself model. We've talked about a lot of different ways to go to market...

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

[By which you mean] self-assembly?

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Self-assembly, yes. So when you think about some of these avenues that can be generative for growth possibly at better ROIs, what are you the most excited about in terms of those elements of growth?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Look, if I was to up-level, I would say we need to be where our customers are, wherever they shop. Is that Amazon? I don't know; maybe. There are a lot of searches on Amazon, 0.5 million a month for Peloton. So let's get started and figure out what that opportunity might look like. There are going to be other third-party retailers that we're also going to test with, and we'll see what the data shows us and then we'll iterate on the business model based on those results.

But it's like polishing the apple. It's like good governance. They're like important things to do. They're all in small incremental changes that hopefully will improve the operating performance of the business. That was super important to have lots of dials that you can choose in order to drive operating excellence. We had them in spades at Netflix. We've got a lot of irons in the fire here at Peloton.

I think your question is which of them I'm most excited about. It's actually the evolution of the business model that I've been most excited. It's not the go-to-market strategy per se. It's things like Fitness-as-a-Service and Certified Preowned and there's digital strategy, which I hope will enable purchasers of competitive hardware to be able to use our content on their devices. And that available market is just not the units that are being purchased that year, it's the entire installed base of those units.

Now why do I think that that's a fertile market for us. Well, half of the people who pay for our digital app today use our Connected Fitness content for bikes and treads on the digital app. So that means they're using it on somebody else's hardware already. But we've never marketed for that use case because we always view there is a substitution behavior for purchase of a Peloton piece of Connected Fitness. But in truth, it's not. It's a different use case. It's an entirely different price point. It's a different value proposition. And it's an opportunity for us to earn a recurring revenue stream just related to our content. And that software component of our business has a gross margin of about 67%.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. I want to come back to Fitness-as-a-Service. I know it's early days, and I think the message was loud and clear on the earnings call that you're going to have to see how this evolves and grows and matures. But what are you watching for in terms of the evolution of that as an offering out into the consumers? And what do you think could be some of the elements we should be thinking about in terms of whether it's a strategy that's bearing fruit and you want to push more aggressively behind it?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

And just to be clear, I'm over the moon excited about the potential for FaaS. But the finance side of my personality has me nervous that we've created a device of mass destruction; like everybody on the planet wants it, but the economics are going to blow us up because we can't earn money, we're shipping money out the door. So the question -- so how do you know that you can earn money, that there's a reasonable payback to be had, and let's say it recoups in 12 months or something. You have to understand what the churn rate is. And you have to have 6 months of data and the end for each month needs to be big enough so you can have statistical confidence that the variation -- confidence [in both] that enable you to understand what the churn rates is in fact likely to be.

So we're still relatively early in the process. But no question that it has broad-based appeal to folks who were concerned about making a contractual commitment for many months and making a large investment in an expensive piece of hardware. It moves them through the purchase process quickly. It's over-indexing on a slightly younger demo in the 30 to 44 age group by about 12 percentage points -- 10, 12 points. And it's skewing slightly more female, about 8 percentage points than the purchase. And those people seem to be roughly as engaged as people who have bought upfront.

Now does that mean that the churn rate will be roughly equivalent? Probably not. It will probably be a little bit higher, but the churn rate on the subscription business is so low that it could be quite a bit higher and it could still be quite economic for us. So I think we will hit the sweet spot if we come up with a product that -- a value proposition that is compelling for consumers that significantly accelerates our growth and allows us to recoup our investment somewhere in the 12- to 18-month range, after which we -- each incremental month of subscription falls to the bottom line. Spotify, in that way we recouped at about 12 months, and roughly the same thing in Netflix. So yes.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. I wanted to turn to pricing. Because it feels like you're in sort of a bit of a price discovery mode now. There's been price moves up and down in various hardware products in subscription. And I just wanted to understand a little bit better your broader overall strategy with respect to pricing. Does this feed back into the segmentation of the market? Is that the best way to look at the -- through that prism to understand better the pricing strategy? And as you've effectuated different pricing strategies, what have been some of your early key learnings as you shifted price around across your array of products?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

I would say not so much. Shortly after I arrived in March, I think we slashed pricing in order to survive. We were drowning in inventory. And we had come to understand that there was significantly more of it on the way. It posed an existential threat to the business; we had to fix it. I started managing the business for cash, very clarifying in that way. And so we dropped prices in order to move hardware.

Then we fixed the supply chain issues. We recapitalized the business, and I don't need to run it for cash anymore and so we adjusted pricing. But we adjusted pricing with this better, best -- good-better-best strategy so that we now have an offering for value consumers. Sort of a preowned FaaS of a low-priced B1 bike and then if you can afford to buy a Mercedes, we have our Mercedes for you. It's unquestionably a terrific user experience, and that's a Bike+, and it's the Tread and it's going to be the Rower. And those will afford us to be able to operate the business overall with gross margins of about 35%.

So yes, demand is price elastic. Notwithstanding that fact, we've got a premium offering because, let's face it, you're not price sensitive. And people like you weren't price sensitive. And if we have a great product, they're going to buy it regardless. So there's no point, and that's giving it away. And then there's everybody else, and we have a product solution for them now, too.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Before we get into pricing on the subscription side, how should investors think about the pricing on the hardware feeding into the broader narrative of trying to rightsize the inventory levels inside the company and solving for getting down to more normalized levels of inventory as opposed to better sort of segmenting the market for the medium to long term irrespective of the inventory?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

No, I wouldn't get -- I would just lie down till the thought passes and then get back up if I was an investor. I think you've got to rightsize unless the businesses absolutely implodes. And if it implodes, then we got a whole different set of issues. But I think given the current pricing structure, with respect to the supply-side issues and inventory, we should be just fine.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. And then turning to the subscription side where you raised prices, any early learnings of raising price on the subscription piece of the business and how you think about the elasticity around the subscription offering?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Well, I mean, consumers hate price increases, okay. But we knew that before we started. Did they hate it enough they're going to cancel? Some of them. And we saw a bunch of those people who would walk out the door. And then everybody else. The churn rate went right back to where it was. Was it...

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

We know you have some experience with it with other business models where there's a period of time churn happened and then it went and we got back to normative churn.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

So I think we're headed back to normative churn. There's a seasonal thing going on right now. But of all the things I worry about in the business, let me just say categorically, churn is not one. I mean there have been many existential threats. Churn is the best I have ever seen in any subscription business I've ever been involved with, full stop period. I mean even at 12-plus months, at Spotify and Netflix, the churn rate never got below 1.5%. And our average churn rate across the entire business is, what, spikes to 1.4%.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Yes. Understood. The digital subscription piece, when you got announced as the new leader of the business, I was intrigued to ask you this question for a while because you have such a history with digital subscription. And I think what I heard from the company from its pathway out of being public into the last couple of years was it's high churn, it's a bit of a funnel for the Connected Fitness products. But it seems now you're taking sort of a new sort of revision view of how to think about the digital subscription piece and what it might mean both for the broader funnel as maybe even a stand-alone product. Maybe help us understand a little bit the way you're sort of looking at it with a fresh set of eyes on the digital-only piece?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Sure. Well, first off, let me say we're in the process of reimagining what our digital offering should be. And there are a series of price points that are coming and product features that we haven't yet announced that is in the works. And it will include a premium offer. And that will give you a case test for what it would be like from time to time if you paid for both. And the point of the digital strategy is to broaden the TAM by making our content accessible to people who don't own Peloton hardware, like full stop. Okay.

The challenge is the unaided brand awareness for the digital app is 4%. It's the greatest app nobody has ever heard of. Why do I say it's great? Because the Net Promoter Score for it is 76%, which is unheard of. Why has nobody ever heard of it? Well, we certainly don't market it. Why we don't market it? Because we haven't wanted it to compete with the sale of and [your] decision to purchase a Peloton piece of Connected Fitness hardware. Okay. Well, if it's substitution behavior, that's relevant. But if we're grabbing incremental share, when you think about it differently, we need to move it to the top of the marketing funnel. We need to lean in and figure out whether or not we can actually increase the unaided brand awareness in a cost-effective way. That's the marketing challenge. And so that's what we're trying to sell for now.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Do you think, and I'm just sort -- do you think the digital strategy could fit into a wider narrative around maybe partnering with institutions, whether they be gyms or hotels, or corporate partners who are the owner and operator of the hardware in the Goldman gym or something like that, and the digital subscription could be a way of amplifying people underneath the umbrella of the brand?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Yes, maybe. I mean basically (inaudible) your go-to-market strategy. And so that might be one approach. The other approach is to sell to individuals. And you take your phone into Equinox and use it in Equinox, I don't have to go negotiate with Equinox a license fee agreement and with my content partners a content licensing agreement. It's going to work in a commercial venue. I just take all that complexity off the table and sell it to each of you individually. You can take it wherever you want, use it however you want. And so that's my preferred go-to-market strategy rather than the partnering.

I don't mean to suggest that -- I think there are some hardware platforms that will reach out to us and want to explore a go-to-market strategy with a direct agreement, but I think it's going to end up with us doing business directly with consumers and them taking it wherever they want.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

And last one on this topic, and then I'll move on. But do you still see the digital subscription as a bit of a gateway towards someone becoming a full-fledged Connected Fitness subscriber or a Fitness-as-a-Service subscriber over time, that it's an element of a wider purchase funnel or consumer sort of engagement funnel for the company?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

No, long story short. It's possible. But mostly, I see it as an on-ramp for us into a segment of the marketplace where we don't currently compete, the lower priced hardware being the primary occasion for use. I mean, yes, there are categories that don't require hardware: yoga, some categories of strength, running. And so yes it will be occasions for use, and yes certain people subscribe certain time. I'm imagining the primary use case will be on competitive hardware, but we'll have to see how that plays out. We want it all.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Understood. And sticking with what you just referenced there, fitness as a category is a pretty wide-ranging one. You predominantly play in the cycling and tread vertical now and then there's a lot of other offerings inside the app from a content (inaudible). And you've got -- so how do you think about an array of body weight, rowing, other elements of widening the offerings? How do you balance what you're trying to do right now as an organization, which is sort of get your costs aligned with the medium-term dynamic versus not losing sight of the long-term category and all the opportunities that it might present?

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W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Yes. Well, we see a lot of growth in the strength category. Guide is our primary offering there. It's an AI-assisted strength training basically. We continue to lean into the development of that software. Whether or not we have a broader product offering in strength is still TBD. Just go from there.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. And then you talked a little bit earlier about the evolving retail strategy. At one point, it was Peloton as a retailer with a lot of retail presence and pop-up stores, and there was a lot of talk about the LTV, the return you get out of those pop-up stores as a supplier. So you are now -- you're looking at new avenues...

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

I bought my first bike at a pop-up store, by the way. [You sound real cynical.]

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

No. So how do you think -- you talked a little bit about Amazon as an area where I was frankly stunned; that was a high search number that you gave on the call about the number of searches for the brand itself. How should we be thinking about the retail strategy broadly evolving, not only in the U.S., but also the potential for it internationally?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Well, there was a period of time when Peloton was new and consumers would find their way into a store in order to have the experience and see what it was all about. Peloton is pretty well known as a brand today and fewer consumers are finding their way into our retail stores and looks like the investment, the cost of maintaining that infrastructure isn't justified by the foot traffic. So the changes we've announced in the retail strategy is really about rationalizing the cost-benefit association.

The third-party strategies we've announced with Amazon and the other partners announced shortly is just about exploring those market opportunities to add incremental pieces to our growth. These are not one-to-one substitutes.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. Okay. And when you say a wider retail strategy, should we only be thinking in terms of e-commerce like an Amazon? Or do you think there could be physical retailers?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Physical retailers.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. Okay. Now physical retailers are probably more of a seasonal component or could that be a year-round component with some of those players?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Year-round.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. Got it. Year-round. And then just coming back to...

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

And then we'll see. It's got to work for them. It's got to work for us. The margins need to work. It needs to work for customers. But there are some that I think are -- whose brands are aligned and complementary, who can play an important role in our go-to-market strategy. So we're going to see.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. With the international footprint you have now, do you see a lot of differences in the way the brand or the subscriber base or the business operates in various jurisdictions that let you know more about how global a company Peloton could be over the medium to long term?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

No, not really. I would like to lean into the international more than we're able to lean into it. Before I joined in February, international was growing at kind of twice the rate of the U.S., which is why I'd like to lean into it, but it's expensive. And just like at Netflix and Spotify, when we launched new international markets, we lost money, and it takes a while to reach breakeven. We would lose money at Peloton, and the faster we lean into it, the more money we lose initially. And since the overarching objective of the business is the same positive cash flow, we're going to scale back the international growth.

So now, if the culture is similar to ours, it's not a big leap. The content translates nicely. Hire some local instructors, reach inflection, those kinds of things, pretty good shape. When we move to different cultures, it's not clear to me exactly how well the content and the structure of our content is going to translate. Asia, bigger problem still for us. And so we just -- I hope we have the luxury of trying to tackle that in the foreseeable future, but we haven't tackled it yet.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Yes, you bring up an interesting piece where there's both a culture and a content piece when you travel globally. How do you guys think about the content piece just English language? I've always sort of looked at the company at the outside and said, there's obviously an element of, you need fresh content, you need classes to keep your most highest utility customers engaged and give them new content on a regular basis. But take someone like me, I'm not working out every day, but I try to work out as much as I can. If I watch something that's 3 years old, it doesn't move the needle as much. How do you think about inflections in creating content...

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

It doesn't move the needle, how do you mean?

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Well, because I don't necessarily need to see the newest, greatest class that was filmed yesterday. So I guess, I'm trying to think through elements of content creation, partnerships on the content side and how that can create maybe operating leverage over time in the business as well.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Well, if we were to up-level the conversation, I mean the first strategic question is, should we open the platform. Today, it's a closed platform. The only content you can see on the platform is content that we've originated, and we do it brilliantly. It is the secret sauce. But I can imagine that there's content from third parties that you would also like to see on the platform. Just a matter of convenience, it's like, I don't know, maybe you want to watch a movie.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

You're saying in terms of making it more of a lean-back media consumption product at the end of the day?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Right, right, right.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. Okay.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Or it could be content we license from, I don't know, back roads for country riders. It could be a host of things, like let your imagination run wild. The point is, today, it's a closed system. But it could be open. And if it was open, the question is, what would you do? And would that be a net benefit or not? That's one class of problems. The other class of problems is just get to come back to discovery. Like by my count, we have something like 50,000 things, more or less, for you to choose from and we make new classes constantly. Okay. Well, it's a sort of one-size-fits-all. When you sit down on a bike and you look at the screen, I bet your screen looks a lot like my screen. Does that make any sense? Not necessarily. Probably not.

How many people enjoy hip-hop? Okay. Every bike I sit in front of markets hip-hop related content to me. I'm not. I'm a pretty old guy. There's some hip-hop I like, but mostly it's not my thing. I take mostly 30- and 45-minute classes, but I see a lot of 10-minute classes, a lot of 20-minute classes. I see content from instructors that I never take from. There are 2 instructors whose classes I do a lot, but they kind of sit behind some other content on the screen. And then I can't really see them. I don't really mean to throw ourselves under the bus to the degree. I'm trying to make a point, which is we haven't invested in personalization nearly to the degree that will drive an infinitely better user experience. And when we do, however good the Net Promoter Score is now, it will be 10 points better.

And you're right, it doesn't really matter. There's some times a year where it matters how recent the content is, but the rest of the time it doesn't. You don't really care. It's like when we launched Netflix, there was no catalog concept in home video. It was all new release and people went to the blockbuster. They looked at the new release wall and they used that as a way to remind themselves of what movie they wanted to see because they can't remember the names of movies. We thought that's stupid. We'll come up with a recommendation system. And people just want to see good movies. They don't want to see new movies. They just want good movies. And you know what, when you get on Peloton, you just want good content, good music that you enjoy. It could be '80s, it could be '90s, it could be -- maybe it's all pop hits or maybe it's all hip-hop or maybe it's all country; I don't really care. We just want to serve it to you so that you find an incredibly engaging experience.

And so we're just in the very formative stages of doing that. But when I walked in the door, we weren't really focused on it, and now we're focused on it intensely. And so from a content experience, I think the most revolutionary thing we're going to do in the next 12 months would be on the personalization side.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Your recommendation...

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Open platform kinds of opportunities for us. But yes, it's going to be around the UI.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. Interesting. One last big-picture topic I wanted to just talk about, and maybe we could separate it into the next 9 to 12 months versus the next couple of years. When you think about your priorities on capital allocation, first to getting the business where do you want it to be, whether you grade it by June of next year because that's the end of the fiscal year, the calendar year '23, and then the more aspirational goals around capital allocation and what you'd like to do with your capital to drive growth, can you just maybe help us get a better sense of your priorities on the capital side?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Well, I mean, how great would it be to actually spend time thinking about the answer to a question like that?

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I've known you long enough, so you probably have some idea to think about it.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

But no, honestly, I really haven't thought about it much. Well, here's how I'm thinking about it. I got to get the business cash flow breakeven. That is a combination of growth and rightsizing of cost structure. We've got that playbook down. We continue to make good progress. I'm pretty confident that we're going to wrestle that to the ground.

And then the question is, okay, what are the vectors for growth? How many different things can we test simultaneously? Which one should we be leaning into and how quickly? And everything we're working on, we've already disclosed. So it's fast. It's sort of like preowned. It's going to be digital, about which we're going to say more, and the good-better-best pricing strategy.

What's left off the table and unsaid is how quickly can we lean back into international and which markets in Western Europe are going to be next on the priority list. And what role or innings will partners play. And -- like that's all of it in terms of capital allocation now.

If Fitness-as-a-Service is really successful, that's going to need its own capital strategy, right? And that would be some kind of an asset-backed security. And so I'd like to be able to warehouse that stuff until we can package it up and then sell it off because there's lots of benefits that come with the diversification of risk, of having a large asset pool that you then go securitize. And I have no idea what that capital strategy is going to look like, but I'm very confident that if that business is growing at 70% year-over-year and it's got a 1-year payback and the IRR is looking really attractive, that capital will flood to that market. The thing I worry about is like, that -- well, actually, that isn't -- it isn't that good...

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. And last question, just because we're asking everyone at the conference, whether you want to make a comment around Peloton or just the broader sector and industry as a whole, any outside-the-box thoughts or predictions or things you think investors should keep in mind over the next couple of years?

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Well, one thing specific to the business, how about that. I won't presume to be a global expert. You know how in every business after you've been there a while, there is something you learned that kind of surprised you and you hit yourself on the side of the head because you didn't really realize what it was. For me at Spotify it was the benefit of having the ad-driven free business as a subsidy engine for the cost of acquisition. And here at Peloton, it's the rejoin business. It's a fact that the bike lives on long after the subscriber stops subscribing. And whoever owns that bike ends up becoming a subscriber themselves. And there is no cost to the business associated with that revenue stream.

And that revenue stream, those rejoins as a percentage of the total, have been increasing at a pretty dramatic rate. Now partly because the new sales have declined. So if new sales were to accelerate, the growth rate would be diminished. But it is a subsidy engine -- a hidden subsidy engine that I didn't realize existed. And I believe that we will be talking more about it over time. And it will become a great source of value.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Interesting. Well, Barry, thank you so much for being part of the conference. Please join me in thanking Barry McCarthy and the whole team from Peloton for being here at the conference.

W. Barry McCarthy - *Peloton Interactive, Inc. - CEO, President & Director*

Thank you.