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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Peloton Interactive 4Q '23 Earnings Call.

(Operator Instructions)

Please be advised today's conference being recorded. I would now like to hand the conference over to your speaker today, Peter Stabler, please go ahead.

Peter Coleman Stabler - *Peloton Interactive, Inc. - SVP of IR*

Thank you, Ken. Good morning, and welcome to Peloton's Fourth Quarter and Fiscal Year-end Conference Call. Joining today's call are CEO, Barry McCarthy; and CFO, Liz Coddington. Our comments and responses to your questions reflect management's views as of today only and will include statements related to our business that are forward-looking statements under federal securities law. Actual results may differ materially from those contained in or implied by these forward-looking statements due to risks and uncertainties associated with our business.

For a discussion of the material risks and other important factors that could impact our actual results, please refer to our SEC filings and today's shareholder letter, both of which can be found on our Investor Relations website. During this call, we will discuss both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP financial measures is provided in today's shareholder letter. I'll now turn the call over to the operator for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Ron Josey with Citi.

Ronald Victor Josey - *Citigroup Inc., Research Division - MD and Co-Head of Tech & Communications*

I want to, Barry, talk about 2 things. I think in the letter, you talked about an uptick in sales in the last 8 weeks. And I want to understand a little bit more what you think is driving this? Is this the result of just new brand spend or maybe seasonality coming back? And in the letter, you also talked about free cash flow being positive, expected to be in the back half of '24, just talk to us about the drivers that will lead to that positive free cash flow and the confidence in that new metric.

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

I don't know the answer to the first question, Ron, in which it did -- if I did, we could lean into it and try to leverage it. I imagine there's some macro forces at play. There's some seasonality at play. We just don't have enough insight into the cause and effect to give you a thoughtful answer. But the trend seems to be holding, now it's for how long and what would the slope of the line be, I don't know the answer to that either, wish I did.

As it relates to free cash flow in the back half of the year, we -- our forecast is really a tale of two cities. The second half of the year looks quite a bit different than the first half. We don't have very aggressive growth assumptions in my view, but we need to achieve the growth we're forecasting in order to be able to generate the financial performance that we're forecasting.

If we do those things, the metrics in the last quarter of the year, in particular, are pretty stellar. It's double-digit revenue growth, it's 40-plus percent gross margins. It's positive adjusted EBITDA, it's positive free cash flow, we'd all be ecstatic about that kind of performance if we can achieve it.

We've been reasonably good at forecasting our financial performance relative to our ability, at least in recent quarters to forecast the growth in subs and Connected Fitness unit sales. And I think there's more upward bias in the forecast than not, but it's hard to say. And one of the reasons I think that is because the -- in the -- towards the close of the letter, I make mention of a number of new initiatives that we're working on.

And there are a handful, and I'm confident that we will land them and we haven't built any upside into the plan associated with those things now. We haven't landed them. So there's still uncertainty, and I can't talk about them until we do. But if we do, it adds even more certainty on the back half of the year.

Liz Coddington - *Peloton Interactive, Inc. - CFO*

I was just going to add one additional thing about the free cash flow, which I think Barry did mention in the letter which is we are getting into a much more normalized inventory position than we have been -- than we were last year. And so we are buying more inventory, particularly for our Bike and Tread product. And we're going to have to spend in advance of holiday to build up some of that inventory for the holiday season.

We also have our seasonality in our marketing spend. And those 2 things put a bit more cash flow pressure on the front half of the year rather than the back half of the year, just the timing of those. So I wanted -- in relation to our hardware sales, so I wanted to call that out as well.

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

One more comment, if I could. I'm sorry to be someone winded run. We certainly have had our fair share of unanticipated surprises and not all of them helpful to the business, Seatpost being the latest example, and the Dish Settlement being another example. I don't know how many more of those unwelcome surprises there are in our future, but it seems to me we have to be getting closer to the end of that story than we are at the beginning.

Operator

Our next question comes from Doug Anmuth of JPMorgan.

Douglas Till Anmuth - *JPMorgan Chase & Co, Research Division - MD*

Barry, you're about 3 months into the brand relaunch, though I know this has also come during a seasonally lighter period, I was hoping you could talk more just about the progress that you've seen here and how marketing could evolve in the first half of your fiscal year as you head towards the holidays.

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

A couple of thoughts, one very high level. The team -- investors have often heard me speak about the importance of talent density that's never more true than it is in this instance, not to create more pressure for our CMO and the marketing team already exist for them. They have done just a spectacular job with the relaunch, the creative has been nothing short of amazing, and the creative that's going to follow is even more spectacular.

And the early indications are that we're achieving the objectives that they had set for the business, which is just to attract a younger audience. So we've seen a tremendous increase in engagement with Gen Z by way of example, we're capturing people earlier in their fitness journey than we ever had before. So anytime, anywhere, any place, message is absolutely landing. And the last objective was to remind people that and particularly with the launch of the app, that it's more than just a stationary Bike company. And that message is also finding traction. So lots of reasons to be enthusiastic about where we're going.

And the one -- and the last point I want to make is in reference to the 2 co-branding deals that we've already announced, one with Liverpool and yesterday, University of Michigan. It's very clear from our conversations with those brands, both very highly regarded and other inbound traffic that we've had, which has been significant, the rest of the world regards the Peloton brand, very highly and is sought after as a partner, and that affords us the opportunity to capitalize on that, and you'll be hearing us talk about that ad nauseam as the year unfolds.

Operator

Our next question comes from Justin Post with Bank of America.

Justin Post - *BofA Securities, Research Division - MD*

Barry, in the letter and on the call already, you've mentioned some growth initiatives that you're excited about. I think we've already talked about Fitness-as-a-Service and some of the retail initiatives, anything new or something you would call out that you're really enthusiastic about for the year?

And then second, on churn. Can you help us quantify how much of the 80,000, I guess you'd say, inactivations at the end of the quarter, maybe related to the Seatposts? And as people receive them, do they get back on? Are you seeing any positive progress this quarter as people receive the seats?

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

I'll take the first part, and then I'll ask Liz to take the churn part of the question. With respect to growth is, Justin, we had articulated 1.5 years ago, a good, better, best strategy to make the service increasingly accessible to new users at the reintroduction of app. It was a component of that strategy. You mentioned Fitness-as-a-Service. We started that a year ago with 50,000 subs, about $45 million in revenue. I think we'll grow it by more than 70% on a year-over-year basis if the current trends continue.

Churn was up slightly in the quarter, but I think that was related to the Seatpost (inaudible) and it's likely to come back down. Certified preowned has worked extremely well for us. And we're seeing good momentum in that side of the business as well. So enormously excited about those initiatives. In the current year, International will be a growth opportunity for us. It was not this past year because this past year, the objective was to reduce the operating losses of that business, which we did to the tune of about $40 million.

But you've seen us leaning aggressively into growth in existing markets like Germany, like Canada, like the U.K. with new product launches and co-branded partnerships like we did with Liverpool by way of an example. And then you'll see us in the U.S. by way of growth initiatives, replicating that co-branding experience.

Components of those deals will be, I think, have a couple of common characteristics. They will be multiyear, they'll be global, they'll be exclusive. There will be collaboration on content creation and there will be co-marketing and social media components. And if we execute them well, we will benefit enormously from the association of our brand with their brand. And our members will benefit enormously from the content creation that happens as a result of those deals. When all of them combined, I think, will contribute to an acceleration in our growth.

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Okay. I'll go ahead and take the question on churn. So when -- as we mentioned last quarter, in Q4, we did expect to see a model -- a modest sequential increase in our churn, and that's consistent with the seasonal trends that we tend to see over the summer. If you look at our legacy churn metric, that 1.4% that we had for Q4 was about 10 basis points, roughly higher than we expected.

We expected it to be about 1.3%. And then what we did see in the -- related to the Seatpost Recall, was that we did see our churn rate increase a bit in May and June relative to April. And that's a typical seasonality for us. So we do believe that, that was related to the Seatpost Recall.

Now when you're referring to the 80,000, you're referring to the paused subscribers. And those folks are now in our new metric, considered churn and you can see that uptick from around the 50,000 to 55,000 range that we've had more typically to about 80,000 and that took us to a 1.8% churn rate when we consider those paused subscribers as churn. We did expect paused subscribers to go up a bit seasonally in Q4 because of just the seasonality and people at the time when more people pause their membership. But the outsized increase, it's hard to quantify exactly, we do believe it's related to the Seatpost Recall.

Now in Q1, I think it's really important because we're guiding to this new metric that we kind of anchor on that 1.8% that we shared in the letter. We do expect churn to come down substantially from that 1.8% because we don't expect to see an increase in paused subscribers like we did in Q4. We likely will see some level of decrease, but we're not really forecasting a huge decrease in paused. For part of the reason that subscribers can pause for up to 3 months, people started pausing in kind of the June -- end of May, June time frame. And we also know that some people are still awaiting their Seatpost.

They should all receive them by the end of September. But we don't know that people will immediately un-pause the moment that they get their Seatpost. But it is really important to understand that just by virtue of not having that paused subscriber base increase, our churn should come down to more like the 1.4% range and perhaps even a little bit better than that. We'll also expect to see a little bit of benefit from seasonality as well.

Operator

Our next question comes from Eric Sheridan with Goldman Sachs.

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

I wonder if I could get some of your more updated thoughts on the Digital app strategy. What are some of your key learnings as you continue to position that strategy? And how should we be thinking about some of the investments you want to make to sort of drive growth against your longer-term goals in terms of building the subscriber base around the Digital app?

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

Well, look, we've had to date about slightly in excess of 900,000 people download the app and about 600,000 of those roughly are new to the platform. So we need to continue to lean into creating awareness and driving trial. With respect to the paid app, we're seeing a higher percentage of App Plus users than we had anticipated, which is a good thing. How do we continue to find success with the app?

We need to continue to allocate marketing spending towards it. And there's this constant tension, do we spend it on Connected Fitness units or do we allocate to a larger portion of the slices of the pie to spending in the app and see how the needs of the business develop as the year unfolds relative to our plan.

Secondly, we need to ensure that the app interface continues to evolve in ways that make it compelling and easy to access and engaging for members, right? So it was originally designed to be an [agent] to a CFU membership, not as a freestanding app. So we continue to evolve the design and interaction. Lastly, we need to continue our current investment in personalization, both for the app and on consoles for Connected Fitness unit.

So that great content that we create is discoverable by members who would enjoy it if they only knew that it exists with same challenge that Spotify is facing, challenge that Netflix-based -- the better we are at personalization, we're engaging the user experience will be, the stickier the user experience will be, the lower the churn will be, the more satisfied the members will be, the more organic growth we'll have, the lower the (inaudible) will have, the higher the LTV. So that's the playbook for success.

Operator

Our next question comes from Andrew Boone with JMP Securities.

Andrew M. Boone - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

The 1Q '23 gross profit margin guidance seems to imply that Connected Fitness margins are very near to breakeven. As you guys think about pricing and bringing down the price of the Tread and the Row, is the right way to think about managing hardware gross profit margins breakeven? Or how do you guys think about this strategically?

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

Liz, why don't you take that?

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Yes, sure. So you're actually -- you're about right that for Q1, it implies a roughly neutral Connected Fitness gross margin. When we look at our unit economics for the business, all of our unit economics aside from guide show that we have the ability to keep our gross margin in the positive territory. But what that means, we do have -- that's based on a variable cost kind of a contribution margin structure. And it doesn't include things like promotional activity and which we will continue to have some of.

But it also -- it requires us to have a certain level of volume. Otherwise, we do have some -- we have fixed costs that we also have to cover. So as our volume growth and our volume scales, we do have the ability to achieve positive gross margin. But in Q1, we'll be challenged a bit in terms of our weak hardware sales that we're expecting to have and have the -- that is impacting our gross margin -- Connected Fitness gross margin guidance in the quarter. But the key thing to note here is our goal is to really grow our subscriber base. And we're going to continue to work on ways to do that, and we'll evaluate our hardware margin really through the LTV-to-CAC framework.

As we've said before, and we said it multiple times, our focus is driving efficient subscriber growth through the lens of LTV to CAC, and if you think beyond Q1, we're going to look at the trade-off that we have on reducing price or offering promotion activity, those sorts of things which reduce LTV in relation to efficient marketing spend. And so we'll continue to make those trade-offs in each quarter evaluate what is the best strategy for us.

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

Let me jump in and add a slightly different perspective, if I could, Andrew. When I -- I've been here about 18 months, give or take. And when I walked in the door, it seems to me, we had a limited number of tools in the toolbox in order to grow the business. And price promotion was about the only thing we had. We have a commercial business, but it was needed to be re-architected from a cost perspective, like everything else, Peloton-related. I don't mean that in a derogatory way. It just -- we had things we needed to fix and we had price promotions as a tool to drive growth.

That's very different than where the business sits today. We have a lot of irons in the fire. I've got a lot of tools in the toolbox. I mean, I'm -- I don't mean to sound like one of those CEOs is completely disconnected from the stock price because it's not lost and I walked in the door when it was 39, and it was hanging out about $5 at the start of this call. But I have never been more optimistic. We're excited about the future of the business, and there is this enormous disconnect between the stock price and the energy and the building around all of the partnerships and co-development things that are cooking.

So if I'm right about that, and we are, in fact, less dependent on price promotions in order to drive growth, then that should have positive implications for hardware margins, which is why I went through that long-winded explanation.

Andrew M. Boone - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

For my second question, I wanted to ask about the corporate opportunity. Do you guys need to make any investments on the sales and marketing side to be able to support that? Or what else needs to happen to really drive growth for hospitality, for everything else that's included there?

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

Super good question. We just added to the team on the commercial side, senior exec from American Express, who led strategic partnerships there, Greg Hybl to help build out our sales capability to drive growth in commercial and corporate wellness. So yes, there'll be some investment. But from a macro basis, it won't be a big impact on margins.

Liz Coddington - *Peloton Interactive, Inc. - CFO*

I was just going to add one more point. Another thing that we're excited about for the business that's going to help drive growth there is that we are working on commercially launching our Bike+ and our Row and that should be coming really soon, and that will give more opportunities for businesses to have our hardware in their settings. So it will be great when we're able to offer that, too.

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

And Tread+ once it's reintroduced in the market as well. So yes.

Operator

Our next question comes from Shweta Khajuria with Evercore ISI.

Shweta R. Khajuria - *Evercore ISI Institutional Equities, Research Division - Analyst*

Okay. I've got a couple. Barry, of all of the 3 things, getting to positive free cash flow in the back half of next year, your product initiatives and your growth initiatives that include marketing spend, international expansion, corporate partnerships, where would you say you've had highest level of confidence? And where do you think there's a greater level of uncertainty?

And then I have a question on forecast. In terms of your first quarter forecast, how different is your methodology this time than it was last time in terms of your -- given the level of visibility and perhaps uncertainties? So how confident do you feel in your current guidance? And how different was your method this time?

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

Liz, do you want to take the second part of the question?

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Sure. So it's a little bit of an odd question. One thing that is a little different about Q1 versus other quarters is that we are guiding much later in the quarter than we often do. And so our confidence in our guidance range is higher because there's less of the quarter left to provide guidance to. There wasn't really a change in the methodology of our guidance. We just added an additional guidance with regard to app subscribers.

I mean, I guess the other change would be that we're guiding to Connected Fitness subscribers, excluding paused subscribers and then our app subscribers. But otherwise, there's really no change to our methodology.

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

And I think the question for me was how much risk is -- do I perceive in the business related to the upside growth in the second half of the year? And the short answer is, not much. I mean, it's pretty -- look, it's a pretty low bar. And if we can't deliver against that bar, then what the heck are we doing? So -- and at the moment, we're all consumed with the potential upside and that we haven't announced it, we're kind of in process.

So at the moment, I'm filled with optimism. Now a bunch of those things fall by the wayside. I'd be saying it in a different tune, but today, I'm feeling pretty good.

Operator

Our next question comes from Mario Lu with Barclays.

X. Lu - *Barclays Bank PLC, Research Division - Research Analyst*

The first one is on the free app, I know it's only been 3 months, but any early data points to share with regards to these free users eventually converting to either all access or paid members over time? And then on a separate note, is there an ad-rev opportunity for the free app similar to Spotify?

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

Let me do the second part of the question and ask Liz to do the first part. So I'm a little bit familiar with the Ad business since I ran it at Spotify. And one of my takeaways, I have 2 from that experience. One is that advertisers buy reach, which means it requires scale in your business in order to be a viable player and we don't have that for a long time.

And secondly, it is very resource-intensive. It requires a lot of engineers writing a lot of code with a lot of complexity in order to have the measurement and other tools you need and the automation required at scale to properly sell and account for the Ad business. So the only way in which we would be able to participate, I think, is the practical matter would be to outsource it, sort of -- a lot of like Netflix model.

And if we did that, I think it would not be the user experience that we would all aspire to have -- for our members to have. And so I don't foresee as a practical matter any scenario under which in the foreseeable future, we're in the ad base. Liz, I think the question was aversion.

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Yes. So the question was about early data points regarding the free app and getting people to convert to paid. So as Barry mentioned, we have had over 900,000 downloads of the app. Over 600,000 of those have been related to users that are new to Peloton. We have about 0.25 million of monthly active users of the app. So there is certainly opportunity to drive further engagement. We believe that a lot more of these people are earlier in their fitness journeys.

And as Barry mentioned, that we have work to do on the app to make it easier for people to get started and drive that engagement. We really do believe that building a free tier base is important for long-term growth. We're very focused on driving awareness and that's been really good because we've had a large number of downloads. But a lot of these people are new to Peloton and they haven't decided yet to upgrade to App One or App Plus. But that's one of the key things that we're working on, how to engage them better and get them to convert to a paid membership.

X. Lu - *Barclays Bank PLC, Research Division - Research Analyst*

Great. That's helpful. And then second question is on fixed cost. You reduced your fixed OpEx items by 25% to 30% year-on-year this quarter. Just curious if there's any color you can provide in terms of how much further improvements we can expect to see in fiscal '24 in terms of the fixed cost reductions?

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Yes. So why don't I -- I'll just talk about -- I'll talk about our OpEx kind of more in general. So we aren't offering any specific targets, but we are going to continue to optimize our fixed cost base over the course of the year. For G&A, we're going to continue to optimize and reduce costs in areas like we've called out staff augmentation, legal spending, customer service. It's worth calling out that in Q4, we did have a one-time benefit in our legal expenses that we don't expect to repeat.

But on a full year basis, we have line of sight to over $100 million in expense reductions versus fiscal '23. For areas like R&D, we expect our R&D expenditures to be similar to FY '23 as we continue to invest in our platform. With a primary focus being on software improvements such as personalization that Barry has mentioned and also improving our app. But I do think it is worth just mentioning very briefly that we are making a change in how we think about our R&D costs.

So we mentioned it, it's in the shareholder letter that we will not be capitalizing any longer a substantial majority of our R&D for internal use software. And so you may see that in the P&L as more of our R&D costs will be expensed rather than capitalized. It's about roughly estimating about a $10 million impact to Q1 R&D expense.

Hopefully, that helps. I did want to mention one last thing. Let me just mention one last thing. Just on sales and marketing, some of our sales and marketing costs, we will be -- continue to be reducing our retail store footprint. And so we will see some of those costs come out from more of a fixed marketing cost, but we'll be reinvesting some of those into sales and marketing in other channels that are much more efficient as well.

Operator

The next question comes from Edward Yruma with Piper Sandler.

Edward James Yruma - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

So I guess just a bigger-picture question and maybe in light of what happened with Seatpost, I guess, I know you haven't reported like workouts per user in a long time, but very curious how you think about overall engagement within your Connected Fitness subscriber base? How has it been trending? Did the SeatPost have an issue with that?

And then just real quickly on inventory. I know there were a lot of extraordinary costs that were kind of capitalized on some of the older layers of inventory. I guess going forward, how should we think about kind of directionally kind of cost of goods and how the Bike price compares to maybe some of the legacy inventory you had on the balance sheet?

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

Maybe Liz could take the inventory piece, and I'll take the engagement piece first. And Liz, if there's anything you want to add to engagement, please do.

Macro engagement has remained strong. Liz mentioned that there were a number of folks who paused their account related to Seatpost, but amongst the members who didn't, and I would say, the fact that in our notification, we asked them to stop using their Bike, they just kept using their Bike.

And as if we -- as if there was no notification. So -- and I think that probably explains why we didn't see an aggregate -- a dip in engagement like perhaps you might have expected given the proposal around Seatpost. Liz, do you want to comment on inventory? Or correct anything I just said?

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Yes. Nothing to correct, but I will -- let me talk a little bit about inventory. So from an inventory perspective, inventory will continue to be a source of cash for us in fiscal '24. But we are in a much more normalized inventory position than we were last year. And we are already, we're purchasing more hardware. We purchase -- in fact, we're purchasing more Bike inventory and Tread inventory this quarter. So I think your question was talking about the cost of goods sold and have our cost of goods sold come down. For products like Tread, we have seen our cost of goods sold come down substantially.

That's part of one of the reasons why we were able to reduce the price for Tread. So the freight inbound is down from what it was for the old inventory because it's no longer -- those really expensive rates that we had to pay for freight. We also aren't storing as much inventory as we had in the past, our storage costs have come down. And also, our logistics costs have come down, and we have -- and we're continuing to make progress even in our Middle Mile as well and that will come in throughout the year. So all of those things have reduced our overall cost of goods.

And in the case of Tread and rower, some of those reductions we decided to give back to our customers in the form of a price reduction. We haven't seen as big of an impact to our Bike from that perspective but more to Tread specifically. I did want to correct one thing about Barry's comment about the 80,000 subscribers related to the Seatpost that was really more around 15,000 to 20,000 incrementals.

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

I think the 80,000 is the aggregate.

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Yes, 80,000 is the aggregate, 15,000 to 20,000 incremental.

Operator

Our next question comes from John Blackledge with T.D Cowen.

John Ryan Blackledge - *TD Cowen, Research Division - MD & Senior Research Analyst*

Two questions. On the College initiative, can you talk about the pipeline for that opportunity? And then second, on the rental program launched in Germany on August 9. I know it's a couple of weeks in, but just curious how you see that opportunity in Germany?

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

In reverse order, in Germany, John, as you may know, they're more culturally accustomed to rental models and which is why the team thought that Fitness-as-a-Service program would land well. It's really too early to know, although there's enthusiasm about it initially. So we're incredibly optimistic, let's say. And with respect to the College pipeline, I understand where you're coming from the question. I really don't want to answer it.

But you could imagine that program like the one that we were fortunate enough to have announced with Michigan could scale across other Division One programs in the [full of sometime]. And I certainly hope that is true. I think the opportunity to do co-branded bikes on college campuses and elsewhere are enormous.

And if we're -- I wonder if we're going to be the dog that caught the car because if the thing really takes off, then the supply chain guys are going to -- all be pulling their hair out, of course, because it's going to create enormous pressure on them to fulfill demand amongst the rapid fan base. I hope we're lucky enough to have that problem.

Operator

Our next question comes from Aneesha Sherman with Bernstein.

Aneesha Sherman - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

So historically, Q1 has been your weakest quarter and Q2 to 3 have driven more than 60% of the year's sales. So as you talk about seasonality impact in Q1, do you then expect to see a similar cadence through the year into Q2 to 3? And then I have a kind of follow-on with a bit more medium term. As you effectively kind of lowered the dollar commitment for new members over your new pricing schemes, do you then expect the seasonality in the business to get sharper? And do you believe your cost base is now aligned for just generally more seasonal business?

Liz Coddington - *Peloton Interactive, Inc. - CFO*

I can take the question about the revenue seasonality. So we're not going to offer full year guidance for our revenue. But in the past, we've shared sort of what the revenue phasing we expect for the year. And I'm going to show that again with you. So we expect our fiscal '24 revenue seasonality to be most closely resemble our fiscal '23, but we do expect it to be more heavily weighted to the back half of the year this year, as Barry mentioned. Not quite as heavy as fiscal '21, but heavier than it was weighted in fiscal '23.

Now the second half of -- the second part of the question was will our seasonality change with pricing changes? I think that is a tougher question to answer because we'll know as we go along. But the business, we -- it also affects -- there's also factors related to the macro economy and some of that and also some of the things that we're going to do to drive improvements in our app, which will improve our app experience, which should improve the growth in that part of the business as well. So I think the answer is we'll kind of know when we know. But for now, our expectation is that the seasonality will be the way I described it. Barry, anything else to add?

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

One minor point. I agree with everything Liz said. I think it's -- we'll know more over time. But I think it's possible that the -- at least the app business will be less seasonal than the Connected Fitness business because the Connected Fitness unit stays indoors when people are outdoors. But the app travels with you wherever you are. And a number of those workouts are designed to be done anywhere, anytime, anyplace. So when you're running between yoga or outside or strengthening the gym or if you're using Connected Fitness content on -- in a gym, by way of example.

Operator

Our last question comes from Jonathan Komp with Baird.

Jonathan Robert Komp - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I just wanted to follow up, Barry. I think you mentioned some pretty robust growth expectations by the fourth quarter. Could you maybe just share a little bit more what's driving those assumptions? And then, Liz, just a modeling question. Are you willing to talk about the relative size of the Precor business on a quarterly or annual basis?

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

Liz is going to vote me off the island if I talk more about the forecast, I'm certain. So I'm going to -- I will answer it, but I'm sure my answer would be unsatisfactory. So I'm referring to the year-over-year growth and -- point one.

Point two, whether or not we achieve it depends greatly on how the year -- the quarter is preceding it unfold. It's not like we're projecting to -- linking back to comments was just made about the seasonal cadence of the business. We're not seeing a big change in the seasonal cadence. So it's not like we're suddenly blowing out Q4. So we stand on the shoulders of the quarters that have come before.

Liz Coddington - *Peloton Interactive, Inc. - CFO*

Yes. I do think it is worth adding just on the revenue growth side, just to mention the fact that when we do bring Tread+ back to market, that will impact the second half of the year as well from a revenue perspective. Based on how we're thinking about the limited inventory that we'll have available to sell. Now your question about Precor, we don't provide specifics and we don't really break out that Precor business, but it is less than -- expected to be less than 10% of our business in fiscal '24.

We are making progress on that business though, and I do want to call out that we have put in a new management team in place there. They're still relatively new. And we expect that, that business should be in a much better spot. And they've made some restructuring changes. We are closing a Precor facility in North Carolina. We've announced the closure of that, and they'll be improving their adjusted EBITDA and free cash flow throughout the course of the year.

Operator

And I'd like to turn the call back over to Peter Stabler for any closing remarks.

Peter Coleman Stabler - *Peloton Interactive, Inc. - SVP of IR*

Thanks, everyone, for joining us today. We'll speak to you next quarter. Have a great day.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.

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