2022

ANNUAL REPORT

PELOTON

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2022
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number: 001-39058

Peloton Interactive, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**47-3533761**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
441 Ninth Avenue, Sixth Floor	**10001**
New York, New York	*(Zip Code)*
(Address of principal executive offices)	

(917) 671-9198
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.000025 par value per share	PTON	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of

the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of December 31, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was $10.7 billion based upon the closing price reported for such date on The Nasdaq Global Select Market.

As of July 29, 2022, the number of shares of the registrant's Class A common stock outstanding was 308,398,530 and the number of shares of the registrant's Class B common stock outstanding was 30,032,036.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2022 Annual Meeting of Stockholders, or Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, are incorporated by reference in Part III. Except with respect to information specifically incorporated by reference in this Annual Report, the Proxy Statement shall not be deemed to be filed as part hereof.

TABLE OF CONTENTS

		Page
	Special Note Regarding Forward Looking Statements	3
	Risk Factor Summary	5
	Part I	
Item 1.	Business	6
Item 1A.	Risk Factors	15
Item 1B.	Unresolved Staff Comments	46
Item 2.	Properties	46
Item 3.	Legal Proceedings	47
Item 4.	Mine Safety Disclosures	47
	Part II	
Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	48
Item 6.	[Reserved]	48
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	49
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	67
Item 8.	Financial Statements and Supplementary Data	68
Item 9.	Changes in Disagreements with Accountants on Accounting and Financial Disclosure	107
Item 9A.	Controls and Procedures	108
Item 9B.	Other Information	110
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	111
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	111
Item 11.	Executive Compensation	111
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	111
Item 13.	Certain Relationships and Related Transactions, and Director Independence	111
Item 14.	Principal Accountant Fees and Services	111
	Part IV	
Item 15.	Exhibits and Financial Statement Schedules	112
Item 16.	Form 10-K Summary	114
SIGNATURES		115

[This page intentionally left blank]

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including, without limitation, statements regarding our execution of and the expected benefits from our restructuring initiatives and cost-saving measures, our future operating results and financial position, our business strategy and plans, market growth, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "potential," "continue," "anticipate," "intend," "expect," "could," "would," "project," "plan," "target," and similar expressions are intended to identify forward-looking statements, though not all forward-looking statements use these words or expressions.

We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions and other important factors that could cause actual results to differ materially from those stated, including, but not limited to:

- our ability to achieve and maintain future profitability;
- our ability to attract and maintain Subscribers;
- our ability to accurately forecast consumer demand of our products and services and adequately maintain our inventory;
- our ability to execute and achieve the expected benefits of our restructuring initiatives and other cost-saving measures;
- our ability to effectively manage our growth;
- our ability to anticipate consumer preferences and successfully develop and offer new products and services in a timely manner, or effectively manage the introduction of new or enhanced products and services;
- demand for our products and services and growth of the Connected Fitness Products industry;
- our reliance on a limited number of suppliers, contract manufacturers, and logistics partners for our Connected Fitness Products;
- our reliance on and lack of control over suppliers, contract manufacturers and logistics partners for our Connected Fitness Products;
- our ability to predict our long-term performance and declines in our revenue growth as our business matures;
- the effects of increased competition in our markets and our ability to compete effectively;
- declines in sales of our Bike and Bike+;
- the direct and indirect impacts to our business and financial performance from the COVID-19 pandemic;
- our dependence on third-party licenses for use of music in our content;
- actual or perceived defects in, or safety of, our products, including any impact of product recalls or legal or regulatory claims, proceedings or investigations involving our products;
- our ability to maintain, protect, and enhance our intellectual property;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally; and
- those risks and uncertainties described in the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K, as such factors may be updated in our filings with the Securities and Exchange Commission (the "SEC").

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance, or achievements. Our forward-looking statements speak only as of the date of this

Annual Report on Form 10-K, and we undertake no obligation to update any of these forward-looking statements for any reason after the date of this Annual Report on Form 10-K or to conform these statements to actual results or revised expectations, except as required by law.

You should read this Annual Report on Form 10-K, and the documents that we reference in this Annual Report on Form 10-K and have filed with the SEC, with the understanding that our actual future results, performance, and events and circumstances may be materially different from what we expect.

In this Annual Report on Form 10-K, the words “we,” “us,” “our,” and "Peloton" refer to Peloton Interactive, Inc. and its wholly owned subsidiaries, unless the context requires otherwise.

RISK FACTOR SUMMARY

Our business is subject to numerous risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K. You should carefully consider these risks and uncertainties when investing in our Class A common stock. Some of the principal risks and uncertainties include the following:

- We have incurred operating losses in the past, may incur operating losses in the future, and may not achieve or maintain profitability in the future.
- We may be unable to attract and retain Subscribers, which could have an adverse effect on our business and rate of growth.
- Our operating results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory.
- We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business.
- We have grown and the company has evolved rapidly in recent years and have limited operating experience at our current scale of operations. If we are unable to manage our longer-term growth and intervening changes effectively, our brand, company culture, and financial performance may suffer.
- If we are unable to anticipate consumer preferences and successfully develop and offer new, innovative, and updated products and services in a timely manner, or effectively manage the introduction of new or enhanced products and services, our business may be adversely affected.
- The connected fitness market is relatively new and, if the general market and specific demand for our products and services does not continue to grow, grows more slowly than we expect, or fails to grow as much as we expect, our business, financial condition, and operating results may be adversely affected.
- We rely on a limited number of suppliers, contract manufacturers, and logistics partners for our Connected Fitness Products. A loss of any of these partners could negatively affect our business.
- We have limited control over our suppliers, contract manufacturers, and logistics partners, which may subject us to significant risks, including the potential inability to produce or obtain quality products and services on a timely basis or in sufficient quantity.
- Our past financial results may not be indicative of our future performance.
- We operate in a highly competitive market and we may be unable to compete successfully against existing and future competitors.
- We derive a significant majority of our revenue from sales of our Bike and Bike+. A decline in sales of our Bike and Bike+ would negatively affect our future revenue and operating results.
- The full impact of the COVID-19 pandemic, or COVID-19, its duration and any resurgence of infections is uncertain and cannot be predicted. The COVID-19 pandemic could worsen or its effects could be prolonged, including as a result of variants, which could have an adverse effect on our business, results of operations, and financial condition.
- We depend upon third-party licenses for the use of music in our content. An adverse change to, loss of, or claim that we do not hold necessary licenses may have an adverse effect on our business, operating results, and financial condition.
- Our success depends on our ability to maintain the value and reputation of the Peloton brand.
- From time to time, we may be subject to legal proceedings, regulatory investigations or disputes, and governmental inquiries that could cause us to incur significant expenses, divert our management’s attention, and materially harm our business, financial condition, and operating results.

PART I. FINANCIAL INFORMATION

Item 1. Business

Overview

Peloton is the largest interactive fitness platform in the world with a loyal community of over 6.9 million Members as of June 30, 2022. We pioneered connected, technology-enabled fitness, and the streaming of immersive, instructor-led boutique classes to our Members anytime, anywhere. We make fitness entertaining, approachable, effective, and convenient, while fostering social connections that encourage our Members to be the best versions of themselves. We define a Member as any individual who has a Peloton account through a paid Connected Fitness Subscription (“All-Access Membership”), or a paid Peloton App subscription.

We are an innovation company at the nexus of fitness, technology, and media. We have disrupted the fitness industry by developing a first-of-its-kind subscription platform that seamlessly combines the best equipment, proprietary networked software, and world-class streaming digital fitness and wellness content, creating a product that our Members love.

Our world-class instructors teach classes across a variety of fitness and wellness disciplines, including indoor cycling, indoor/outdoor running and walking, Bike and Tread bootcamps, yoga, Pilates, Barre, strength training, stretching, meditation, and floor cardio. We produce hundreds of original programs per month and maintain a vast and constantly updated library of thousands of original fitness and wellness programs. We make it easy for Members to find a class that fits their interests based on class type, instructor, music genre, length, available equipment, area of physical focus, and level of difficulty.

Our Connected Fitness Product portfolio includes the Peloton Bike, Bike+, Tread, Tread+, and our recently launched first connected strength product, Peloton Guide. Our revenue is generated primarily from the sale of our Connected Fitness Products and associated recurring Subscription revenue. We have historically experienced significant growth in sales of our Connected Fitness Products, which, when combined with our low Average Net Monthly Connected Fitness Churn has led to significant growth in Connected Fitness Subscriptions. From the start of fiscal 2021 through fiscal 2022 year-end, Total revenue decreased 11%, and our Connected Fitness Subscription base grew 27%.

Our financial profile has been characterized by strong retention, recurring revenue, and efficient customer acquisition. Our low Average Net Monthly Connected Fitness Churn, together with our high Subscription Contribution Margin, yields an attractive lifetime value (LTV) for our Connected Fitness subscriptions well in excess of our customer acquisition cost (CAC). Maintaining an attractive LTV/CAC ratio is a primary goal of our acquisition strategy.

Our Products

Connected Fitness Products

Bike

Our current Bike features a carbon steel frame, a nearly silent belt drive, durable magnetic resistance, and a 22” high-definition touchscreen with built-in stereo speakers to stream live and on-demand classes, all in a compact, 4’ by 2’ footprint. Our Bike is available in the United States, Canada, the United Kingdom, Germany, and Australia.

Bike+

Our Bike+ provides an immersive cardio experience and seamless transition to floor-based exercises with its 24”, 360 degree rotating display. Members can easily pivot and tilt the screen to add strength, yoga, and stretching to their routine or take our Bike bootcamp class series. Resistance on Bike+ is controlled digitally allowing Members to “Auto Follow” their instructors’ class programs and control resistance from the touchscreen. A powerful built-in soundbar and subwoofer system offers an improved audio experience while the integrated Apple GymKit simplifies Apple Watch pairing. Bike+ is currently available for purchase in the United States, Canada, the United Kingdom, Germany, and Australia.

Tread

The newest addition to our Tread line has all the essential elements of the Tread+ experience but in a more affordable and compact form factor – maintaining ample running surface area and runner comfort. The Tread features a sleek belt drive, 24” touchscreen with integrated soundbar and subwoofer, and ergonomic pace and incline control knobs and jump buttons. With an immersive audio and video experience and heart rate monitor integration, Peloton Tread is designed for both on-Tread as well as floor-based bootcamp content. Tread is currently available for purchase in the United States, Canada, the United Kingdom, and Germany.

Tread+

Tread+ features a shock-absorbing rubber-slat belt and ball bearing system, ideal for low-impact training. Pace and incline ergonomic control knobs allow for seamless adjustments, and the 32” high-definition touchscreen features a 20-watt sound bar. Tread+ had only been available for sale in the United States, however, on May 5, 2021, we decided to issue a voluntary product recall on Tread+, which we are conducting in collaboration with the Consumer Product Safety Commission ("CPSC"). At this time, we are not able to forecast a date for sales to resume in the United States. See Part I, Item 1A "*Risk Factors — Risks Related to Our Connected Fitness Products and Members.*”

Guide

Guide is our first connected fitness strength product designed to further enhance the full-body workout experience through a number of unique product features. Guide is supported with dedicated content, including exclusive programs for all levels, live body-training classes with instructors, and an extensive move library to help Members learn and perfect proper form. Guide is currently available for purchase in the United States, Canada, the United Kingdom, and Australia.

Subscriptions

Connected Fitness Subscriptions

Our Connected Fitness Subscriptions are on a month-to-month basis, allow for multiple household users, and provide unlimited access to all live and on-demand classes. Our Connected Fitness Subscription allows Members to access classes through our Connected Fitness Products, compete on our motivating leaderboard, track performance metrics, and connect and interact with the broader Peloton community. Our Connected Fitness Subscription also includes access to our content through Peloton Digital, our digital app, which is available through iOS and Android mobile devices and most tablets and computers. On average, we had 2.1 Members per Connected Fitness Subscription as of June 30, 2022.

Peloton Digital

Peloton Digital began as a companion app for Connected Fitness Subscriptions to provide access to our classes while our Members were away from their Connected Fitness Products. A Peloton Digital Subscriber is an individual who has a paid Peloton Digital subscription with a successful credit card billing.

Peloton Digital is included with all Connected Fitness Subscriptions. As of June 30, 2022, 71% of our Members on Connected Fitness Subscriptions used Peloton Digital to supplement their workout regimen. Peloton Digital also helps us attract new Connected Fitness Subscriptions by serving as an acquisition tool for new Members.

Peloton Digital workouts include indoor/outdoor running and walking, Bike and Tread bootcamps, yoga, Pilates, Barre, strength training, stretching, meditation, and floor cardio. Our Members have shown strong interest in these new verticals; in fiscal 2022, 56% of workouts completed were across non-cycling fitness verticals.

Our Integrated Fitness Platform

Technology

Our content delivery and interactive software platform are critical to our Member experience. We invest substantial resources in research and development to enhance our platform, develop new products and features, and improve the speed, scalability, and security of our platform infrastructure. Our research and development organization consists of world-class engineering, product, and design teams. Our engineering, product, and design teams work together to bring our products to life, from conception and validation to implementation. We constantly improve our existing Connected Fitness Products through frequent software updates, rapid iteration of feature enhancements, and new innovations.

Our video streaming pipeline utilizes cloud providers for stream generation, storage, and distribution. The integration with these providers is customized and developed by our engineering team and is designed to integrate with our product and systems. This enables a high-quality Member experience and high availability of services across diverse consumer platforms and geographies.

Content and Music

We create engaging, original fitness and wellness content in an authentic live environment that is immersive and motivating while encouraging a sense of community. We combine high production value content with a broad catalog of music to create a truly unique fitness experience our Members love.

We use performance data to understand our Members’ workout habits in order to evolve and optimize our programming around class type, length, music, and other considerations. We have developed a diverse content library with thousands of classes across an extensive range of class lengths, difficulty levels, and fitness preferences ranging from fun and flexible to structured and highly technical, all of which our Members easily access through filtering and search capabilities. As of June 30, 2022, we produce original programs from our production studios in New York City and London, with 54 instructors, and across 14 fitness and wellness disciplines including indoor Cycling, Tread, Outdoor Running and Walking, Bike and Tread bootcamps, Yoga, Strength Training, Pilates, Barre, Stretching, Meditation, Floor Cardio, and Dance Cardio. We have additionally updated our Scenic Content to include instructor-guided content shot in beautiful locations with multi-channel Scenic Radio options, as well as Lanebreak, a gamified workout feature that allows members to experience an animated workout as an alternative to original programming.

As we further expand internationally, we intend to develop localized content, as we have done in the United Kingdom and Germany. As we expand into other non-English-speaking countries, we intend to produce classes in local languages from our existing studios and use subtitling for English-speaking users. We currently produce our content in three languages: English, German, and Spanish.

Instructors

In front of the camera, our instructors play a critical role in bringing the Peloton experience to life for our Members. Our instructors are not only authorities in their respective areas of fitness, but also relatable, magnetic personalities who inspire passionate followings. We offer a diverse cast of instructors that allows us to appeal to a broad audience of Members. Our instructors inspire our Members off-camera by attending showroom openings and other Member-focused events, like Homecoming, where they meet and interact with our Members. Our Members feel connected to our instructors and many Members travel long distances to take a live class at our Peloton studios.

Production Team

Behind the camera, our studio production teams are dedicated to creative excellence. We have top production talent representing decades of experience at major broadcast and cable networks, some of whom have won Emmy Awards for production excellence. Our teams provide dedicated creative support to our instructors before, during, and after live productions with the help of content performance data. All classes are shot in broadcast quality environments with a fraction of the staff and budget typical of a major network show. This allows us to deliver a constant stream of live-produced, authentic fitness and wellness programming with cinematic quality that provides clarity of instruction and entertainment value.

Music and Music Technology

We have developed a proprietary music platform that fuels the workout experience allowing our instructors to program curated playlists that align with our Members' musical preferences. As of June 30, 2022, we had over 4 million active tracks under license, representing one of the largest audiovisual connected fitness music catalogs in the world. Our curated music is as diverse and dynamic as the Members we serve, delivering an exceptional musical experience created by instructors and music supervisors on our production team.

We control the intersection of fitness and music in a deeply engaging way, motivating Members to achieve their fitness goals while discovering great music in the process. Peloton has become noteworthy as a music-forward brand and discovery platform for new artists and songs while also providing the opportunity for our Members to engage in a new way to the music they love. Members consistently rank music as one of their favorite aspects of the Peloton experience. We believe we have taken a leading position in the fitness and wellness category by defining new standards for musical content partnership campaigns that feature some of the most recognizable global talent in the industry. This also includes the development of our signature Artist Series which celebrate the legacy and catalog of some of the most prominent names in the business. We premiere new music exclusives available only on Peloton, and collaborate closely with artist teams across a variety of productions including remixes, curation, custom content, and guest platform appearances, all based on their own music or influences.

We have applied, and will continue to apply, technological solutions and an artist-centric partnership strategy to enhance our music platform including:

- Development of data-driven playlist recommendations for our instructors and music supervisors to use in programming;
- Song search and filtering optimizations, including the ability to search by song length and beats per minute;
- Automation of music rights management and reporting;
- For Members, a display of every song played in a class, including artist name and associated artwork;
- Ability for Members to “like” songs they discover anywhere on our platform and save it to their profile;
- Spotify and Apple Music integrations, enabling Members to sync songs they hear on Peloton to their streaming service; and
- Strengthening and leveraging artist partnerships on and off-platform for deeper membership engagement and heightened brand profile.

Music Rights Strategy

We have built a world class music rights content management and reporting system to meet the needs of our music rights holders in order to support our highly-engaged, growing global community. Peloton is increasingly seen by our partners as an impactful music discovery platform, which has created opportunities to progressively and meaningfully enhance our classes with custom music experiences. We expect this to continue as we invest in music-first technology to improve the quality of our Members' experience, strengthen our competitive advantage over other fitness platforms, and add value to our Members.

Sales and Marketing

Our goal is to increase brand awareness and purchase intent for our Connected Fitness Products and Subscriptions. We use a unique combination of brand and product-specific performance marketing to build brand awareness and generate predictable sales of our Connected Fitness Products.

Video has been the strongest medium to communicate the features of the Peloton platform. We primarily market through advertisements on broadcast and cable television, social media, and over-the-top providers such as Hulu and YouTube to reach our target audience, focusing on incremental return on investment.

Direct to Consumer, Multi-Channel Sales Model

We sell our products directly to customers through a multi-channel sales platform that includes e-commerce, inside sales, showrooms, and in a small number of cases, a "store within store" concept. Our sales associates use robust customer relationship management tools to deliver an elevated, personalized, and educational purchase experience, regardless of channel of capture and conversion.

- *E-Commerce and Inside Sales:* Our desktop and mobile websites, www.onepeloton.com, www.onepeloton.co.uk, www.onepeloton.de, www.onepeloton.ca, and www.onepeloton.com.au provide an elevated brand experience where visitors can learn about our products and services and access product reviews. Our inside sales team engages with customers by phone, email, and online chat on our websites, and offers one-on-one sales consultations seven days a week.

- *Showrooms:* Our showrooms allow customers to experience and try our products. We provide interactive product demonstrations and many of our showrooms have private areas where customers can do a “test ride” or “test run.” We frequently host Peloton community events in our showrooms, which help deepen brand engagement and loyalty.

- *Commercial:* The commercial and hospitality markets represent a small percentage of sales but are important to driving trial and brand awareness. Our Bikes in hospitality locations help keep our Members riding when they travel, creating further Member engagement, loyalty, and convenience. Across our markets as of June 30, 2022, there were approximately 18,000 Peloton Bikes in over 8,000 commercial locations.

- *Corporate Wellness:* Our Corporate Wellness program provides employers, insurers, and other partners with the opportunity to offer their employees and Members subsidized access to Peloton Digital subscriptions, All Access Memberships, and/or Connected Fitness Products and delivers on our oft-stated goal to make Peloton even more accessible.

Additionally, with our announcement in August 2022 that Peloton Bike, Guide, and select accessories and apparel are available for purchase in Amazon's U.S. stores, we have begun and expect to continue to broaden our sales channels, including through distribution to third-party retailers.

Showroom Sites

As of June 30, 2022, we operated 135 retail locations across the United States, Canada, the United Kingdom, Australia, and Germany. Our retail locations are located primarily in upscale malls, lifestyle centers, and premium street locations. When evaluating potential new markets, we carefully examine historical sales data, key demographics, traffic patterns, geographic locations, and co-tenancy of other complementary lifestyle-oriented retailers. In the United States, we attempt to cluster stores around major urban markets and suburbs while also operating in super regional and regional centers that draw from a greater trade area. In Canada, Germany, Australia, and the United Kingdom, we will continue to focus on major urban markets.

We operate three retail formats including our large showrooms which range from 1,500 to 3,000 square feet and “microstores” which are typically around 300 square feet. Large showrooms comprise 75% of our retail locations and provide space for Connected Fitness Products and Peloton-branded apparel, as well as private areas for “test rides” and “test runs.” Microstores represent 5% of our retail locations and are typically placed in highly visible “center court” areas. Concession stores represent 20% of our retail locations and consist of a presence within a partner's retail space in the U.K., Australia, and Germany. Our large showroom leases are typically five to ten years in lease duration while microstores are typically open for up to 1.5 years. Microstores allow us to test markets and specific shopping areas, and provide a temporary location while searching for the ideal large showroom space.

On August 12, 2022, as part of our previously announced ongoing restructuring initiatives, we announced the decision to rebalance our e-commerce and retail mix to drive efficiencies and therefore reduce our retail showroom presence across North America.

Membership & Member Support Services

The Membership team, which includes third-party support providers, is focused on driving engagement to help us maintain our high Connected Fitness Subscription retention rates. The team develops new ways to promote engagement with our products and community or help Members reengage with our platform when activity has lapsed. The Membership team helps curate goal-based challenges, awards digital badges for Member accomplishments, and sends Peloton-branded “Century Club” shirts after a Member’s 100th class. The team also communicates with Members with no recent activity through email campaigns that help encourage these Members to get back to their workout routine. In addition, the Membership team collects and responds to feedback about our platform that is on our primary Facebook group of over 469,000 Members as of June 30, 2022.

In order to bring our community together, we organize several in-person events throughout the year including to welcome Members for workouts, celebrate milestones, and attend instructor meet-and-greets at our production studios in New York City and London. We also host Members at our showrooms, and celebrate our Members with our flagship Member event, Peloton Homecoming, held in New York City and remotely each May. While all in-person events were cancelled during the COVID-19 pandemic, we re-opened our Peloton Studios in New York to the public in July 2022 and have resumed some in-person events.

The Member Support team, along with our third-party support providers, serves all the needs of our customers and Members including sales support, scheduling, delivery, installation, account and billing inquiries, product trouble-shooting and repair, product education, returns and exchanges, and anything else our Members need.

Manufacturing and Logistics

We have historically manufactured and assembled our products in-house, as well as through third parties, and in July 2022, we announced a shift to utilizing third-party manufacturing partners for 100% of our products. The components used in our products are procured on our behalf using our designs by our contract manufacturers, according to our required design specifications and high

standards, from a variety of suppliers. In order to account for technology evolution and market fluctuations, we regularly review our relationships with our existing contract manufacturers and the components suppliers that they contract with, while evaluating prospective new partnerships.

We purchase from our primary contract manufacturers on a purchase order basis. Under our governing agreements, our contract manufacturers must follow our established product design specifications, quality assurance programs, and manufacturing standards. We have developed relationships with our partners to maintain access to the resources needed to scale seasonally and ensure our partners have the requisite experience to produce our Connected Fitness Products and accessories. We pay for and own certain tooling and equipment specifically required to manufacture our products to have control of supply and component pipelines.

In an attempt to mitigate against the risks related to a single source of supply, we qualify alternative suppliers and manufacturers when possible, and develop contingency plans for responding to disruptions, such as maintaining buffer inventory of single source components or utilizing alternative freight lanes that can have cost implications. However, given the current global supply and freight constraints, or natural disasters, we face challenges with various manufacturing related component shortages.

Logistics and Fulfillment

Historically, we have used a combination of contracted third-party logistics providers ("3PLs") and owned assets in our logistics network which includes middle mile and last mile operations centers in the United States, Canada, Germany and the United Kingdom. In the Australian market, we have utilized contracted services for the entire logistics network.

We are moving towards exclusively utilizing 3PL partners for our last mile network in North America and are actively exploring similar transitions to a more variable network in our international markets. This shift in logistics strategy is meant to allow us to further scale our delivery capabilities and to drive improvements in speed of service, cost and geographical reach, all while maintaining flexibility. We seek out 3PL partners who are highly-trained experts on our products and services and offer product education, assistance with account set up, tips and recommendations for product care as well as content selection.

With our commitment to our Members-first approach, we will continue to invest to strengthen our field operations' coverage, and improved delivery experience and service.

Intellectual Property

The protection of our technology and intellectual property is an important aspect of our business. We rely upon a combination of patents, trademarks, trade secrets, copyrights, confidentiality procedures, contractual commitments, and other legal rights to establish and protect our intellectual property. We generally enter into confidentiality agreements and invention or work product assignment agreements with our employees and consultants to control access to, and clarify ownership of, our proprietary information.

As of June 30, 2022, we held 158 U.S. issued patents and had 72 U.S. patent applications pending. We also held 259 issued patents in foreign jurisdictions and 206 patent applications pending in foreign jurisdictions. Our U.S. issued patents expire between May 9, 2023 and November 24, 2040. As of June 30, 2022, we held 41 registered trademarks in the United States, including the Peloton mark and our "P" logo and also held 566 registered trademarks in foreign jurisdictions. We continually review our development efforts to assess the existence and patentability of new intellectual property. We intend to continue to file additional patent applications with respect to our technology.

Intellectual property laws, procedures, and restrictions provide only limited protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed, or misappropriated. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States, and, therefore, in certain jurisdictions, we may be unable to protect our proprietary technology.

Competition

We believe that our first-mover advantage, leading market position, brand recognition, and integrated platform set us apart in the market for connected, technology-enabled fitness. We provide a superior value proposition and benefit from the clear endorsement of our Connected Fitness Subscription and mobile app solutions, giving us a competitive advantage versus traditional fitness and wellness products and services, and future potential entrants.

While we believe we are changing the consumption patterns for fitness and growing the market, our main sources of competition include in-studio fitness classes, fitness clubs, at-home fitness equipment and content, and health and wellness apps.

The areas in which we compete include:

- ***Consumers and Engagement.*** We compete for consumers to join our platform through Connected Fitness Subscriptions or Peloton Digital subscriptions, and we seek to engage and retain them through an integrated experience that combines content, software, service, and community.
- ***Product Offering.*** We compete with producers of fitness products and services and work to ensure that our platform maintains the most innovative technology and user-friendly features.

- ***Talent.*** We compete for talent in every vertical across our company including technology, media, fitness, design, supply chain, logistics, music, marketing, finance, strategy, legal, and retail. As our platform is highly dependent on technology, hardware, and software, we require a significant base of engineers to continue innovating.

The principal competitive factors that companies in our industry need to consider include, but are not limited to: total cost, supply chain efficiency across sourcing and procurement, manufacturing and logistics, enhanced products and services, original content, product quality and safety, competitive pricing policies, vision for the market and product innovation, strength of sales and marketing strategies, technological advances, and brand awareness and reputation. We believe we compete favorably across all of these factors and we have developed a business model that is difficult to replicate.

Government Regulation

We are subject to many varying laws and regulations in the United States, the United Kingdom, the European Union and throughout the world, including those related to privacy, data protection, content regulation, intellectual property, consumer protection, e-commerce, marketing, advertising, messaging, rights of publicity, health and safety, employment and labor, product quality and safety, accessibility, competition, customs and international trade, and taxation. These laws often require companies to implement specific information security controls to protect certain types of information, such as personal data, “special categories of personal data” or health data. These laws and regulations are constantly evolving and may be interpreted, applied, created, or amended in a manner that could harm our current or future business and operations. In addition, it is possible that certain governments may seek to block or limit our products and services or otherwise impose other restrictions that may affect the accessibility or usability of any or all of our products and services for an extended period of time or indefinitely.

Seasonality

Historically, we have experienced higher revenue in the second and third quarters of the fiscal year compared to other quarters, due in large part to seasonal holiday demand, New Year’s resolutions, and cold weather. We also have historically incurred higher sales and marketing expenses during these periods. For example, in fiscal 2018 and 2019, our second and third quarters combined each represented 63% of our Total revenue for the applicable fiscal year. However, in fiscal 2020, we saw a significant increase in demand in the fourth quarter related to the onset of the COVID-19 pandemic, and in contrast to previous years, only 54% of our Total revenue was generated in our second and third quarters. In fiscal 2021, the ongoing COVID-19 pandemic and the recalls of our Tread products in the fourth quarter of fiscal 2021 continued to impact our historical seasonal patterns, with the second and third fiscal quarters accounting for only 58% of our fiscal 2021 sales (excluding Precor sales as Precor was consolidated beginning in the fourth fiscal quarter of 2021). In fiscal 2022, the ongoing COVID-19 pandemic and the recalls of our Tread products in the fourth quarter of fiscal 2021 impacted our historical seasonal patterns, with the second and third fiscal quarters accounting for 59% of fiscal 2022 sales. As the pandemic receded in recent months, we began to experience a return to pre-pandemic seasonal trends. However, should the COVID-19 pandemic worsen or if its effects prove to be prolonged, we may continue to see atypical seasonal trends.

Human Capital

Our Culture

Our dynamic culture expresses our expansive vision and passion for community and collaboration, and is shaped by the following fundamental values:

- Put Members First: We obsess over every touchpoint of our Member experience - always remembering that when our Members win, we win. We root everything we do and all product and feature development in Member needs and never assume we know what is best. We believe in building connections based on trust, respect, and inclusion, and are proud that our Member community embodies these qualities.
- Operate with a Bias for Action: We challenge the status quo by continuously innovating, learning, and improving. We embrace failure and change as an opportunity to be agile, take smart risks, and learn - and we also take the time to pause in order to act and move forward with sharper focus and intent. We never let the fear of imperfection stop us from achieving great things.
- Empower Teams of Smart Creatives: We hire team members who are great at what they do, then give them the trust, autonomy, and resources to do their jobs and make decisions. We empower one another to embrace a creative mindset and be creative in execution, problem-solving, thinking beyond parameters, and delivery. We take the time to show appreciation and celebrate the achievements of our team members.
- Together We Go Far: As our company name suggests, we know the importance and value of a team. Work shoulder-to-shoulder and have each other’s backs, encourage everyone to have a voice, and draw out the best in others. We uphold the obligation to dissent rather and are open to perspectives different from our own.
- Be the Best Place to Work: We are committed to cultivating and maintaining our authentic, world-class culture across all our markets – putting team member experience, well-being, and safety at the heart of all that we do. We strive to show up with empathy, honesty, and authenticity and are committed to maintain and build on this aspect of our culture as we grow and scale.

We live these values through our approach to human capital management, summarized below.

Employees

As of June 30, 2022, we employed 3,723 individuals in the United States across our New York City headquarters, Plano campus, Atlanta office, showrooms, and field operations warehouses, with 3,576 being full-time employees. Internationally, we had 857

employees in the United Kingdom, Ireland, Germany, and Australia across corporate, showroom, and warehouse functions, 86 employees in Canada, largely in showroom and warehouse roles, and 738 individuals in Taiwan across manufacturing, quality engineering and operations functions. Additionally, Precor's 791 employees are located across 13 countries, with most based in manufacturing facilities in North Carolina and Washington state. We also hire additional seasonal employees, primarily in our showrooms, during the holiday season.

In July 2022, we announced we are exiting all owned-manufacturing, which involves the reduction in our workforce of approximately 500 employees in Taiwan. Additionally, in connection with our previously announced ongoing restructuring initiatives, in August 2022, we announced our plans for a reduction in our workforce of approximately 530 employees from our North American delivery workforce teams, as well as approximately 250 Member support positions in North America.

Certain of our instructors are covered by collective bargaining agreements with the Screen Actors Guild-American Federation of Television and Radio Artists, or SAG-AFTRA. However, we are not signatories to any agreements with SAG-AFTRA. With the exception of SAG-AFTRA, none of our domestic employees are currently represented by a labor organization or a party to any collective bargaining agreements.

Diversity, Equity, and Inclusion

We are unapologetic about our bold and unrelenting commitment to creating workspaces that are equitable for all and where all team members can thrive, and where they are recognized for their individual and collective contributions to our business.
Our diversity, equity, and inclusion (“DEI”) team operate as a center of excellence, partnering across the business and proactively using data, evidence and insights to inform our programming, ensuring it remains locally relevant and responsive.

We’re proud that one of our core tenets is to strive to operate as an antiracist organization, and in 2020, we committed ourselves to the Peloton Pledge, our ongoing multi-year, business wide commitment to combat systemic inequity and promote global health and well-being for all. Through the Peloton Pledge we are investing across five pillars:

- Our Workforce - We offer above-market entry rates for our hourly workforce;
- Learning and Development - We offer content that focuses on supporting the mobility of our team members and we are doubling down on training around DEI topics;
- Community Investments - We partner with leaders and action-oriented nonprofits to drive change in the broader community
- Inclusive Content - We produce content and experiences that uplift diverse perspectives within our community; and
- Long-Term DEI - We invest in various programs to support long-term DEI, as further described below.

For our team members, the Peloton Pledge has meant an increased emphasis on delivery of value-added, business-wide DEI programming. In our ongoing push for business-wide shared learning, we continue to create psychologically safe spaces for our employees to learn and grow together.

We offer development programs for all team members, including an online resource, the Antiracism Activation Center, to bolster their journey toward becoming an antiracist ally. In addition, we established a bronze-level baseline for the MLT Black Equity at Work Certification – a comprehensive process aimed at broad and long-term systemic change – and will strive to reach gold level in the coming years.

We have also introduced specific learning programs for managers, such as Prototyping Inclusion and Activating Allyship, to help our leaders support our DEI goals. We similarly host “Brave Conversations'” on race and equity that help us accelerate our path to becoming the Best Place to Work.

When it comes to supporting our team members, we are proud to have eight U.S. and five International Employee Resource Groups (“ERGs”) that foster a diverse and inclusive workplace. Our ERGs amplify team member voice and help us foster belonging and engagement across all the markets we operate in:

- ACE@Peloton (Asian Community);
- Black@Peloton;
- LHIT@Peloton (Latinx/Hispanic in Tech);
- Peloton Pride + Allies;
- The Parenthood Journey;
- The Women’s Alliance;
- Veterans@Peloton; and
- Thrive (mental health, neurodiversity, and disability).

To hold ourselves accountable on pay equity, we conduct an annual third-party analysis of team members’ pay to evaluate the impact, if any, of gender, race, or ethnicity on base pay independent of business relevant factors. The pay equity study conducted in April 2022 identified no statistically significant pay gaps based on gender, race, or ethnicity, and any identified pay gaps (regardless if such gaps were statistically significant or not) have been adjusted to support our commitment to achieve true pay equity across Peloton. Our pay equity study is in addition to any market-specific obligations we have to undertake pay gap analyses, such as our Gender Pay Gap Study in the United Kingdom. Our bold, ambitious DEI efforts are designed to achieve equity, including pay equity, for all our team members and to ensure we’re a globally inclusive business.

Employee Safety

We prioritize the health and welfare of our team members, our Members, and our environment. The core elements of our employee health and safety strategy include site risk analysis, incident management, documented processes, environmental programs, training, and occupational health programs. Our Global Safety & Security Operations team promotes safe operations and provides team members with access to our global 24/7 Risk Operations Center. Concerns about the health and safety of our employees, or the health and safety of individuals working on behalf of Peloton suppliers or business partners, are reportable through our Ethics Hotline or online Ethics Portal, which is monitored by our Compliance and Risk Team. We continually strive to improve processes across field safety training, incident training, professional investigations, and standardization of physical security resources, among other areas.

Training, Development, and Engagement

At Peloton, we have a dedicated global Learning and Development Team that develops and delivers company-wide training experiences across all functions. These include, but are not limited to:

- Connected Leadership for people managers, which focuses on Peloton's approach to leadership, coaching and team member connectivity;
- Internal hiring and mobility program, which supports professional growth;
- Functional and role specific training;
- Required compliance trainings for all team members;
- A Learning Management System, Peloton Academy, which houses training resources for all roles across the Company; and
- A Monthly Virtual Learning Series with additional learning opportunities, on a variety of topics, available for all team members.

We are committed to making Peloton the best place to work by engaging with, and listening to, our employees. We maintain ongoing connection with our team members through our company intranet, "Pelonet"; regular all-hands meetings, team town halls, and company-wide engagement surveys during the year. Recent surveys have led to enhancements across safety and security, employee connection, communication and learning and development initiatives.

Our Patent Incentive Program provides rewards and recognition to qualifying team members whose inventions are included in a patent application submitted by Peloton, and the Peloton High Five Fund, a team member and Peloton-funded grant, enables team members to provide financial relief to help other team members who are facing hardship resulting from a natural disaster or unforeseen personal challenge.

Competitive Compensation and Work/Life Harmony

Our compensation program is structured around our overarching philosophy of rewarding demonstrable performance and aligning employees with our goals and strategy. Consistent with this approach, we provide market competitive compensation and benefits that will attract, motivate, reward, and retain a highly talented team.

We take a comprehensive view of the tools and programs we use to attract, reward, and retain top talent. Our workforce is diverse – so our benefits must be, too. Peloton offers a broad array of benefits to our team members, including:

- Comprehensive health care and mental health benefits;
- Childcare solutions;
- Generous parental leave;
- Referral bonus program;
- Legal assistance;
- Product and apparel discounts; and
- Access to the Peloton app.

At Peloton, we encourage our team members to foster kindness, support, empathy, respect, compassion, and a sense of community in all interactions every day. To help us reach our goal of maintaining healthy work/life harmony, we have instituted supportive practices for working and maintain the following policies:

- Hybrid work arrangements and flexible paid time off;
- Paid volunteer time off;
- Paid civic time off for select civic activities; and
- Matching program of up to $1,000/year for employee charitable donations.

Corporate Information

Our website address is www.onepeloton.com. The information contained on, or that can be accessed through, our website is not incorporated by reference into, and is not a part of, this Annual Report on Form 10-K. Investors should not rely on any such information in deciding whether to purchase our Class A common stock.

Peloton, the Peloton logo, Peloton Bike, Peloton Bike+, Peloton Tread, Peloton Tread+, Peloton Digital, and other registered or common law trade names, trademarks, or service marks of Peloton appearing in this Annual Report on Form 10-K are the property of Peloton. This Annual Report on Form 10-K contains additional trade names, trademarks, and service marks of other companies that are the property of their respective owners. We do not intend our use or display of other companies' trade names, trademarks, or service

marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies. Solely for convenience, our trademarks and tradenames referred to in this Annual Report on Form 10-K appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the right of the applicable licensor, to these trademarks and tradenames.

Available Information

Our reports filed with or furnished to the SEC pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our Investor Relations website at https://investor.onepeloton.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website at http://www.sec.gov that contains reports, and other information regarding us and other companies that file materials with the SEC electronically. We use our Investor Relations website (https://investor.onepeloton.com/investor-relations) as well as our Twitter feed (@onepeloton) and Press Newsroom (https://www.onepeloton.com/press) as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor our Investor Relations website, Twitter feed and Press Newsroom in addition to following our press releases, SEC filings, and public conference calls and webcasts.

Item 1A. Risk Factors

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this Annual Report on Form 10-K, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and the accompanying notes and the information included elsewhere in this Annual Report on Form 10-K and our other public filings before deciding whether to invest in shares of our Class A common stock. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial may also become important factors that adversely affect our business. If any of the following risks occur, our business, financial condition, operating results, and future prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

We have incurred operating losses in the past, may incur operating losses in the future, and may not achieve or maintain profitability in the future.

We have incurred operating losses each year since our inception in 2012 and may continue to incur net losses in the future. We expect that our operating expenses may increase in the future as we optimize and grow our business, including via our sales and marketing efforts, continuing to invest in research and development, adding content and software features to our platform, expanding into new geographies, and developing new Connected Fitness Products. These efforts and additional expenses may be more costly than we expect, and we cannot guarantee that we will be able to increase our revenue to offset our operating expenses. Our revenue growth may slow or our revenue may decline for a number of other reasons, including reduced demand for our products and services, increased competition, a decrease in the growth or reduction in size of our overall market, or if we cannot capitalize on strategic opportunities. If our revenue does not grow at a greater rate than our operating expenses, we will not be able to achieve and maintain profitability.

We may be unable to attract and retain Subscribers, which could have an adverse effect on our business and rate of growth.

We have experienced significant Subscriber growth over the past several years. Our continued business and revenue growth is dependent on our ability to continuously attract and retain Subscribers, and we cannot be sure that we will be successful in these efforts, or that Subscriber retention levels will not materially decline. There are a number of factors that could lead to a decline in Subscriber levels or that could prevent us from increasing our Subscriber levels, including:

- our failure to introduce new features, products, or services that Members find engaging or our introduction of new products or services, or changes to existing products and services that are not favorably received;
- harm to our brand and reputation;
- pricing and perceived value of our offerings;
- our inability to deliver quality products and functionality, content, and services;
- actual or perceived safety concerns regarding our products;
- unsatisfactory experiences with the delivery, installation, or servicing of our Connected Fitness Products, including due to delivery costs or prolonged delivery timelines and limitations on, cost of, or the suspension of, the in-home installation, return, and warranty servicing processes;
- our Members engaging with competitive products and services;
- technical or other problems preventing Members from accessing our content and services in a rapid and reliable manner or otherwise affecting the Member experience;
- a decline in the public’s interest in indoor cycling or running, or other fitness disciplines that we invest most heavily in;
- deteriorating general economic conditions or a change in consumer spending preferences or buying trends;
- changes in consumer preferences regarding home fitness, whether as a result of the COVID-19 pandemic or otherwise; and
- interruptions in our ability to sell or deliver our Connected Fitness Products or to create content and services for our Members as a result of the COVID-19 pandemic or otherwise.

Additionally, any potential expansion into international markets can involve new challenges in attracting and retaining Subscribers that we may not successfully address. As a result of these factors, we cannot be sure that our Subscriber levels will be adequate to maintain or permit the expansion of our operations. A decline in Subscriber levels could have an adverse effect on our business, financial condition, and operating results.

Our operating results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory.

To ensure adequate inventory supply, we must forecast inventory needs and expenses and place orders sufficiently in advance with our suppliers and contract manufacturers, based on our estimates of future demand for particular products and services. Failure to accurately forecast our needs may result in manufacturing delays, increased costs, or an excess in inventory. Our ability to accurately forecast demand could be affected by many factors, including changes in consumer demand for our products and services, changes in demand for the products and services of our competitors, unanticipated changes in general market conditions, and the weakening of economic conditions or consumer confidence in future economic conditions, such as those caused by the COVID-19 pandemic. If we fail to accurately forecast consumer demand, we may experience excess inventory levels or a shortage of products available for sale.

We have recently experienced a decrease in consumer demand and an increase in our inventory levels. Inventory levels in excess of consumer demand has resulted in, and may continue to result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices,

which would cause our gross margins to suffer and could impair the strength and premium nature of our brand. Further, lower than forecasted demand has resulted, and could continue to result in excess manufacturing capacity or reduced manufacturing efficiencies, which could result in lower margins. In periods when we experience a decrease in demand for our products and an increase in inventory, we may be unable to renegotiate our agreements with existing suppliers or partners on mutually acceptable terms and may be prevented from fully utilizing firm purchase commitments. Although in certain instances our agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs, our loss contingencies may include liabilities for contracts that we cannot cancel, reschedule or adjust with suppliers or partners. In addition, we may deem it necessary or advisable to renegotiate agreements with our supply partners in order to scale our inventory with demand. Disputes with our supply partners regarding our agreements could result in litigation, which could result in adverse judgments, settlements or other litigation-related costs as well as disruption to our supply chain and require management's attention. Further, we are required to evaluate goodwill impairment on an annual basis and between annual evaluations in certain circumstances, and future goodwill impairment evaluations may result in a charge to earnings. See "— *We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business."* Conversely, if we underestimate consumer demand, our suppliers and manufacturers may not be able to deliver products to meet our requirements or we may be subject to higher costs in order to secure the necessary production capacity. See "— *Increases in component costs, long lead times, supply shortages, and supply changes could disrupt our supply chain and have an adverse effect on our business, financial condition, and operating results.*" An inability to meet consumer demand and delays in the delivery of our products to our customers could result in reputational harm and damaged customer relationships and have an adverse effect on our business, financial condition, and operating results.

We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business.

In February 2022, we announced a restructuring plan to, among other things, reduce certain fixed costs in our business, and we continue to take actions intended to address the short-term health of our business as well as our long-term objectives based on our current estimates, assumptions and forecasts, These measures are subject to known and unknown risks and uncertainties, including whether we have targeted the appropriate areas for our cost-saving efforts and at the appropriate scale, and whether, if required in the future, we will be able to appropriately target any additional areas for our cost-saving efforts. As such, the actions we are taking under the restructuring plan and that we may decide to take in the future may not be successful in yielding our intended results and may not appropriately address either or both of the short-term and long-term strategy for our business. Implementation of the restructuring plan and any other cost-saving initiatives may be costly and disruptive to our business, the expected costs and charges may be greater than we have forecasted, and the estimated cost savings may be lower than we have forecasted. Additionally, certain aspects of the restructuring plan, such as severance costs in connection with reducing our headcount, could negatively impact our cash flows. In addition, our initiatives have resulted, and could in the future result in, personnel attrition beyond our planned reduction in headcount or reduced employee morale, which could in turn adversely impact productivity, including through a loss of continuity, loss of accumulated knowledge and/or inefficiency during transitional periods, or our ability to attract highly skilled employees. Unfavorable publicity about us or any of our strategic initiatives, including our restructuring plan, could result in reputation harm and could diminish confidence in, and the use of, our products and services. See *"— Our success depends on our ability to maintain the value and reputation of the Peloton brand.*" The restructuring plan has required, and may continue to require, a significant amount of management's and other employees' time and focus, which may divert attention from effectively operating and growing our business. See Part 1, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations —Fourth Quarter Fiscal 2022 Update and Recent Developments—*Restructuring Plan*."

We have grown and the Company has evolved rapidly in recent years and have limited operating experience at our current scale of operations. If we are unable to manage our longer-term growth and intervening changes effectively, our brand, company culture, and financial performance may suffer.

We have expanded our operations rapidly in recent years and have limited operating experience at our current size. As we mature, grow and evolve over time, our business becomes increasingly complex and can take different forms. During periods of growth, we have had to manage costs while making investments such as expanding our sales and marketing, focusing on innovative product and content development, upgrading our management information systems and other processes, and obtaining more space, and in future periods of growth we expect to have to similarly manage our costs while investing in the expansion of our business. Growth and restructuring initiatives strain our existing resources, and we could experience ongoing operating difficulties in managing our business across numerous jurisdictions, including difficulties in hiring, training, managing and retaining a diffuse and at times growing employee base. Failure to preserve our company culture could harm our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives. Moreover, the integrated nature of aspects of our business, where we design our own Connected Fitness Products, develop our own software, produce original fitness and wellness programming, sell some of our products through our own sales teams and e-commerce site, and in some cases assemble, deliver, and service our Connected Fitness Products, exposes us to risk and disruption at many points that are critical to successfully operating our business and may make it more difficult for us to scale our business over time. For example, as a result of and at the onset of the COVID-19 pandemic, we experienced difficulties in meeting consumer demand for our Connected Fitness Products and services due to our employees becoming ill, being unable to travel to our facilities, and constraints within our supply chain. Conversely, we have recently experienced lower demand for our Connected Fitness Products and services, resulting in a shift in our strategic focus, including through the restructuring initiatives we announced in February 2022 and the additional ongoing actions we are taking to optimize our business. As we continue to develop our infrastructure, and particularly in light of the reductions in headcount that began as a part of our February 2022 restructuring initiatives, we may find it difficult to maintain valuable aspects of our culture. If we do not adapt to meet these evolving challenges, or if our management team does not effectively scale with our long-term growth while managing costs, we may experience erosion to our brand, the quality of our products and services may suffer, and our company culture may be harmed.

Our growth strategy has at times contemplated and may in the future contemplate increases in our advertising and other marketing spending, changes to our targeted retail showroom strategy, or contraction of the number of showroom locations with more of an emphasis on third-party retail distribution, including in connection with our announced reduction of our North American showroom presence announced August 12, 2022

as part of our restructuring plan. Many of our existing retail showrooms are relatively new and we cannot assure you that these showrooms or that future showrooms will generate revenue and cash flow comparable with those generated by our more mature locations or at prior rates for that same location, especially as we expand to new geographic markets. We may also at times need to close retail showrooms for strategic reasons or may wish to exit certain retail locations but be limited in timing and cost to exit under the lease terms. Moreover, certain occurrences outside of our control may result in the closure of our retail showrooms. Many of our retail showrooms are leased pursuant to multi-year leases, and our ability to sublease to a suitable subtenant, or negotiate favorable terms to exit a lease early or for a lease renewal option, may depend on factors that are not within our control. We may also open additional production studios as we expand internationally, which will require significant additional investment. The successful implementation of our growth strategy will require significant expenditures before any substantial associated revenue is generated and we cannot guarantee that these increased investments will result in corresponding and offsetting revenue growth. Additionally, we may not be able to realize the cost savings and benefits initially anticipated as a result of the restructuring initiatives that we announced in February 2022 or the additional ongoing initiatives to optimize our business and the anticipated costs of these initiatives may be greater than expected. See *"—We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business*" and See Part 1, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations —Fourth Quarter Fiscal 2022 Update and Recent Developments—*Restructuring Plan*."

Because we have a limited history operating our business at its current scale, it is difficult to evaluate our current business and future prospects, including our ability to plan for and model future growth. Our limited operating experience at this scale, combined with the rapidly evolving nature of the market in which we sell our products and services, substantial uncertainty concerning how these markets may develop, and other economic factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. Failure to manage our future growth and evolution of the company effectively could have an adverse effect on our business, financial condition, and operating results.

If we are unable to anticipate consumer preferences and successfully develop and offer new, innovative, and updated products and services in a timely manner, or effectively manage the introduction of new or enhanced products and services, our business may be adversely affected.

Our success in maintaining and increasing our Subscriber base depends on our ability to identify and originate trends as well as to anticipate and react to changing consumer demands in a timely manner. Our products and services are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to introduce new or enhanced offerings in a timely manner or via the appropriate channels, or our new or enhanced offerings are not accepted by our Subscribers, our competitors may introduce similar or more desirable offerings and at speeds that are faster than us, which could negatively affect our growth. Moreover, our new offerings may not receive consumer acceptance as preferences could shift rapidly to different types of fitness and wellness offerings or away from these types of offerings altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower subscription rates, lower sales, pricing pressure, lower gross margins, discounting of our products and services, and excess inventory levels.

Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address them will partially depend upon our continued ability to develop and introduce innovative, high-quality offerings to market in a way that adequately meets demand. For example, we are looking at ways to broaden our sales channels, including through distribution to third-party retailers, rethinking the value proposition of our Peloton App, and experimenting with a rental program in select markets, where Subscribers pay a single monthly fee for the combined use of their Connected Fitness Product and their Connected Fitness Subscription, rather than paying an initial upfront purchase price for their Connected Fitness Product. Development of new or enhanced products and services may require significant time and financial investment, which could result in increased costs and a reduction in our profit margins. For example, we have historically incurred higher levels of sales and marketing expenses accompanying each product and service introduction. Moreover, while we experienced a significant increase in our Subscriber base at the onset of the COVID-19 pandemic, the rate of the increase has since slowed down and, over the longer term, it remains uncertain how the COVID-19 pandemic will impact consumer demand for our products and services and consumer preferences generally. In addition, we have experienced and may continue to experience delays in the development and introduction of new or enhanced products and services due to the effects of the COVID-19 pandemic and other market constraints. See "— *The full impact of the COVID-19 pandemic, its duration, and any resurgence of infections, is uncertain and cannot be predicted. The COVID-19 pandemic could worsen or its effects may be prolonged, including as a result of variants, which could have an adverse effect on our business, results of operations, and financial condition*."

Moreover, we must successfully manage introductions of new or enhanced products and services, as such introductions could adversely impact the sales of our existing products and services. For instance, consumers may choose to forgo purchasing existing products or services in advance of new or anticipated product and service launches, and we may experience higher returns from users of existing products. As we introduce new or enhanced products and services, we may face additional challenges managing a more complex supply chain and manufacturing process, including the time and cost associated with onboarding and overseeing additional suppliers, contract manufacturers, logistics providers, and third-party retailers. We may also face challenges managing the inventory of new or existing products, which could lead to excess inventory and discounting of such products. In addition, new or enhanced products or services may have varying selling prices and costs compared to legacy products and services, which could negatively impact our brand, gross margins and operating results.

The connected fitness market is relatively new and, if the general market and specific demand for our products and services does not continue to grow, grows more slowly than we expect, or fails to grow as much as we expect, our business, financial condition, and operating results may be adversely affected.

The connected fitness and wellness market is relatively new, rapidly growing over the last several years, and largely unproven, and it is uncertain whether it will sustain high levels of demand and achieve wide market acceptance. Our success depends substantially on the willingness of consumers to widely adopt our products and services. We have had to educate consumers about our products and services through significant investment and provide quality content that is superior to the content and experiences provided by our competitors. Additionally, the fitness and

wellness market at large is heavily saturated, and the demand for and market acceptance of new products and services in the market is uncertain. It is difficult to predict the future growth rates, if any, and size of our market. We cannot assure you that our market will develop or be sustained at current levels, that the public's interest in connected fitness and wellness will continue, or that our products and services will be widely adopted. If our market does not develop, develops more slowly than expected, or becomes saturated with competitors, or if our products and services do not achieve or sustain market acceptance, our business, financial condition, and operating results could be adversely affected.

We rely on a limited number of suppliers, contract manufacturers, and logistics partners for our Connected Fitness Products. A loss of any of these partners could negatively affect our business.

We have historically relied on a limited number of contract manufacturers and suppliers to manufacture and transport our Connected Fitness Products, and since October 2019 we also manufactured certain Connected Fitness Products in-house. In July 2022, we announced we are exiting all owned-manufacturing and subsequently our expanded partnership with one of our existing manufacturers. Due to our strategic exit from in-house manufacturing, we are now solely reliant on contract manufacturers for all of our manufacturing needs. In some cases, we rely on only a single supplier for some of our products and components. In the event of interruption from any of our contract manufacturers or suppliers, we may not be able to increase capacity from other sources or develop alternate or secondary sources without incurring material additional costs and delays, since we do not currently have qualified alternative or replacement contract manufacturers beyond these key partners. Furthermore, a large number of our contract manufacturers' primary facilities are located in Taiwan and China. Thus, our business could be adversely affected if one or more of our suppliers is impacted by escalating tensions, hostilities, or trade disputes in the region, a natural disaster, an epidemic such as the COVID-19 pandemic, or other interruption at a particular location. In particular, the COVID-19 pandemic has caused, and may continue to cause, interruptions in the development, manufacturing (including the sourcing of key components), and shipment of our Connected Fitness Products, which could adversely impact our revenue, gross margins, and operating results. Such interruptions may be due to, among other things, temporary closures of the facilities of our contract manufacturers and other vendors in our supply chain; restrictions on or delays surrounding travel or the import/export of goods and services from certain ports that we use; and local quarantines or other public safety measures. Additionally, we may further increase our reliance on third-party suppliers, manufacturers and other logistics partners. For example, in August 2022, we announced that we are exiting our North American last mile locations and shifting our reliance entirely to third-party logistics providers. Our primary last mile partner currently relies on a network of independent contractors to perform last mile services for us in many markets. If any of these independent contractors, or the last mile partner as a whole, do not perform their obligations or meet the expectations of us or our Members, our brand, reputation and business could suffer. See *"— We have limited control over our suppliers, contract manufacturers, and logistics partners, which may subject us to significant risks, including the potential inability to produce or obtain quality products and services on a timely basis or in sufficient quantity."*

If we experience a significant increase in demand for our Connected Fitness Products that cannot be satisfied adequately through our existing supply channels, if we need to replace an existing supplier, manufacturer or partner, or if we find we need to engage additional suppliers, manufacturers and partners to support our operations, we may be unable to supplement or replace them under our required timing, at a quality standard to our satisfaction, or on market terms that are acceptable to us, which may undermine our ability to deliver our products to Members in a timely manner and otherwise impact our Members' experience. For example, if we require additional manufacturing support, it may take a significant amount of time to identify a manufacturer that has the capability and resources to build our products to our specifications in sufficient volume. Similarly, in times of decreased demand, we may deem it necessary or advisable to renegotiate agreements with our supply partners in order to appropriately scale our inventory, which could impair our relationship with these counterparties if we are unable to arrive at mutually acceptable terms. See *"— Our operating results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory*." Identifying suitable suppliers, manufacturers, and logistics partners is an extensive process that requires us to become satisfied with their quality control, technical capabilities, responsiveness and service, financial stability, regulatory compliance, and labor and other ethical practices. Accordingly, a loss of or poor performance by any of our significant suppliers, contract manufacturers, or logistics partners could have an adverse effect on our business, financial condition and operating results.

We have limited control over our suppliers, contract manufacturers, and logistics partners, which may subject us to significant risks, including the potential inability to produce or obtain quality products and services on a timely basis or in sufficient quantity.

We have limited control over our suppliers, contract manufacturers, and logistics partners, which subjects us to the following risks:

- inability to satisfy demand for our Connected Fitness Products;
- reduced control over delivery timing and related customer experience and product reliability;
- reduced ability to monitor the manufacturing process and components used in our Connected Fitness Products;
- limited ability to develop comprehensive manufacturing specifications that take into account any materials shortages or substitutions;
- variance in the manufacturing capability of our third-party manufacturers;
- price increases;
- failure of a significant supplier, manufacturer, or logistics partner to perform its obligations to us for technical, market, or other reasons;
- variance in the quality of services provided by our third-party last mile partners;
- difficulties in establishing additional supplier, manufacturer, or logistics partner relationships if we experience difficulties with our existing suppliers, manufacturers, or logistics partners;
- shortages of materials or components;
- misappropriation of our intellectual property;
- exposure to natural catastrophes, epidemics such as the COVID-19 pandemic, political unrest, including escalating tensions, hostilities, or trade disputes between Taiwan and China, terrorism, labor disputes, and economic instability resulting in the disruption of trade from foreign countries in which our Connected Fitness Products are manufactured or the components thereof are sourced;
- changes in local economic conditions in the jurisdictions where our suppliers, manufacturers, and logistics partners are located;

- the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, imports, duties, tariffs, taxes, and other charges on imports, as well as trade restrictions and restrictions on currency exchange or the transfer of funds; and
- insufficient warranties and indemnities on components supplied to our manufacturers or performance by our partners.

We also rely on our logistics partners, including third-party last mile partners, to complete a substantial percentage of our deliveries to customers. In August 2022, we announced that we are exiting most of our North American distribution facilities and shifting our reliance entirely to third-party logistics providers. Our primary last mile partner currently relies on a network of independent contractors to perform last mile services for us in many markets. If any of these independent contractors, or the last mile partner itself or by virtue of those with which it contracts, does not perform its obligations or meet the expectations of us or our Members, our brand, reputation and business could suffer.

The occurrence of any of these risks, especially during seasons of peak demand, could cause us to experience a significant disruption in our ability to produce and deliver our products to our customers and could harm our brand and reputation.

Our past financial results may not be indicative of our future performance.

Any historical revenue growth should not be considered indicative of our future performance. In particular, we have experienced periods of high revenue growth since we began selling our Bike, however, our revenue growth has slowed as our business matured and may not resume to prior levels. Additionally, we experienced a significant increase in our Subscriber base at the onset of the COVID-19 pandemic which slowed as consumers were able to resume activity outside the home, and, it remains uncertain how the impacts of the COVID-19 pandemic and other market constraints will impact consumer demand for our products and services over the long term. Estimates of future revenue growth are subject to many risks and uncertainties, and our future revenue may differ materially from our projections. We have encountered, and will continue to encounter, risks and difficulties frequently experienced by growing companies in rapidly changing industries, including market acceptance of our products and services, attracting and retaining Subscribers, and increasing competition and expenses as we expand our business. We cannot be sure that we will be successful in addressing these and other challenges we may face in the future, and our business may be adversely affected if we do not manage these risks successfully. In addition, we may not achieve sufficient revenue to attain or maintain positive cash flows from operations or profitability in any given period, or at all.

We operate in a highly competitive market and we may be unable to compete successfully against existing and future competitors.

Our products and services are offered in a highly competitive market. We face significant competition in every aspect of our business, including at-home fitness equipment and content, fitness clubs, in-studio fitness classes, and health and wellness apps. Moreover, we expect the competition in our market to intensify in the future as new and existing competitors introduce new or enhanced products and services that compete with ours.

Our competitors may develop, or have already developed, products, features, content, services, or technologies that are similar to ours or that achieve greater acceptance, may undertake more successful product development efforts, be more efficient at meeting consumer demand, create more compelling employment opportunities, or marketing campaigns, or may adopt more aggressive pricing policies. Our competitors may develop or acquire, or have already developed or acquired, intellectual property rights that significantly limit or prevent our ability to compete effectively in the public marketplace. In addition, our competitors may have significantly greater resources than us, allowing them to identify and capitalize more efficiently upon opportunities in new markets and consumer preferences and trends, quickly transition and adapt their products and services, devote greater resources to marketing and advertising or music licensing rights, or be better positioned to withstand substantial price competition. Due to the highly volatile and competitive nature of the industry in which we compete, we may face pressure to continually introduce new products, services and technologies, enhance existing products and services, effectively stimulate customer demand for new and upgraded products and services, and successfully manage the transition to these new and upgraded products and services. If we are not able to compete effectively against our competitors, they may acquire, engage and retain customers or generate revenue at the expense of our efforts, which could have an adverse effect on our business, financial condition, and operating results.

We derive a significant majority of our revenue from sales of our Bike and Bike+. A decline in sales of our Bike and Bike+ would negatively affect our future revenue and operating results.

Our Connected Fitness Products are sold in highly competitive markets with limited barriers to entry. Changes to our price structure, including with respect to delivery and installation pricing, product mix, the introduction by competitors of comparable products at lower price points, a maturing product lifecycle, a decline in consumer spending, or other factors (including factors disclosed herein) could result in a decline in our revenue derived from our Connected Fitness Products, which may have an adverse effect on our business, financial condition, and operating results. Because we derive a significant majority of our revenue from the sales of our Bike and Bike+, any material decline in sales of our Bike would have a pronounced impact on our future revenue and operating results.

The full impact of the COVID-19 pandemic, its duration, and any resurgence of infections, is uncertain and cannot be predicted. The COVID-19 pandemic could worsen or its effects may be prolonged, including as a result of variants, which could have an adverse effect on our business, results of operations, and financial condition.

The COVID-19 pandemic continues to evolve, with pockets of resurgence and the emergence of variant strains contributing to continued uncertainty about its scope, duration, severity, trajectory, and lasting impact. COVID-19 has caused significant volatility in financial markets and has contributed to what could be an extended global recession. Public health problems resulting from COVID-19, the resurgence of infections and the emergence of new variants and precautionary measures instituted by governments and businesses to mitigate its spread, including travel restrictions and quarantines, have and could continue to contribute to a general slowdown in the global economy, adversely impact our Members, employees, third-party suppliers, contract manufacturers, logistics providers and other business partners, and otherwise disrupt our

operations. Changes in our operations in response to the evolving COVID-19 pandemic and employee illnesses resulting from the pandemic have resulted in inefficiencies and delays, including in sales, delivery, and product development efforts, and additional costs related to business continuity initiatives, that cannot be fully prevented or mitigated through succession and business continuity planning, employees working remotely or teleconferencing technologies.

COVID-19 and related reactions from governments and members of the public have had and may, including as a result of a resurgence or prolonged duration, continue to have a negative impact on our business, liquidity, results of operations, and stock price due to the occurrence of some or all of the following events or circumstances, among others:

- our inability to manage our business effectively due to employees, including key employees, becoming ill, working from home inefficiently, and being unable to travel to our facilities;
- our and our third-party suppliers', contract manufacturers', logistics providers', and other business partners' inability to operate worksites, including manufacturing facilities, shipping and fulfillment centers, and our retail showrooms and production studios, due to employee illness or reluctance to appear at work, or "stay-at-home" regulations or recommendations;
- our inability to provide our Members with high-quality Member support due to changes to the delivery experience and our or our logistics providers' inability to provide in-home servicing of Connected Fitness Products due to safety risks and local government regulations related to COVID-19;
- temporary inventory shortages caused by a combination of increased demand for our Connected Fitness Products that were difficult to predict with accuracy, and longer lead-times and component shortages in the manufacturing of our Connected Fitness Products, due to work restrictions related to COVID-19, import/export conditions such as port congestion, and local government orders;
- interruptions in our ability to offer live studio classes;
- interruptions in manufacturing (including the sourcing of key components), shipment and delivery of our products;
- disruptions of the operations of our third-party suppliers, which could impact our or our manufacturers' ability to purchase components at efficient prices and in sufficient amounts;
- reduced demand for our Connected Fitness Products and services, including due to any prolonged economic downturn that may occur;
- our inability to raise additional capital or the dilution of our common stock if we raise capital by issuing equity securities;
- volatility in the market price of our Class A common stock; and
- incurrence of significant increases to employee health care and benefits costs.

Sales of our Connected Fitness Products increased with the onset of the pandemic as we saw consumers invest in at-home fitness equipment with the imposition of government mandated stay-at-home orders. As a result of our increased sales, the price of our Class A common stock increased significantly with the onset of the COVID-19 pandemic, but has also decreased and fluctuated since then, including based on developments surrounding COVID-19. It remains uncertain how the COVID-19 pandemic and its duration or any resurgence will impact our stock price over the long term.

The full extent of the impact of COVID-19, its duration, or any resurgence on our business and financial results will depend largely on future developments, including, without limitation, the resurgence of infections, the emergence of new variants, the development, availability, and distribution of new vaccines and treatments and the uptake and effectiveness of existing vaccines and treatments, guidance regarding and the imposition of protective public safety measures, companies' remote work policies, the impact on capital and financial markets and global supply chains, and the related impact on the circumstances and behavior of our Members (including their discretionary spending or their return to pre-COVID routines), all of which are highly uncertain and cannot be predicted. See "*— Our operating results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory*." The situation is continuously evolving, and additional impacts may arise that we currently view as immaterial or that we are not currently aware of.

We depend upon third-party licenses for the use of music in our content. An adverse change to, loss of, or claim that we do not hold necessary licenses may have an adverse effect on our business, operating results, and financial condition.

Music is an important element of the overall content that we make available to our Members. To secure the rights to use music in our content, we enter into agreements to obtain licenses from rights holders such as performing rights organizations, record labels, music publishers, collecting societies, artists and songwriters, and other copyright owners (or their agents). We pay royalties to such parties or their agents around the world.

The process of obtaining licenses involves identifying and negotiating with many rights holders, some of whom are unknown, or difficult to identify, or for whom we may have conflicting ownership information, and this can generate a myriad of complex and evolving legal issues across many jurisdictions, including open questions of law as to when and whether particular licenses are needed. At times, while we may hold the applicable license for certain music in North America, it may be difficult to obtain the license for the same music from the applicable rights holders outside of North America. In addition, our music licenses may not contemplate some of the features and content that we may wish to add to our service, or new service offerings or revenue models that we may wish to launch. Rights holders also may attempt to take advantage of their market power to seek onerous financial terms from us. Our relationship with certain rights holders may deteriorate. We may elect not to renew certain agreements with rights holders for any number of reasons, or we may decide to explore different licensing schemes or economic structures with certain or all rights holders. Artists and/or songwriters may object and may exert public or private pressure on rights holders to discontinue or to modify license terms, or we may elect to discontinue use of an artist or songwriter's catalog based on a number of factors, including actual or perceived reputational damage. Additionally, there is a risk that aspiring rights holders, their agents, or legislative or regulatory bodies will create or attempt to create new rights that could require us to enter into new license agreements with, and pay royalties to, newly defined groups of rights holders, some of which may be difficult or impossible to identify.

With respect to musical compositions, in addition to obtaining the synchronization and reproduction rights, we also need to obtain public performance or communication to the public rights. In the United States, public performance rights are typically obtained separately through

intermediaries known as performing rights organizations, or PROs, which (a) issue blanket licenses with copyright users for the public performance of musical compositions in their repertory, (b) collect royalties under those licenses, and (c) distribute such royalties to copyright owners. We have agreements with each of the following PROs in the United States: the American Society of Composers, Authors and Publishers, or ASCAP, Broadcast Music, Inc., or BMI, Global Music Rights, and SESAC. The royalty rates available to us from the PROs today may not be available to us in the future. The royalty rates under licenses provided by ASCAP and BMI currently are governed by consent decrees, which were issued by the U.S. Department of Justice ("DOJ") in an effort to curb anti-competitive conduct. Removal of or changes to the terms or interpretation of these agreements could affect our ability to obtain licenses from these PROs on current and/or otherwise favorable terms, which could harm our business, operating results, and financial condition.

In other parts of the world, including in Canada and Europe, we obtain licenses for musical compositions through local collecting societies representing songwriters and publishers, and from certain publishers directly, or a combination thereof. Given the licensing landscape in certain territories, we cannot guarantee that our licenses with collecting societies and our direct licenses with publishers provide full coverage for all of the musical compositions we use in our service in the countries in which we operate, or that we may enter in the future. Publishers, songwriters, and other rights holders who choose not to be represented by major or independent publishing companies or collecting societies have, and could in the future, adversely impact our ability to secure licensing arrangements in connection with musical compositions that such rights holders own or control, and could increase the risk of liability for copyright infringement.

Although we expend significant resources to seek to comply with applicable contractual, statutory, regulatory, and judicial frameworks, we cannot guarantee that we currently hold, or will always hold, every necessary right to use all of the music that is used on our service now or that may be used in our products and services in the future, and we cannot assure you that we are not infringing or violating any third-party intellectual property rights, or that we will not do so in the future. See *"— Risks Related to Our Intellectual Property."*

These challenges, and others concerning the licensing of music on our platform, may subject us to significant liability for copyright infringement, breach of contract, or other claims. For additional information, see Note 13 – *Commitments and Contingencies* in the Notes to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and the section titled "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K.

Our success depends on our ability to maintain the value and reputation of the Peloton brand.

We believe that our brand is important to attracting and retaining Members. Maintaining, protecting, and enhancing our brand depends on the success of a variety of factors, such as: our marketing efforts; our ability to provide consistent, high-quality products, services, features, content, and support, and our ability to successfully secure, maintain, and enforce our rights to use the "Peloton" mark, our "P" logo, and other trademarks important to our brand. We believe that the importance of our brand will increase as competition further intensifies and brand promotion activities may require substantial expenditures. Our brand could be harmed if we fail to achieve these objectives or if our public image were to be tarnished by negative publicity. Unfavorable publicity about us, our strategic initiatives, such as our restructuring plan or our products, services, technology, customer service, content, personnel, and suppliers could diminish confidence in, and the use of, our products and services. For example, we have received reports of a number of injuries associated with our Tread+ product, and as a result, on May 5, 2021, we decided to issue a voluntary product recall of our Tread+, which we are conducting in collaboration with the CPSC. On the same day we also issued a voluntary product recall of our Tread. As discussed further in "- *Risks Related to Our Connected Fitness Products and Members"* and "- *Risks Related to Laws, Regulation, and Legal Proceedings*," the legal proceedings in which we have been named, the regulators' investigations, and any other claims or proceedings involving us or our products, actions we take to address these matters, and any further publicity regarding any of the foregoing could harm our brand. Such negative publicity also could have an adverse effect on the size, engagement and loyalty of our Member base and result in decreased revenue, which could have an adverse effect on our business, financial condition, and operating results. In addition, we have recently been the target of an activist stockholder whose claims about us, our management and our business strategy could result in decreased confidence in the Company and adversely affect our reputation. See "— *Stockholder activism could disrupt our business, cause us to incur significant expenses, hinder execution of our business strategy, and impact our stock price.*"

Increases in component costs, long lead times, supply shortages, and supply changes could disrupt our supply chain and have an adverse effect on our business, financial condition, and operating results.

Accurately forecasting and meeting customer demand partially depends on our ability to obtain timely and adequate delivery of components for our Connected Fitness Products. All of the components that go into the manufacturing of our Connected Fitness Products are sourced from a limited number of third-party suppliers, and some of these components are provided by a single supplier. Our contract manufacturers generally purchase these components on our behalf, subject to certain approved supplier lists, and we do not have long-term arrangements with most of our component suppliers. We are therefore subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our Connected Fitness Products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in design, quantities, and delivery schedules. Our ability to meet temporary unforeseen increases or decreases in demand has been, and may in the future be, impacted by our reliance on the availability of components from these sub-suppliers. We may in the future experience component shortages, and the predictability of the availability of these components may be limited. In the event of a component shortage or supply interruption from suppliers of these components, we may not be able to develop alternate sources in a timely manner. Developing alternate sources of supply for these components may be time-consuming, difficult, and costly and we may not be able to source these components on terms that are acceptable to us, or at all, which may undermine our ability to fill our orders in a timely manner. Any interruption or delay in the supply of any of these parts or components, or the inability to obtain these parts or components from alternate sources at acceptable prices and within a reasonable amount of time, would harm our ability to meet our scheduled Connected Fitness Product deliveries to our customers. Conversely, in periods when we experience a decrease in demand for our products and an increase in inventory, we may be unable to renegotiate our agreements or purchase commitments with existing suppliers or partners on mutually acceptable terms, which could result in inventory write-offs, storage costs for excess inventory, or litigation. See "— *Our operating*

results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory."

Moreover, volatile economic conditions have made it and may continue to make it more likely that our suppliers and logistics providers may be unable to timely deliver supplies, or at all, and there is no guarantee that we will be able to timely locate alternative suppliers of comparable quality at an acceptable price. In addition, international supply chains have been and may continue to be impacted by events outside of our control and limit our ability to procure timely delivery of supplies or finished goods and services. Since the beginning of 2018, importing and exporting has involved more risk, as there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding tariffs against foreign imports of certain materials. Several of the components that go into the manufacturing of our Connected Fitness Products are sourced internationally, including from China, from where imports on specified products are subject to tariffs by the United States following the U.S. Trade Representative Section 301 Investigation. These issues appear to have been and could be further exacerbated by the continuation of the COVID-19 pandemic as well as other global supply chain issues. We have seen, and may continue to see, increased congestion and/or new import/export restrictions implemented at ports that we rely on for our business. In many cases, we have had to secure alternative transportation, such as air freight, or use alternative routes, at increased costs to run our supply chain. These tariffs and other supply chain issues have an impact on our component costs and have the potential to have an even greater impact depending on the outcome of the current trade negotiations, which have been protracted and recently resulted in increases in U.S. tariff rates on specified products from China. Increases in our component costs could have a material effect on our gross margins. The loss of a significant supplier, an increase in component costs, or delays or disruptions in the delivery of components, could adversely impact our ability to generate future revenue and earnings and have an adverse effect on our business, financial condition, and operating results.

Our business could be adversely affected from an accident, safety incident, or workforce disruption.

Our operations could expose us to significant personal injury claims that could subject us to substantial liability. Public health issues such as pandemics increase our exposure to these risks. For example, in connection with the COVID-19 pandemic, we had to secure personal protective equipment, such as face masks and gloves, institute vaccination and testing policies and otherwise implement new methods of monitoring employee health, such as temperature checks. Our inability to timely adapt to changing norms and requirements around maintaining a safe workplace could cause employee illness, accidents, may not successfully prevent outbreaks of illnesses, or may result in team discontent if we fail or if it is perceived that we are failing to protect the health and safety of our employees. Our liability insurance may not be adequate to cover fully all claims, and we may be forced to bear substantial losses from an accident or safety incident resulting from our activities. Additionally, if our employees decide to join or form a labor union, we may become party to a collective bargaining agreement, which could result in higher employee costs and increased risk of work stoppages. It is also possible that a union seeking to organize one subset of our employee population could also mount a corporate campaign, resulting in negative publicity and reputational harm or other impacts that require attention by our management team and our employees. Negative publicity, work stoppages, or strikes by unions could have an adverse effect on our business, prospects, financial condition, and operating results.

Our business has historically been, and may continue to be, affected by seasonality.

Our business has historically been influenced by seasonal trends common to traditional retail selling periods, where we generated a disproportionate amount of sales activity related to our Connected Fitness Products during the period from November through February due in large part to seasonal holiday demand, New Year's resolutions, and cold weather. However, in fiscal 2020, we saw a significant increase in demand in the fourth quarter related to the onset of COVID-19, and, in contrast to previous years, only 54% of our Total revenue was generated in our second and third quarters during that fiscal year. More recently, in fiscal 2022, the ongoing COVID-19 pandemic and the recalls of our Tread products in the fourth quarter of fiscal 2021 impacted our historical seasonal patterns, with the second and third fiscal quarters accounting for 59% of fiscal 2022 sales. As the pandemic has receded in recent months, we have begun to experience a return to pre-pandemic seasonal trends. However, should the COVID-19 pandemic worsen or if its effects prove to be prolonged, we may continue to see atypical seasonal trends. Over time, we expect the seasonality of our business to return to historical patterns, with pronounced increases in demand during our second and third quarters. Moreover, in the event of higher sales during the period from November through February, our working capital needs may be typically greater during the second and third quarters of the fiscal year. As a result of quarterly fluctuations caused by these and other factors, comparisons of our operating results across different fiscal quarters may not be accurate indicators of our future performance. Furthermore, our growth in recent years may obscure the extent to which seasonality trends have affected our business and may continue to affect our business. Accordingly, yearly or quarterly comparisons of our operating results may not be useful and our results in any particular period will not necessarily be indicative of the results to be expected for any future period. See *"— Our quarterly operating results and other operating metrics may fluctuate from quarter to quarter, which makes these metrics difficult to predict."* Seasonality in our business can also be affected by introductions of new or enhanced products and services, including the costs associated with such introductions, as well as external factors beyond our control, such as the duration and trajectory of the COVID-19 pandemic.

Our quarterly operating results and other operating metrics may fluctuate from quarter to quarter, which makes these metrics difficult to predict.

Our quarterly operating results and other operating metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter. Additionally, our limited operating history makes it difficult to forecast our future results. As a result, you should not rely on our past quarterly operating results as indicators of future performance. You should take into account the risks and uncertainties frequently encountered by companies in rapidly evolving markets. Our financial condition and operating results in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- the continued market acceptance of, and the growth of the connected fitness and wellness market;
- evolving consumer demand and our ability to maintain and attract new Subscribers;
- our development and improvement of the quality of the Peloton experience, including, enhancing existing and creating new Connected Fitness Products, services, technology, features, and content;

- the continued development and upgrading of our proprietary technology platform;
- the timing and success of new product, service, feature, and content introductions by us or our competitors or any other change in the competitive landscape of our market;
- pricing pressure as a result of competition or otherwise;
- the timing and our ability to develop certain product solutions to enhance the safety of our Tread+ product to the satisfaction of the CPSC in connection with our voluntary product recall, which we are conducting in collaboration with the CPSC;
- delays or disruptions in our supply chain;
- errors in our forecasting of the demand for our products and services, which could lead to lower revenue or increased costs, or both;
- increases in marketing, sales, and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- short-term expenditures and initiatives we may undertake in furtherance of long-term cost savings, including our restructuring plan announced in February 2022;
- the continued expansion of, and reliance on, third-party last mile delivery and maintenance services for our Connected Fitness Products;
- successful expansion into international markets, including Canada, the United Kingdom, Germany, and Australia;
- seasonal fluctuations in subscriptions and usage of Connected Fitness Products by our Members, each of which may change as our products and services evolve or as our business grows;
- the diversification and growth of our revenue sources;
- our ability to maintain gross margins and operating margins;
- constraints on the availability of consumer financing or increased down payment requirements to finance purchases of our Connected Fitness Products;
- system failures or breaches of security or privacy;
- adverse litigation judgments, settlements, or other litigation-related costs, including content costs for past use;
- changes in the legislative or regulatory environment, including with respect to privacy, consumer product safety, and advertising, or enforcement by government regulators, including fines, orders, or consent decrees;
- fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies;
- changes in our effective tax rate, including as a result of potential changes in tax laws proposed by the Biden administration and Democratic controlled Congress;
- changes in accounting standards, policies, guidance, interpretations, or principles; and
- changes in business or macroeconomic conditions, including the impact of the COVID-19 pandemic, global supply chain issues, lower consumer confidence, inflation, recessionary conditions, increased unemployment rates, or stagnant or declining wages.

Any one of the factors above or the cumulative effect of some of the factors above may result in significant fluctuations in our operating results.

The variability and unpredictability of our quarterly operating results or other operating metrics could result in our failure to meet our expectations or those of analysts that cover us or investors with respect to revenue or other operating results for a particular period. If we fail to meet or exceed such expectations, the market price of our Class A common stock could fall substantially, and we could face costly lawsuits, including securities class action suits. See "*Risks Related to the Ownership of our Class A Common Stock.*"

Our passion and focus on delivering a high-quality and engaging Peloton experience may not maximize short-term financial results, which may yield results that conflict with the market's expectations and could result in our stock price being negatively affected.

We are passionate about continually enhancing the Peloton experience with a focus on driving long-term Member engagement through innovation, immersive content, technologically advanced Connected Fitness Products, and community support, which may not necessarily maximize short-term financial results. While we have recently announced our intention to stabilize our cash flows, we frequently make business decisions that may reduce our short-term financial results if we believe that the decisions are consistent with our goals to improve the Peloton experience, which we believe will improve our financial results over the long term. For example, in February 2022, we committed to a restructuring plan, which has resulted in charges and which we anticipate will require additional charges in the future. See "Part 1, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations —Fourth Quarter Fiscal 2022 Update and Recent Developments—*Restructuring Plan*." These decisions may not be consistent with the expectations of our stockholders and may not produce the long-term benefits that we expect, in which case our membership growth and Member engagement, and our business, financial condition, and operating results could be harmed.

We rely on access to our production studios and the creativity of our fitness instructors to generate our class content. If we are unable to access or use our studios or if we are unable to attract and retain high-quality fitness instructors, we may not be able to generate interesting and attractive content for our classes.

Most of the fitness and wellness content offered on our platform is produced in one of our production studios located in New York City or London, with some content (including audio-only content) recorded out of studio or in non-Peloton studios. Due to our reliance on a limited number of studios in a concentrated location, any incident involving our studios, or affecting New York City or London at-large, including COVID-19 related public health and safety measures or other restrictions, could render our studios inaccessible or unusable and could inhibit our ability to produce and deliver new fitness and wellness content for our Members. For example, in April 2020, we decided to temporarily pause live production at both our New York and London studios to reduce the risk of exposure to our employees and their families to COVID-19. While we have since reopened our studios for live production, and taken a number of health and safety precautions in doing so, there is no guarantee that the COVID-19 pandemic or other incidents beyond our control will not result in future pauses to live production from our studios or other locations. Production of the fitness and wellness content on our platform is further reliant on the creativity of our fitness instructors who, with the support of our production team, plan and lead our classes. Our standard employment contract with our U.S.-based fitness instructors has a fixed, multi-year term, however, any of our instructors may leave Peloton prior to the end of their contracts. If we are unable to attract or retain creative and

experienced instructors, we may not be able to generate content on a scale or of a quality sufficient to grow our business. If we fail to produce and provide our Members with interesting and attractive content led by instructors who engage them and who they can relate to, then our business, financial condition, and operating results may be adversely affected.

Our acquisition of Precor presents risks, and we may not realize our anticipated strategic and financial goals from the acquisition.

Risks we may face in connection with our acquisition and integration of Precor include:

- We may not realize the benefits we expect to receive from the transaction, such as anticipated synergies;
- We may have difficulties managing Precor’s technologies and lines of business or retaining key personnel from Precor;
- The acquisition may not further our business strategy as we expected, we may not successfully integrate Precor as planned, there could be unanticipated adverse impacts on Precor’s business, or we may otherwise not realize the expected return on our investments, which could adversely affect our business or operating results;
- The acquisition may cause, and additional factors relating to the shift in our strategic focus and to our restructuring initiatives have caused and may continue to cause, impairments to assets that we record as a part of an acquisition including intangible assets and goodwill;
- Our operating results or financial condition may be adversely impacted by (i) claims or liabilities related to Precor’s business including, among others, claims from government agencies, terminated employees, current or former customers, consumers or business partners, or other third parties; (ii) pre-existing contractual relationships or lines of business of Precor that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business; (iii) unfavorable accounting treatment as a result of Precor’s practices; and (iv) intellectual property claims or disputes;
- Precor operates in segments of the commercial market that we have less experience with, including traditional gyms, multifamily residences, hotels and college and corporate campuses, and expansion of our operations in these segments through the acquisition could present various integration challenges and result in increased costs and other unforeseen challenges;
- Precor serves customers in more than 100 countries worldwide, and as a result of the acquisition our operations have expanded into new jurisdictions, which could present significant integration challenges and result in significant increased risks and costs inherent in doing business in international markets (see “— *Expansion into international markets will expose us to significant risks*”);
- Precor’s employees in a number of countries around the world are now Peloton employees, and we may face new and unanticipated challenges in employing this significant workforce, including integrating these employees into our existing business units, providing benefits and working conditions that comply with the laws in jurisdictions in which we haven’t operated before, and maintaining our One Peloton culture; and
- We may have failed to identify or assess the magnitude of certain liabilities, shortcomings or other risks in Precor’s business prior to closing our acquisition of Precor, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, a diversion of management’s attention and resources, and other adverse effects on our business, financial condition, and operating results.

The occurrence of any of these risks could have a material adverse effect on our business, financial condition, and operating results. See “— *We have engaged and in the future may engage in acquisition and disposition activities, which could require significant management attention, disrupt our business, fail to achieve the intended benefit, dilute stockholder value, and adversely affect our operating results*.”

We may experience delays in the sale of the Ohio industrial facility that was intended to be Peloton Output Park, which could adversely impact our business and financial condition.

In May 2021, we announced our plans to build a U.S.-based manufacturing facility in Troy Township, Ohio, which we called “Peloton Output Park.” While we previously intended to use Peloton Output Park to manufacture some of our Connected Fitness Products, we currently are marketing and intend to sell the Ohio facility. As of June 30, 2022, we had invested approximately $86.6 million to build an industrial building for sale. The process of re-developing, constructing, and marketing for sale the Ohio facility has been inherently complex and has required significant capital expenditure, and its sale may cause significant disruption to our operations and divert management’s attention and resources, all of which could have a material adverse effect on our business, financial condition and operating results. We can give no assurance that we will recoup any of our investment in the development of the Ohio facility or realize the expected benefits of its sale, if any.

Expansion into international markets will expose us to significant risks.

We intend to expand our operations to other countries, which requires significant resources and management attention and subjects us to regulatory, economic, and political risks in addition to those we already face in the United States. There are significant risks and costs inherent in doing business in international markets, including:

- difficulty establishing and managing international operations and the increased operations, travel, infrastructure, including establishment of local delivery service and customer service operations, and legal compliance costs associated with locations in different countries or regions;
- the need to vary pricing and margins to effectively compete in international markets;
- the need to adapt and localize products for specific countries, including obtaining rights to third-party intellectual property, including music, used in each country;
- increased competition from local providers of similar products and services;
- the ability to protect and enforce intellectual property rights abroad;
- the need to offer engaging content and customer support in various languages and across various cultures;
- difficulties in understanding and complying with local laws, regulations, and customs in other jurisdictions;
- compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act (the “FCPA”), and the U.K. Bribery Act 2010 (the “U.K. Bribery Act”), by us, our employees, and our business partners;

- complexity and other risks associated with current and future legal requirements in other countries, including legal requirements related to consumer protection, consumer product safety, and data privacy frameworks, such as the General Data Protection Regulation 2016/679;
- varying levels of internet technology adoption and infrastructure, and increased or varying network and hosting service provider costs;
- tariffs and other non-tariff barriers, such as quotas and local content rules, as well as tax consequences;
- fluctuations in currency exchange rates and the requirements of currency control regulations, which might restrict or prohibit conversion of other currencies into U.S. dollars; and
- political or social unrest or economic instability in a specific country or region in which we operate, including, for example, escalating tensions, hostilities, or trade disputes between China and Taiwan or the effects of "Brexit," each of which could have an adverse impact on our operations in such locations.

In addition to expanding our operations into international markets through the sale of our Connected Fitness Products and the production of our platform content, we have expanded, and may in the future, expand our international operations through acquisitions of, or investments in, foreign entities, which may result in additional operational costs and risks. For example, as a result of our October 2019 acquisition of Tonic, we acquired manufacturing plants in Taiwan. This acquisition required us to, among other things, fulfill Tonic's obligations under existing service contracts that are unrelated to our current business, address the difficulties of managing a workforce in a foreign country with different labor laws, customs, and language barriers, and successfully maintain relationships with Tonic's suppliers and contract partners. In July 2022, we announced our plans to exit all owned manufacturing, which may result in additional operational costs and risks. See "— *We have engaged and in the future may engage in acquisition and disposition activities, which could require significant management attention, disrupt our business, fail to achieve the intended benefit, dilute stockholder value, and adversely affect our operating results*." In April 2021, we completed our acquisition of Precor which serves customers in more than 100 countries worldwide. As a result, we began to increase our operations and efforts abroad, which can also result in various integration challenges and amplify the various risks and costs of doing business in international markets described above.

We have limited experience with international regulatory environments and market practices and may not be able to penetrate or successfully operate in the markets we choose to enter. In addition, we may incur significant expenses as a result of our international expansion, and we may not be successful. We may face limited brand recognition in certain parts of the world that could lead to non-acceptance or delayed acceptance of our products and services by consumers in new markets. We may also face challenges to acceptance of our fitness and wellness content in new markets. Our failure to successfully manage these risks could harm our international operations and our plans for expansion into international markets, and have an adverse effect on our business, financial condition, and operating results.

We have engaged and in the future may engage in acquisition and disposition activities, which could require significant management attention, disrupt our business, fail to achieve the intended benefit, dilute stockholder value, and adversely affect our operating results.

As part of our business strategy, we have made and, in the future, may make investments in other companies, products, or technologies, including acquisitions that may result in our entering markets or lines of business in which we do not currently have expertise. For example, in April 2021, we acquired Precor in order to establish U.S. manufacturing capacity, boost research and development capabilities, and accelerate our penetration of the commercial market.

We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all, in the future. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by Members, prospective Members, employees, or investors. Moreover, an acquisition, investment, or business relationship may result in unforeseen operating difficulties and expenditures, including disrupting our ongoing operations, diverting management from their primary responsibilities, subjecting us to additional liabilities, increasing our expenses, and adversely impacting our business, financial condition, and operating results. Some acquisitions may require us to spend considerable time, effort, and resources to integrate employees from the acquired business into our teams, and acquisitions of companies in lines of business in which we lack expertise may require considerable management time, oversight, and research before we see the desired benefit of such acquisitions. Therefore, we may be exposed to unknown liabilities and the anticipated benefits of any acquisition, investment, or business relationship may not be realized, if, for example, we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company.

To pay for any such acquisitions, we would have to use cash, incur debt, or issue equity securities, each of which may affect our financial condition or the value of our capital stock and could result in dilution to our stockholders. If we incur more debt it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to manage our operations. Additionally, we may receive indications of interest from other parties interested in acquiring some or all of our business. The time required to evaluate such indications of interest could require significant attention from management, disrupt the ordinary functioning of our business, and could have an adverse effect on our business, financial condition, and operating results.

Further, in connection with our restructuring initiatives we intend to divest some of our assets, including through site closures and the sale of Peloton Output Park. We may in the future decide to divest other assets or a business. For example, in July 2022 we announced our plans to exit owned manufacturing operations, including Tonic. In connection with these activities, it may be difficult to find or complete divestiture opportunities or alternative exit strategies under the desired timeline and on acceptable terms, if at all. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expenses with respect to the desired divestiture, or the price or terms of the divestiture may be less favorable than we had anticipated. Even following a divestiture or other exit strategy, we may have certain continuing obligations to former employees, customers, vendors, landlords or other third parties. We may also have continuing liabilities related to former employees, assets or businesses. Such obligations may have a material adverse impact on our results of operations and financial condition.

Any major disruption or failure of our information technology systems or websites, or our failure to successfully implement upgrades and new technology effectively, could adversely affect our business and operations.

Certain of our information technology systems are designed and maintained by us and are critical for the efficient functioning of our business, including the manufacture and distribution of our Connected Fitness Products, online sales of our Connected Fitness Products, and the ability of our Members to access content on our platform. Our growth over the past several years has, in certain instances, strained these systems. As we grow, we continue to implement modifications and upgrades to our systems, and these activities subject us to inherent costs and risks associated with replacing and upgrading these systems, including, but not limited to, impairment of our ability to fulfill customer orders and other disruptions in our business operations. Further, our system implementations may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. If we fail to successfully implement modifications and upgrades or expand the functionality of our information technology systems, we could experience increased costs associated with diminished productivity and operating inefficiencies related to the flow of goods through our supply chain.

In addition, any unexpected technological interruptions to our systems or websites would disrupt our operations, including our ability to timely ship and track product orders, project inventory requirements, manage our supply chain, sell our Connected Fitness Products online, provide services to our Members, and otherwise adequately serve our Members.

Online sales of our Connected Fitness Products through www.onepeloton.com represented a majority of our units sold in the United States for fiscal 2022. The operation of our direct to consumer e-commerce business through our website depends on our ability to maintain the efficient and uninterrupted operation of online order-taking and fulfillment operations. Any system interruptions or delays could prevent potential customers from purchasing our Connected Fitness Products.

Moreover, the ability of our Members to access the content on our platform could be diminished by a number of factors, including Members' inability to access the internet, the failure of our network or software systems, security breaches, or variability in Member traffic for our platform. Platform failures would be most impactful if they occurred during peak platform use periods, which generally occur before and after standard work hours. During these peak periods, there are a significant number of Members concurrently accessing our platform and if we are unable to provide uninterrupted access, our Members' perception of our platform's reliability and enjoyment of our products and services may be damaged, our revenue could be reduced, our reputation could be harmed, and we may be required to issue credits or refunds, or risk losing Members.

In the event we experience significant disruptions, we may be unable to repair our systems in an efficient and timely manner which could have a material adverse effect on our business, financial condition, and operating results.

We are subject to payment processing risk.

Our customers pay for our products and services using a variety of different payment methods, including credit and debit cards, gift cards, and online wallets. We rely on internal systems as well as those of third parties to process payment. Acceptance and processing of these payment methods are subject to certain rules and regulations and require payment of interchange and other fees. To the extent there are disruptions in our payment processing systems, increases in payment processing fees, material changes in the payment ecosystem, such as large re-issuances of payment cards, delays in receiving payments from payment processors, or changes to rules or regulations concerning payment processing, our revenue, operating expenses and results of operation could be adversely impacted. We leverage our third-party payment processors to bill Subscribers on our behalf. If these third parties become unwilling or unable to continue processing payments on our behalf, we would have to find alternative methods of collecting payments, which could adversely impact Subscriber acquisition and retention. In addition, from time to time, we encounter fraudulent use of payment methods, which could impact our results of operation and if not adequately controlled and managed could create negative consumer perceptions of our service.

Cybersecurity risks could adversely affect our business and disrupt our operations.

Threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent breaches, our products and services, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, including cyber-attacks such as viruses and worms, phishing attacks, ransomware or other extortion-based attacks, denial-of-service attacks, physical or electronic break-ins, third-party or employee theft or misuse, and similar disruptions from unauthorized tampering with our servers and computer systems or those of third parties that we use in our operations, which could lead to interruptions, delays, loss of critical data, unauthorized access to Member data, a negative impact on our Members' experience, and loss of consumer confidence. In addition, we may be the target of email scams that attempt to acquire personal data or company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Any cyber-attack that attempts to obtain our or our Members' data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, and financial condition and operating results, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, and adversely affect our brand, impacting demand for our products and services, and could have an adverse effect on our business, financial condition, and operating results.

While we maintain cyber insurance that may help provide coverage for security breaches or other incidents, such insurance may not be adequate to cover the costs and liabilities related to them. Our costs associated with such breaches and incidents, including, for example, those stemming from one or more large claims against us that exceed our available insurance coverage, or that results in changes to our insurance policies, could impact our operating results and/or financial condition. In addition, our insurance policy may change as a result of such incidents or for other reasons, including overall insurance market conditions, premium increases, or the imposition of large deductible or co-insurance requirements.

Our Member engagement on mobile devices depends upon effective operation with mobile and streaming device operating systems, networks, and standards that we do not control.

A significant and growing portion of our Members access our platform through the Peloton App, and there is no guarantee that popular mobile devices or television streaming devices will continue to support the Peloton App or that device users will use the Peloton App rather than competing products. We are dependent on the interoperability of the Peloton App with popular mobile and television streaming operating systems that we do not control, such as Android and iOS, and any changes in such systems that degrade the functionality of our app offering or give preferential treatment to competitors could adversely affect our platform's usage on mobile devices and televisions. Additionally, in order to deliver high-quality content, it is important that the Peloton App offering is designed effectively and works well with a range of mobile and streaming technologies, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile and streaming industry or in developing products that operate effectively with these technologies, systems, networks, or standards. In the event that it is more difficult for our Members to access and use our platform on their mobile devices or televisions, or Members find the Peloton App does not effectively meet their needs, our competitors develop products and services that are perceived to operate more effectively on mobile devices or televisions, or if our Members choose not to access or use our platform on their mobile devices or televisions or use products that do not offer access to our platform, our Member growth and Member engagement could be adversely impacted.

If we are unable to anticipate appropriate pricing levels for our Connected Fitness Products and subscriptions, our business could be adversely affected.

If we are unable to anticipate appropriate pricing levels for our portfolio of Connected Fitness Products and subscription services, whether due to consumer sentiment and spending power, availability and terms of consumer financing, brand perception, competitive pressure, or otherwise, our revenues and/or gross margins could be significantly reduced. Our decisions around the development of new products and services are in part based upon assumptions around pricing levels. If there are price fluctuations in the market after these decisions are made, it could have a negative effect on our business.

Further, in March 2022 we began testing a new pricing model in select markets, where Subscribers pay a single monthly fee for the combined use of their Connected Fitness Product and their Connected Fitness Subscription, rather than paying an initial upfront purchase price for their Connected Fitness Product. No assurance can be given that this or any other new offerings will be successful and will not adversely affect our reputation, operating results, and financial condition. Additionally, our focus on long-term Member engagement over short-term financial condition or results of operations can result in us making decisions that may reduce our short-term revenue or profitability if we believe that such decisions benefit the aggregate Member experience and will thereby improve our financial performance over the long term. These decisions may not produce the long-term benefits that we expect, in which case our Member growth and engagement as well as our business, operating results, and financial condition could be negatively impacted.

Changes in how we market our products and services could adversely affect our marketing expenses and subscription levels.

We use a broad mix of marketing and other brand-building measures to attract Members. We use traditional television and online advertising, as well as third-party social media platforms such as Facebook, Twitter, and Instagram, as marketing tools. As television advertising, online, and social media platforms continue to rapidly evolve or grow more competitive, we must continue to maintain a presence on these platforms and establish a presence on new or emerging popular social media and advertising and marketing platforms. If we cannot use these marketing tools in a cost effective manner, if we fail to promote our products and services efficiently and effectively, or if our marketing campaigns attract negative media attention, our ability to acquire new Members and our financial condition may suffer and the price of our Class A common stock could decline. In addition, an increase in the use of television, online, and social media for product promotion and marketing may increase the burden on us to monitor compliance of such materials and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations.

An economic downturn or economic uncertainty may adversely affect consumer discretionary spending and demand for our products and services.

Our products and services may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, including inflation, and other factors such as consumer confidence in future economic conditions, fears of recession, the availability and cost of consumer credit and spending power, levels of unemployment, and tax rates. In recent years, the United States and other significant economic markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. As global economic conditions continue to be volatile or economic uncertainty remains, including due to the COVID-19 pandemic, trends in consumer discretionary spending also remain unpredictable and subject to reductions and fluctuations. To date, our business has mostly operated in a relatively strong economic environment and, therefore, we cannot be sure the extent to which we may be affected by actual or fears of recessionary conditions. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and services and consumer demand for our products and services may not grow as we expect. For example, in more recent quarters, we have experienced reduced consumer demand, partially contributing to a decrease in Connected Fitness Products revenue relative to prior year periods. Our sensitivity to economic cycles and any related fluctuation in consumer demand for our products and services could have an adverse effect on our business, financial condition, and operating results.

Our revenue could decline due to changes in credit markets and decisions made by credit providers.

Historically, a majority of our customers have financed their purchase of our Connected Fitness Products through third-party credit providers with whom we have existing relationships. If we are unable to maintain our relationships with our financing partners, there is no guarantee that we will be able to find replacement partners who will provide our customers with financing on similar terms, and our ability to sell our Connected Fitness Products may be adversely affected. Further, reductions in consumer lending and the availability of consumer credit could limit the number of customers with the financial means to purchase our products. Higher interest rates could increase our costs or the monthly payments for consumer products financed through other sources of consumer financing. In the future, we cannot be assured that third-party financing providers will continue to provide consumers with access to credit or that available credit limits will not be reduced. Such restrictions or

reductions in the availability of consumer credit, or the loss of our relationship with our current financing partners, could have an adverse effect on our business, financial conditions, and operating results.

We have a limited operating history with which to predict the profitability of our subscription model. Additionally, we may introduce new revenue models in the future.

The majority of our Subscribers are on month-to-month subscription terms and may cancel their subscriptions at any time. In addition, subscription renewals can fluctuate based on a variety of factors such as consumer preferences, competitive products and services and macroeconomic conditions. We have limited historical data with respect to subscription renewals, so we may be unable to accurately predict customer renewal rates. Additionally, prior renewal rates may not accurately predict future Subscriber renewal rates for a variety of reasons, such as Subscribers' dissatisfaction with our offerings and the cost of our subscriptions, macroeconomic conditions, or new offering introductions by us or our competitors. If our Subscribers do not renew their subscriptions, our revenue may decline and our business will suffer. Moreover, while we experienced a significant increase in our Subscriber base upon the outbreak of COVID-19, it remains uncertain how the COVID-19 pandemic will ultimately impact Subscriber renewal rates in the long-term.

Furthermore, in the future, we may offer new subscription products, implement promotions, or replace or modify current subscription models and pricing, any of which could result in additional costs or could adversely impact Subscriber retention. For example, we began experimenting with a rental program in select markets, where Subscribers pay a single monthly fee for both the combined use of their Connected Fitness Product and their Connected Fitness Subscription, rather than paying an initial upfront purchase price for their Connected Fitness Product. It is unknown how our Subscribers will react to new models and whether the costs or logistics of implementing these models will adversely impact our business. If the adoption of new revenue models adversely impacts our Subscriber relationships, then Subscriber growth, Subscriber engagement, and our business, financial condition, and operating results could be harmed.

We track certain operational and business metrics with internal methods that are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We track certain operational and business metrics, including Total Workouts and Average Monthly Workouts per Connected Fitness Subscription, with internal methods, which are not independently verified by any third party and, in particular for the Peloton App, are often reliant upon an interface with mobile operating systems, networks and standards that we do not control. Our internal methods have limitations and our process for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we report. If the internal methods we use under-count or over-count metrics that are important to our business, for example, as a result of algorithmic or other technical errors, the operational and business metrics that we report publicly, or those that we report to regulatory bodies or otherwise use to manage our business, may not be accurate. In addition, limitations or errors with respect to how we measure certain operational and business metrics may affect our understanding of certain details of our business, which could affect our longer-term strategies, and jeopardize our credibility with Members, partners and regulators. If our operational and business metrics are not accurate representations of our business, market penetration, retention or engagement; if we discover material inaccuracies in our metrics; or if the metrics we rely on to track our performance do not provide an accurate measurement of our business, or if investors, analysts, or customers do not believe that they do, our reputation may be harmed, and our operating and financial results could be adversely affected.

The forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, we cannot assure you that our business will grow at a similar rate, if at all.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The forecasts relating to the expected growth in the connected fitness and wellness market, including estimates based on our own internal survey data, may prove to be inaccurate. Even if the market experiences the growth we forecast, we may not grow our business at a similar rate, or at all. Our growth is subject to many factors, including consumer demand and our success in implementing our business strategy, which are subject to many risks and uncertainties. See "— *Our operating results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory*."

We or our Subscribers may be subject to sales and other taxes, and we may be subject to liabilities on past sales for taxes, surcharges, and fees.

The application of indirect taxes, such as sales and use tax, subscription sales tax, value-added tax, provincial taxes, goods and services tax, business tax, and gross receipt tax, to businesses like ours and to our Subscribers is a complex and evolving issue. Significant judgment is required to evaluate applicable tax obligations. In many cases, the ultimate tax determination is uncertain because it is not clear how existing statutes apply to our business. One or more states, the federal government, or other countries may seek to impose additional reporting, record-keeping, or indirect tax collection obligations on businesses like ours that offer subscription services and other fitness offerings, and consumers have, and may in the future, contest the appropriateness of our tax collection practices through litigation or other means. New taxes could also require us to incur substantial costs to capture data and collect and remit taxes. If such obligations were imposed, the additional costs associated with tax collection, remittance, and audit requirements could have an adverse effect on our business, financial condition, and operating results.

Covenants in the credit agreement and the security agreement governing our term loan and revolving credit facility may restrict our operations, and if we do not effectively manage our business to comply with these covenants, our financial condition could be adversely impacted.

Our term loan and revolving credit facility contain various restrictive covenants, including, among other things, minimum liquidity and revenue requirements applicable solely to the revolving credit facility, restrictions on our ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to our stockholders, or enter into certain types of related party transactions. In particular, in addition to

customary affirmative covenants, as well as customary covenants that restrict our ability to, among other things, incur additional indebtedness, sell certain assets, guarantee obligations of third parties, declare dividends or make certain distributions, and undergo a merger or consolidation or certain other transactions, our revolving credit facility, as recently amended, requires us to maintain a total level of liquidity of not less than $250.0 million and maintain a minimum total four-quarter revenue level of $3.0 billion (which are replaced with a covenant to maintain a minimum debt to adjusted EBITDA ratio upon our meeting a specified adjusted EBITDA threshold). These restrictions may restrict our current and future operations, particularly our ability to respond to certain changes in our business or industry, or take future actions. Pursuant to the security agreement, we granted the parties thereto a security interest in substantially all of our assets. See *Note 12 - Debt* in the Notes to our Consolidated Financial Statements in Part II, Item 8. of this Annual Report on Form 10-K and the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Second Amended and Restated Credit Agreement*" in Part II, Item 7 of this Annual Report on Form 10-K.

Our ability to meet these restrictive covenants can be impacted by events beyond our control and we may be unable to do so. Our credit agreement provides that our breach or failure to satisfy certain covenants constitutes an event of default. Upon the occurrence of an event of default, our lenders could elect to declare all amounts outstanding under its debt agreements to be immediately due and payable. In addition, our lenders would have the right to proceed against the assets we provided as collateral pursuant to the credit agreement and the security agreement. If the debt under our credit agreement was to be accelerated, we may not have sufficient cash on hand or be able to sell sufficient collateral to repay it, which would have an immediate adverse effect on our business and operating results. This could potentially cause us to cease operations and result in a complete loss of your investment in our Class A common stock.

We have identified material weaknesses in our internal control over financial reporting, and if our remediation of such material weaknesses is not effective, or if we fail to develop and maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable laws and regulations could be impaired.

In the course of preparing our financial statements for fiscal 2021 and fiscal 2022, we identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses identified related to reporting involving inventory and the controls that validate the inputs and assumptions used in our impairment testing. We have concluded that these material weaknesses arose because our controls were not effectively designed, documented and maintained to (i) verify that our physical inventory counts were correctly counted and communicated; and (ii) apply fair value measurements and validate the inputs and assumptions used in our impairment testing for reporting in our financial statements.

To address our material weaknesses, we have made changes to our program and controls as set forth in See Part II, Item 9A "Controls and Procedures." We will not be able to fully remediate these material weaknesses until these steps have been completed and have been operating effectively for a sufficient period of time.

If we are unable to further implement and maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within required time periods could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affect investor confidence in our financial statements and adversely impact our stock price. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an unqualified opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could be adversely affected and we could become subject to litigation or investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

Furthermore, we cannot assure you that the measures we have taken to date, and actions we may take in the future, will be sufficient to remediate the control deficiencies that led to our material weakness in our internal control over financial reporting or that they will prevent or avoid potential future material weaknesses. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. For example, as we exit our last mile warehouses and further expand our reliance on last mile partners, we may face additional challenges in accurately verifying physical inventory counts. Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods.

Any failure to implement and maintain effective internal control over financial reporting could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports that are filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on The Nasdaq Global Select Market.

Failure to maintain effective internal control over our financial and management systems may strain our resources, divert management's attention, and impact our ability to attract and retain executive management and qualified board members.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the rules and regulations promulgated thereunder by the SEC and any rules and regulations subsequently implemented by the SEC, the rules and regulations of the listing standards of The Nasdaq Stock Market LLC and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs and strains our financial and management systems, internal controls, and employees.

The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. Moreover, the Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures, and internal control over financial reporting. In order to maintain and, if required in the future, improve our disclosure controls and procedures, and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. In the course of preparing our financial statements for fiscal 2021 and fiscal 2022, we identified a material weakness in our internal control over financial reporting. If, in the future, we have a material weakness or deficiencies in our internal control over financial reporting, we may not detect errors on a timely basis and our consolidated financial statements may be materially misstated. Effective internal control is necessary for us to produce reliable financial reports and is important to prevent fraud. See *"— We have identified material weaknesses in our internal control over financial reporting, and if our remediation of such material weaknesses is not effective, or if we fail to develop and maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable laws and regulations could be impaired.*"

Pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act, our independent registered public accounting firm has provided an attestation report regarding our internal control over financial reporting. We have incurred and expect to continue to incur significant expenses and devote substantial management effort toward ensuring compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could harm our business, operating results, and financial condition. Although we have already hired additional employees to assist us in complying with these requirements, we may need to hire more employees in the future, or engage outside consultants, which will increase our operating expenses.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Estimates" in Part II, Item 7 of this Annual Report on Form 10-K. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and stockholders' equity/deficit, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue related reserves, the realizability of inventory, content costs for past use reserve, fair value measurements including common stock valuations, the incremental borrowing rate associated with lease liabilities, useful lives of property and equipment, product warranty, goodwill and finite-lived intangible assets, accounting for income taxes, stock-based compensation expense and commitments and contingencies. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class A common stock.

We are exposed to changes to the global macroeconomic environment beyond our control, including inflation fluctuations and foreign currency exchange rate fluctuations.

We are exposed to fluctuations in inflation, which could negatively affect our business, financial condition and results of operation. The United States has recently experienced historically high levels of inflation. If the inflation rate continues to increase, it will likely affect our expenses, including, but not limited to, employee compensation expenses and increased costs for supplies. Any attempts to offset cost increases with price increases may result in reduced sales, increased customer dissatisfaction or otherwise harm our reputation. Moreover, to the extent inflation results in rising interest rates, reduces discretionary spending, and has other adverse effects on the market, it may adversely affect our business, financial condition and results of operations.

In addition, while we have historically transacted in U.S. dollars with the majority of our Subscribers and suppliers, we have transacted in some foreign currencies, such as the Euro, Canadian Dollar and U.K. Pound Sterling, and may transact in more foreign currencies in the future. Further, certain of our manufacturing agreements provide for fixed costs of our Connected Fitness Products and hardware in Taiwanese dollars but provide for payment in U.S. dollars based on the then-current Taiwanese dollar to U.S. dollar spot rate. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar can affect our revenue and operating results. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and operating results. In addition, to the extent that fluctuations in currency exchange rates cause our operating results to differ from our expectations or the expectations of our investors, the trading price of our Class A common stock could be lowered. We use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place and may introduce additional risks if we are unable to structure effective hedges with such instruments.

Stockholder activism could disrupt our business, cause us to incur significant expenses, hinder execution of our business strategy, and impact our stock price.

We have been and may in the future be subject to stockholder activism, which can arise in a variety of predictable or unpredictable situations, and can result in substantial costs and divert management's and our board's attention and resources from our business. Additionally, such stockholder activism could give rise to perceived uncertainties as to our long-term business, financial forecasts, future operations and strategic planning, harm our reputation, adversely affect our relationships with our Members and business partners, and make it more difficult to attract and retain qualified personnel. We may also be required to incur significant fees and other expenses related to activist matters, including for third-party advisors retained by us to assist in navigating activist situations. Our stock price could fluctuate due to trading activity associated with

various announcements, developments, and share purchases over the course of an activist campaign or otherwise be adversely affected by the events, risks and uncertainties related to any such stockholder activism.

Increased scrutiny and changing expectations from investors, consumers, employees, regulators, and others regarding our environmental, social and governance practices and reporting could cause us to incur additional costs, devote additional resources and expose us to additional risks, which could adversely impact our reputation, customer attraction and retention, access to capital and employee recruitment and retention.

Companies across all industries are facing increasing scrutiny related to their environmental, social and governance ("ESG") practices and reporting. Investors, consumers, employees and other stakeholders have focused increasingly on ESG practices and placed increasing importance on the implications and social cost of their investments, purchases and other interactions with companies. With this increased focus, public reporting regarding ESG practices is becoming more broadly expected. If our ESG practices and reporting do not meet investor, consumer or employee expectations, which continue to evolve, our brand, reputation and customer retention may be negatively impacted.

Our ability to achieve any ESG objective is subject to numerous risks, many of which are outside of our control. Examples of such risks include:

- the availability and cost of low- or non-carbon-based energy sources;
- the evolving regulatory requirements affecting ESG standards or disclosures;
- the availability of suppliers that can meet sustainability, diversity and other ESG standards that we may set;
- our ability to recruit, develop and retain diverse talent in our labor markets; and
- the success of our organic growth and acquisitions or dispositions of businesses or operations.

If we fail, or are perceived to be failing, to meet the standards included in any sustainability disclosure or the expectations of our various stakeholders, it could negatively impact our reputation, customer attraction and retention, access to capital and employee retention. In addition, new sustainability rules and regulations have been adopted and may continue to be introduced in various states and other jurisdictions. Our failure to comply with any applicable rules or regulations could lead to penalties and adversely impact our reputation, customer attraction and retention, access to capital and employee retention.

Our business is subject to the risk of earthquakes, fire, power outages, floods, public health crises, ransomware and other cybersecurity attacks, labor disputes, and other catastrophic events, and to interruption by man-made problems such as terrorism and international geopolitical conflicts.

Our business is vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, ransomware and other cybersecurity attacks, labor disputes, terrorist attacks, acts of war and international geopolitical conflicts, human errors, break-ins, industrial accidents, public health crises, including the COVID-19 pandemic, and other unforeseen events or events that we cannot control. The third-party providers, systems and operations and contract manufacturers we rely on are subject to similar risks. Our insurance policies may not cover losses from these events or may provide insufficient compensation that does not cover our total losses. For example, a significant natural disaster, such as an earthquake, fire, or flood, could have an adverse effect on our business, financial condition and operating results, and our insurance coverage may be insufficient to compensate us for losses that may occur. Acts of terrorism, which may be targeted at metropolitan areas that have higher population density than rural areas, could also cause disruptions to our or our suppliers' and contract manufacturers' businesses or the economy as a whole. We may not have sufficient protection or recovery plans in some circumstances, such as natural disasters affecting locations that store significant inventory of our products, that house our servers, or from which we generate content. As we rely heavily on our computer and communications systems, and the internet to conduct our business and provide high-quality customer service, these disruptions could negatively impact our ability to run our business and either directly or indirectly disrupt suppliers' and our contract manufacturers' businesses, which could have an adverse effect on our business, financial condition, and operating results.

Risks Related to Our Connected Fitness Products and Members

Our products and services may be affected from time to time by design and manufacturing defects, real or perceived, that could adversely affect our business and result in harm to our reputation.

We offer complex hardware and software products and services that can be affected by design and manufacturing defects. Sophisticated operating system software and applications, such as those offered by us, often have issues that can unexpectedly interfere with the intended operation of hardware or software products. Defects may also exist in components and products that we source from third parties, or may arise from upgrades or changes to hardware that we or our third-party manufacturing partners may make in the ordinary course of a product's lifecycle. Actual or perceived defects may not be identified until after a product is in market. Any defects could impact our customer experience, tarnish our brand reputation or make our products and services unsafe and create a risk of environmental or property damage and/or personal injury. We may also become subject to the hazards and uncertainties of product liability claims and related litigation. For example, we have received reports of injuries associated with our Tread+ product, one of which led to the death of a child. As a result of the aforementioned injuries associated with these reported Tread+ incidents, in April 2021, the CPSC unilaterally issued a warning to consumers about the safety hazards associated with the Tread+. While we do not agree with all of the assertions in the CPSC's warning, in May 2021 we initiated a voluntary recall of our Tread+ product in collaboration with the CPSC. The CPSC is currently investigating the matter and in August 2022 we were notified by the CPSC that the agency staff believes we failed to meet our statutory obligations under the Consumer Product Safety Act and intends to recommend that the CPSC impose civil monetary penalties. The recall, the possibility that the CPSC or other regulators could assess penalties or fines against us, and the risk that the CPSC or we could determine to recall any other product now or in the future, may adversely impact our operating results, brand reputation, and business. In connection with the voluntary recall of the Tread+, we developed and released additional safety features, such as a passcode to protect against unauthorized use, and we are working to develop additional physical hardware to further enhance the safety of the product. If we are unable to develop a product solution to further enhance the safety of our Tread+ product, we may not be able to sell that product for a significant period of time, if ever, and may face substantial costs associated with the development of such

features and implementation of the recall. In addition to the CPSC investigation, we are presently subject to class action litigation, private personal injury claims and other regulatory proceedings related to the Tread+ recall and other matters that, regardless of their merits, could harm our reputation, divert management's attention from our operations, and result in substantial legal fees, judgments, fines, penalties, and other costs. Given that such proceedings are subject to uncertainty, there can be no assurance that such legal and regulatory proceedings, either individually or in the aggregate, will not have a material adverse effect on our stock price, business, results of operations, financial condition or cash flows. Furthermore, the occurrence of real or perceived defects in any of our products, now or in the future, could result in additional negative publicity, regulatory investigations, recalls, or lawsuits filed against us, particularly if Members or others who use or purchase our Connected Fitness Products are injured. Even if injuries are not the result of any defects, if they are perceived to be, we may incur expenses to defend or settle any claims or government inquiries and our brand and reputation may be harmed. See *Note 13 - Commitments and Contingencies* in the Notes to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and the section titled "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K.

In addition, from time to time we may experience outages, service slowdowns, hardware issues, or software errors that affect our ability to deliver our fitness and wellness programming through our Connected Fitness platform. As a result, our services may not perform as anticipated and may not meet our expectations, or legal or regulatory requirements, or the expectations of our Members. There can be no assurance that we will be able to timely detect and fix all issues and defects in the hardware, software, and services we offer. Failure to do so could result in widespread technical and performance issues affecting our products and services and could lead to claims or investigations against us.

Design and manufacturing defects, real or perceived, and claims related thereto, may subject us to judgments or settlements that result in damages materially in excess of the limits of our insurance coverage. In addition, we may be exposed to recalls, product replacements or modifications, write-offs of inventory, property and equipment, or intangible assets, and significant warranty and other expenses such as litigation costs and regulatory fines. If we cannot successfully defend any large claim, maintain our general liability insurance on acceptable terms, or maintain adequate coverage against potential claims, our financial results could be adversely impacted. Further, quality problems could adversely affect the experience for users of our products and services, and result in harm to our reputation, loss of competitive advantage, poor market acceptance, reduced demand for our products and services, delay in new product and service introductions, and lost revenue.

Our Members use their Connected Fitness Products, subscriptions, and fitness accessories to track and record their workouts. If our products fail to provide accurate metrics and data to our Members, our brand and reputation could be harmed and we may be unable to retain our Members.

Our Members use their Connected Fitness Products, subscriptions, and fitness accessories, such as our heart rate monitor, to track and record certain metrics and data related to their workouts. Examples of data tracked on our platform include heart rate, calories burned, distance traveled and Strive Score as well as cadence, resistance, and output in the case of Bike; pace, speed, and elevation in the case of Tread; and Movement Tracker in the case of Guide. Taken together, these metrics assist our Members in tracking their fitness journey and understanding the effectiveness of their Peloton workouts, both during and after a workout. We anticipate introducing new metrics and features in the future. If the software used in our Connected Fitness Products or on our platform malfunctions and fails to accurately track, display, or record Member workouts and metrics, it could negatively impact our Members' experience, and we could face claims alleging that our products and services do not operate as advertised. Such reports and claims could result in negative publicity, product liability and/or product safety claims, and, in some cases, may require us to expend time and resources to refute such claims and defend against potential litigation. If our products and services fail to provide accurate metrics and data to our Members, or if there are reports or claims of inaccurate metrics and data or claims of inaccuracy regarding the overall health benefits of our products and services in the future, our Members' experience may be negatively impacted, we may become the subject of negative publicity, litigation, regulatory proceedings, and warranty claims, and our brand, operating results, and business could be harmed.

If we fail to offer high-quality Member support, our business and reputation will suffer.

Providing a high-quality Member experience is vital to our success in generating word-of-mouth referrals to drive sales and for retaining existing Members. Due to the COVID-19 pandemic, our ability to provide high-quality Member support has been significantly impacted. For example, due to COVID-19, we have at times been unable to provide in-home servicing of our Connected Fitness Products, we have at times had to pause and temporarily suspend the sale, delivery, and installation of the Tread, and delivery procedures for the Bike have been limited in some locations where we are unable to provide in-home delivery and set up services. Additionally, our use of, and expansion of, other distribution channels and our increasing reliance on third-party Member support and third-party last mile partners for in-home delivery and set up services may challenge our ability to control Members' experience of such services. In addition, the closure of our offices, either due to COVID-19 or due to our restructuring initiatives, has forced our Member support staff to work from home, which may result in work-productivity issues or a decrease in efficiencies, particularly during times of high call volume as we have seen when delivery lead times get longer. If we do not help our Members quickly resolve issues and provide effective ongoing support, our reputation may suffer and our ability to retain and attract Members, or to sell additional products and services to existing Members, could be harmed.

We may be subject to warranty claims that could result in significant direct or indirect costs, or we could experience greater product returns than expected, either of which could have an adverse effect on our business, financial condition, and operating results.

We generally provide a minimum 12-month limited warranty on all of our Connected Fitness Products. In addition, we permit returns of our Bikes or Treads by first-time purchasers for a full refund within 30 days of delivery. The occurrence of any defects, real or perceived, in our Connected Fitness Products could result in an increase in returns or make us liable for damages and warranty claims in excess of our current reserves, which could result in an adverse effect on our business prospects, liquidity, financial condition, and cash flows if returns or warranty claims were to materially exceed anticipated levels. We have experienced and may in the future experience higher product returns during periods where there are actual or perceived defects in our products or services or if there are changes in home fitness demand as consumers go back to their pre-COVID routines.

In addition, we have been, and in the future could be, subject to costs related to product recalls, and we could incur significant costs to correct any defects, warranty claims, or other problems. Any negative publicity related to the perceived quality and safety of our products could affect our brand image, decrease consumer and Member confidence and demand, and adversely affect our financial condition and operating results. Also, while our warranty is limited to repairs and returns, warranty claims may result in litigation, the occurrence of which could have an adverse effect on our business, financial condition, and operating results. For example, in connection with our May 2021 Tread+ recall, we are presently, and may in the future be, subject to warranty claims and lawsuits related to injuries sustained by Members or their friends and family members, or others who use or purchase the Tread+ and other Connected Fitness Products that, regardless of their merits, could harm our reputation, divert management's attention from our operations and result in substantial legal fees and other costs. See " — *Our products and services may be affected from time to time by design and manufacturing defects, real or perceived, that could adversely affect our business and result in harm to our reputation."*

In addition to warranties supplied by us, we also offer the option for customers to purchase third-party extended warranty and services contracts in some markets, which creates an ongoing performance obligation over the warranty period. Extended warranties are regulated in the United States on a state level and are treated differently by state. Outside the United States, regulations for extended warranties vary from country to country. Changes in interpretation of the insurance regulations or other laws and regulations concerning extended warranties on a federal, state, local, or international level may cause us to incur costs or have additional regulatory requirements to meet in the future. Our failure to comply with past, present, and future similar laws could result in reduced sales of our products, reputational damage, penalties, and other sanctions, which could have an adverse effect on our business, financial condition, and operating results.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our products.

We are subject to requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, requiring us to conduct due diligence on and disclose whether or not certain conflict minerals originating from certain geographic regions are necessary for the manufacture or functionality of our products. The implementation of these requirements could adversely affect the sourcing, availability, and pricing of the materials used in the manufacture of components used in our products. In addition, we incur additional costs to comply with the potential disclosure requirements, including costs related to conducting diligence procedures to determine the sources of minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes, or sources of supply as a consequence of such due diligence activities. It is also possible that we may face reputational harm if we determine that any of our products contain minerals not determined to be free of conflict minerals or if we are unable to alter our products, processes, or sources of supply to avoid such materials.

Risks Related to Laws, Regulation, and Legal Proceedings

From time to time, we may be subject to legal proceedings, regulatory investigations or disputes, and governmental inquiries that could cause us to incur significant expenses, divert our management's attention, and materially harm our business, financial condition, and operating results.

From time to time, we may be subject to claims, lawsuits, government investigations, and other proceedings involving products liability, competition and antitrust, intellectual property, privacy, consumer protection, securities, tax, labor and employment, commercial disputes, and other matters that could adversely affect our business operations and financial condition. As we have grown, we have seen a rise in the number and significance of these disputes and inquiries. Injuries sustained by Members or their friends and family members, or others who use or purchase our Connected Fitness Products, have, and could in the future, subject us to regulatory proceedings and litigation by governance agencies and private litigants brought against us, that regardless of their merits, could harm our reputation, divert management's attention from our operations and result in substantial legal fees and other costs. Additionally, we have in the past been subject to intense media scrutiny, which exposes us to increasing regulation, government investigations, legal actions and penalties. For example, we are presently subject to a CPSC investigation and other litigation related to injuries sustained by Members and others who use or purchased the Tread+, and we have reporting obligations to safety regulators in all jurisdictions where we sell Connected Fitness Products, where reporting may trigger further regulatory investigations. In August 2022, we received notice from the CPSC that the agency staff believes we failed to meet our statutory obligations under the Consumer Product Safety Act and intends to recommend that the CPSC impose civil monetary penalties. See "— *Risks Related to Our Connected Fitness Products and Members-Our products and services may be affected from time to time by design and manufacturing defects, real or perceived, that could adversely affect our business and result in harm to our reputation."* In addition, the DOJ and the U.S. Department of Homeland Security ("DHS") have subpoenaed us for documents and other information related to our reporting of the injuries associated with our products and the SEC is also investigating our public disclosures concerning the recall, as well as other matters.

We have also been named in several lawsuits related to these recalls. For example, the Company and certain of its officers have been named in a consolidated securities class action on behalf of a class consisting of individuals who purchased or otherwise acquired our Class A common stock between September 11, 2020 and May 5, 2021, alleging that the defendants made false and/or misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder related to the Tread+ recall. In addition, between May and November 2021, four shareholders filed verified shareholder derivative action lawsuits purportedly on behalf of the Company against certain of our executive officers and the members of our Board of Directors alleging breaches of fiduciary duties and violations of Section 14(a) of the Securities Exchange Act, and, for certain of the lawsuits, unjust enrichment, abuse of control, gross mismanagement, waste, and a claim for contribution under Sections 10(b) and 21D of the Exchange Act against certain of our executive officers. See *"— Risks Related to the Ownership of Our Class A Common Stock-The stock price of our Class A common stock has been, and will likely continue to be, volatile and you could lose all or part of your investment."* Separately, we have been named in putative securities class actions related to demand for our Connected Fitness Products. In particular, plaintiffs filed putative securities class action lawsuits purportedly on behalf of a class consisting of individuals who purchased or otherwise acquired our common stock between February 5, 2021 and November 4, 2021, alleging that the Company and certain of its officers made false and/or misleading statements about demand for the Company's products and engaged in improper trading in violation of Sections 10(b), 20(a), and 20A of the Exchange Act and Rule 10b-5 promulgated thereunder. Additionally, from time to time, we may be, and

currently are, subject to inquiries from regulators in which they seek information about us or our practices. Such further inquiries could result in more formal investigations or allegations, which could adversely impact our business, financial condition, and operating results.

Litigation, regulatory proceedings, such as the investigations described above, as well as related personal injury or class action claims and lawsuits, and securities and intellectual property infringement matters that we are currently facing or could face, can be protracted and expensive, and have results that are difficult to predict. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages and include claims for injunctive relief. Additionally, our legal costs for any of these matters, either alone or in the aggregate could be significant. Adverse outcomes with respect to any of these legal or regulatory proceedings may result in significant settlement costs or judgments, penalties and fines, or require us to modify our products or services, make content unavailable, or require us to stop offering certain products, components, or features, all of which could negatively affect our membership and revenue growth. Even if these proceedings are resolved in our favor, the time and resources necessary to resolve them could divert the resources of our management and require significant expenditures. See *Note 13 - Commitments and Contingencies* in the Notes to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and the section titled “Legal Proceedings” in Part I, Item 3 of this Annual Report on Form 10-K.

The results of litigation, investigations, claims, and regulatory proceedings cannot be predicted with certainty, and determining reserves for pending litigation and other legal and regulatory matters requires significant judgment. There can be no assurance that our expectations will prove correct, and even if these matters are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, financial condition, and operating results.

We collect, store, process, and use personal data and other Member data, which subjects us to legal obligations and laws and regulations related to security and privacy, and any actual or perceived failure to meet those obligations could harm our business.

We collect, process, store, and use a wide variety of data from current and prospective Members, including personal data (some of which is considered sensitive data under applicable laws), such as home addresses, and geolocation data. U.S. federal, state, and international laws and regulations governing privacy, data protection, and e-commerce transactions impose obligations on what we can do with our Members’ personal data. These obligations include heightened transparency about data collection, use and sharing practices, new data privacy rights, and rules in respect to cross-border data transfers, which carry significant enforcement penalties for non-compliance. These laws and regulations also require us to safeguard our Members’ personal data. Although we have established security measures, policies and procedures designed to protect Member information, our or our third-party service providers’ security and testing measures may not prevent security breaches. Further, advances in computer capabilities, new discoveries in the field of cryptography, inadequate facility security, or other developments may result in a compromise or breach of the technology we use to protect Member data. Any compromise of our security or breach of our Members’ privacy could harm our reputation or financial condition and, therefore, our business.

In addition, a party who circumvents our security measures or exploits inadequacies in our security measures, could, among other effects, misappropriate Member data or other proprietary information, cause interruptions in our operations, or expose Members to computer viruses or other disruptions. Actual or perceived vulnerabilities may lead to claims against us. To the extent that the measures we or our third-party business partners have taken prove to be insufficient or inadequate, we may become subject to litigation, breach notification obligations, or regulatory or administrative sanctions, which could result in significant fines, penalties, or damages and harm to our reputation. Depending on the nature of the information compromised, in the event of a data breach or other unauthorized access to our Member data, we may also have obligations to notify Members about the incident and we may need to provide some form of remedy, such as a subscription to a credit monitoring service, for the individuals affected by the incident. A growing number of legislative and regulatory bodies have adopted consumer notification requirements in the event of unauthorized access to or acquisition of certain types of personal data. Such breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another, and there can be no assurances that we will be successful in our efforts to comply with these obligations. Complying with these obligations could cause us to incur substantial costs and could increase negative publicity surrounding any incident that compromises Member data.

Furthermore, we may legally be required to disclose personal data pursuant to demands from individuals, privacy advocates, regulators, government agencies, and law enforcement agencies in various jurisdictions with conflicting privacy and security laws. This disclosure or refusal to disclose personal data may result in a breach of privacy and data protection policies, notices, laws, rules, court orders, and regulations and could result in proceedings or actions against us in the same or other jurisdictions, damage to our reputation and brand, and inability to provide our products and services to consumers in certain jurisdictions. Additionally, new laws or regulations, or changes to or re-interpretations of the laws and regulations that govern our collection, use, and disclosure of Member data could impose additional requirements with respect to the retention and security of Member data, could limit our marketing activities, and have an adverse effect on our business, financial condition, and operating results.

Violations of applicable privacy laws or cybersecurity incidents could impact our business in a number of ways, such as a temporary suspension of some or all of our operating and/or information systems, damage our reputation, our relationships with customers, suppliers, vendors, and service providers and the Peloton brand and could result in lost data, lost sales, increased insurance premiums, substantial breach-notification and other remediation costs and lawsuits, as well as adversely affect results of operations. In addition, we may also face regulatory investigations with corresponding fines, civil claims including representative actions, and other class action type litigation (where individuals have suffered harm), potentially amounting to significant compensation or damages liabilities, as well as associated costs, diversion of internal resources, and reputational harm. We may also incur additional costs in the future related to the implementation of additional security measures to protect against new or enhanced data security and privacy threats, to comply with state, federal, and international laws that may be enacted to address personal data processing risks and data security threats, or to investigate or address potential or actual data security or privacy breaches.

We are subject to governmental export and import controls and economic sanction laws that could subject us to liability and impair our ability to compete in international markets.

The United States and various foreign governments have imposed controls, export license requirements, and restrictions on the import or export of certain technologies. Our products may be subject to U.S. export controls and compliance with applicable regulatory requirements regarding the export of our products and services may create delays in the introduction of our products and services in international markets, prevent our international Members from accessing our products and services, and, in some cases, prevent the export of our products and services to some countries altogether.

Furthermore, U.S. export control laws and economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by U.S. sanctions. Even though we take precautions to prevent our products from being provided to targets of U.S. sanctions, our products and services, including our firmware updates, could be provided to those targets or provided by our Members. Our failure to comply with these laws and regulations could have negative consequences, including government investigations, penalties, reputational harm and could harm our international and domestic sales and adversely affect our revenue.

We could be subject to future enforcement action with respect to compliance with governmental export and import controls and economic sanctions laws that result in penalties, costs, and restrictions on export privileges that could have an adverse effect on our business, financial condition, and operating results.

Failure to comply with anti-corruption and anti-money laundering laws, including the FCPA and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences.

We operate a global business and may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the U.K. Bribery Act, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. These laws that prohibit companies and their employees and third-party intermediaries from corruptly promising, authorizing, offering, or providing, directly or indirectly, improper payments or anything of value to foreign government officials, political parties, and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. In many foreign countries, including countries in which we may conduct business, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We face significant risks if we or any of our directors, officers, employees, agents or other partners or representatives fail to comply with these laws and governmental authorities in the United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties which could have a material adverse effect on our business, reputation, operating results and financial condition.

We have implemented an anti-corruption compliance program and policies, procedures and training designed to foster compliance with these laws, however, our employees, contractors, and agents, and companies to which we outsource certain of our business operations, may take actions in violation of our policies or applicable law. Any such violation could have an adverse effect on our reputation, business, operating results and prospects.

Any violation of the FCPA, other applicable anti-corruption laws, or anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, any of which could have a materially adverse effect on our reputation, business, operating results, and prospects. In addition, responding to any enforcement action may result in a significant diversion of management's attention and resources and significant defense costs and other professional fees.

Changes in legislation in U.S. and foreign taxation of international business activities or the adoption of other tax reform policies, as well as the application of such laws, could adversely impact our financial position and operating results.

Recent or future changes to U.S., U.K. and other foreign tax laws could impact the tax treatment of our earnings. For example, the U.S. government may enact significant changes to the taxation of business entities including, among others, the imposition of minimum taxes or surtaxes on certain types of income. We generally conduct our international operations through wholly owned subsidiaries, branches, or representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Further, we are in the process of implementing an international structure that aligns with our financial and operational objectives as evaluated based on our international markets, expansion plans, and operational needs for headcount and physical infrastructure outside the United States. The intercompany relationships between our legal entities are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Although we believe we are compliant with applicable transfer pricing and other tax laws in the United States, the United Kingdom, and other relevant countries, changes in such laws and rules may require the modification of our international structure in the future, which will incur costs, may increase our worldwide effective tax rate, and may adversely affect our financial position and operating results. In addition, significant judgment is required in evaluating our tax positions and determining our provision for income taxes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the relevant tax, accounting, and other laws, regulations, principles, and interpretations. As we operate in numerous taxing jurisdictions, the application of tax laws can be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. It is not uncommon for taxing authorities in different countries to have conflicting views with respect to, among other things, the manner in which the arm's-length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property.

If U.S., U.K., or other jurisdictions' tax laws further change, if our current or future structures and arrangements are challenged by a taxing authority, or if we are unable to appropriately adapt the manner in which we operate our business, we may have to undertake further costly modifications to our international structure and our tax liabilities and operating results may be adversely affected.

Our ability to use our net operating loss to offset future taxable income may be subject to certain limitations.

As of June 30, 2022, we had U.S. federal net operating loss carryforwards, or NOLs, and state NOLs of approximately $2,896.7 million and $2,130.00 million, respectively, due to prior period losses which if not utilized will begin to expire for federal and state tax purposes beginning in 2034 and 2022, respectively. Realization of these NOLs depends on future income, and there is a risk that our existing NOLs could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our operating results.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. We have undergone three ownership changes on November 30, 2015 and April 18, 2017 and February 24, 2020 and our NOLs arising before those dates are subject to one or more Section 382 limitations which may materially limit the use of such NOLs to offset our future taxable income. Our NOLs may also be impaired under state laws. In addition, under the 2017 Tax Cuts and Jobs Act, or Tax Act, tax losses generated in taxable years beginning after December 31, 2017 may be utilized to offset no more than 80% of taxable income annually. This change may require us to pay federal income taxes in future years despite generating a loss for federal income tax purposes. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security, or CARES Act, was signed into law. The CARES Act changes certain provisions of the Tax Act. Under the CARES Act, NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021 may be carried back to each of the five taxable years preceding the tax year of such loss, but NOLs arising in taxable years beginning after December 31, 2020 may not be carried back. In addition, the CARES Act eliminates the limitation on the deduction of NOLs to 80% of current year taxable income for taxable years beginning before January 1, 2021. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

In addition, future changes in our stock ownership, the causes of which may be outside of our control, could result in an additional ownership change under Section 382 of the Code. There is also a risk that due to regulatory changes, such as further limitations or suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. Our NOLs may also be limited under state laws. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

Risks Related to Our Intellectual Property

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.

Our success depends in large part on our proprietary technology and our patents, trade secrets, trademarks, and other intellectual property rights. We rely on, and expect to continue to rely on, a combination of trademark, trade dress, domain name, copyright, trade secret and patent protection, as well as confidentiality and license agreements with our employees, contractors, consultants, and third parties with whom we have relationships, to establish and protect our technology, brand, and other intellectual property. However, our efforts to protect our intellectual property rights may not be sufficient or effective, especially as incidents of infringement on the Peloton brand increase, and any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. There can be no assurance that our intellectual property rights will be sufficient to protect against others offering products, services, or technologies that infringe on our rights or are substantially similar to ours and that compete with our business.

Effective protection of intellectual property, including but not limited to patents, trademarks, and domain names, is expensive and difficult to maintain, both in terms of application and registration costs as well as the costs of defending and enforcing those rights. As we have grown, we have sought to obtain and protect our intellectual property rights in an increasing number of countries, a process that can be expensive and may not always be successful. For example, the U.S. Patent and Trademark Office and various foreign governmental patent agencies require compliance with a number of procedural requirements to complete the patent application process and to maintain issued patents, and noncompliance or non-payment could result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in a relevant jurisdiction. Further, intellectual property protection may not be available to us in every country in which our products and services are available. For example, some foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the enforceability of patents against certain third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit.

In order to protect our brand and intellectual property rights, we spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights can be costly, time-consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be limited if we shift our strategy or we may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Our inability to secure, protect, and enforce our intellectual property rights could seriously damage our brand and our business.

We have been, and in the future may be, sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our market, and litigation, based on allegations of infringement or other violations of intellectual property, is frequent in the fitness and technology industries. Furthermore, it is common for individuals and groups to purchase patents and other intellectual property assets for the purpose of making claims of infringement to extract settlements from companies like ours. Our use of third-party content, including music content, software, and other intellectual property rights may be subject to claims of infringement or misappropriation. We cannot guarantee that our internally developed or acquired technologies and

content do not or will not infringe the intellectual property rights of others. From time to time, our competitors or other third parties may claim that we are infringing upon or misappropriating their intellectual property rights, and we may be found to be infringing upon such rights. For additional information, see *Note 13 - Commitments and Contingencies* in the Notes to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our platform or services or using certain technologies, force us to implement expensive work-arounds, or impose other unfavorable terms. We expect that the occurrence of infringement claims is likely to grow as the market for fitness products and services grows and as we introduce new and updated products and offerings. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources. Further, during the course of any litigation, we may make announcements regarding the results of hearings and motions, and other interim developments. If securities analysts and investors regard these announcements as negative, the market price of our Class A common stock may decline. Even if intellectual property claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and require significant expenditures. See "*Risks Related to Laws, Regulation, and Legal Proceedings.*" Any of the foregoing could prevent us from competing effectively and could have an adverse effect on our business, financial condition, and operating results.

We cannot compel music rights holders to license their rights to us, and our business may be adversely affected if our access to music is limited. The concentration of control of content by major music licensors means that the actions of one or a few licensors may adversely affect our ability to provide our service.

We enter into license agreements to obtain rights to use music in our service, including with major record companies (Sony Music Entertainment, Universal Music Group, and Warner Music Group), independent record labels, major music publishers (Sony Music Publishing, Universal Music Publishing Group, and Warner Chappell Music Publishing), and independent music publishers and administrators who collectively hold the rights to a significant number of sound recordings and musical compositions.

Comprehensive and accurate ownership information for the musical compositions embodied in sound recordings is sometimes unavailable because songwriters' catalogs are frequently bought and sold between rights holders, meaning ownership and share information can change at any time without notification and it may take a while for the appropriate parties to be notified. In some cases, we obtain ownership information directly from music publishers, PROs, collecting societies, or record labels and in other cases we rely on the assistance of third parties to determine ownership information.

If the information provided to us or obtained by such third parties does not comprehensively or accurately identify the ownership of musical compositions, if we are unable to determine which musical compositions correspond to specific sound recordings, or if the same party does not own administer, control or own all rights on a worldwide basis, it becomes difficult or impossible to identify the appropriate rights holders to whom to pay royalties. This may make it difficult to comply with the obligations of any agreements with those rights holders or to secure the appropriate licenses with all necessary parties.

Given the high level of content concentration in the music industry, the market power of a few licensors, and the lack of transparent ownership information for musical compositions, including on a worldwide basis, we may be unable to license a large amount of music or the music of certain popular artists, and our business, financial condition, and operating results could be materially harmed.

We are a party to many music license agreements that are complex and impose numerous obligations upon us that may make it difficult to operate our business, and a breach of such agreements could adversely affect our business, operating results, and financial condition.

Our license agreements are complex and impose numerous obligations on us, including obligations to, among other things:

- calculate and make payments based on complex royalty structures, which requires tracking usage of content in our service that may have inaccurate or incomplete metadata necessary for such calculation;
- provide periodic reports on the exploitation of the content in specified formats;
- represent that we will obtain all necessary publishing licenses and consents and pay all associated fees, royalties, and other amounts due for the licensing of musical compositions;
- comply with certain marketing and advertising restrictions;
- grant the licensor the right to audit our compliance with the terms of such agreements; and
- comply with certain security and technical specifications.

Certain of our license agreements also contain minimum guarantees and/or advance payments, which are not always tied to our number of Subscribers or stream counts for music used in our service. Accordingly, our ability to achieve and sustain profitability and operating leverage in part depends on our ability to increase our revenue through increased sales of subscriptions on terms that maintain an adequate gross margin. Our license agreements that contain minimum guarantees typically have terms of between one and three years, but our Subscribers may cancel their subscriptions at any time. We rely on estimates to forecast whether such minimum guarantees and/or advances against royalties could be recouped against our actual content costs incurred over the term of the license agreement. To the extent that our estimates underperform relative to our expectations, and our content costs do not exceed such minimum guarantees and/or advance payments, our margins may be adversely affected.

Some of our license agreements also include so-called "most-favored nations" provisions, which require that certain terms (including material financial terms) are no less favorable than those provided to any similarly situated licensor. If agreements are amended or new agreements are entered into on more favorable terms, these most-favored nations provisions could cause our payment or other obligations to escalate substantially. Additionally, some of our license agreements require consent to undertake new business initiatives utilizing the licensed content

(e.g., alternative distribution models), and without such consent, our ability to undertake new business initiatives may be limited and our competitive position could be impacted.

If we breach any obligations in any of our license agreements, or if we use content in ways that are found to exceed the scope of such agreements, we could be subject to monetary penalties or claims of infringement, and our rights under such agreements could be terminated.

In the past, we have entered into agreements that required us to make substantial payments to licensors to resolve instances of past use at the same time that we enter into go-forward licenses. These agreements may also include most-favored nations provisions. If triggered, these most favored nations provisions could cause our payments or other obligations under those agreements to escalate substantially. If we need to enter into additional similar agreements in the future, it could have a material adverse effect on our business, financial condition, and operating results.

We face risks, such as unforeseen costs and potential liability in connection with content we produce, license, and distribute through our platform.

As a producer and distributor of content, we face potential liability for negligence, copyright, and trademark infringement, or other claims based on the nature and content of materials that we produce, license, and distribute. We also may face potential liability for content used in promoting our service, including marketing materials. We may decide to remove content from our service, not to place certain content on our service, or to discontinue or alter our production of certain types of content if we believe such content might not be well received by our Members or could be damaging to our brand and business.

To the extent we do not accurately anticipate costs or mitigate risks, including for content that we obtain but ultimately does not appear on or is removed from our service, or if we become liable for content we produce, license or distribute, our business may suffer. Litigation to defend these claims could be costly and the expenses and damages arising from any liability could harm our business. We may not be indemnified against claims or costs of these types and we may not have insurance coverage for these types of claims.

Some of our products and services contain open source software, which may pose particular risks to our proprietary software, technologies, products, and services in a manner that could harm our business.

We use open source software in our products and services and anticipate using open source software in the future. Some open source software licenses require those who distribute open source software as part of their own software product to publicly disclose all or part of the source code to such software product or to make available any derivative works of the open source code on unfavorable terms or at no cost. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our products or services. Additionally, we could face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license, or cease offering the implicated products or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require us to expend significant additional research and development resources, and we cannot guarantee that we will be successful.

Additionally, the use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. There is typically no support available for open source software, and we cannot ensure that the authors of such open source software will implement or push updates to address security risks or will not abandon further development and maintenance. Many of the risks associated with the use of open source software, such as the lack of warranties or assurances of title or performance, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have processes to help alleviate these risks, including a review process for screening requests from our developers for the use of open source software, but we cannot be sure that all open source software is identified or submitted for approval prior to use in our products and services. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have an adverse effect on our business, financial condition, and operating results.

Risks Related to Service Providers and Our Employees

We rely heavily on third parties for most of our computing, storage, processing, and similar services, and intend to increase our reliance on certain third parties, such as last mile and Member support partners. Any disruption of or interference with our use of these third-party services could have an adverse effect on our business, financial condition, and operating results.

We have outsourced our cloud infrastructure to third-party providers, and we currently use these providers to host and stream our services and content. We are therefore vulnerable to service interruptions experienced by these providers and we expect to experience interruptions, delays, or outages in service availability in the future due to a variety of factors, including infrastructure changes, human, hardware or software errors, hosting disruptions, and capacity constraints. Outages and capacity constraints could arise from a number of causes such as technical failures, natural disasters and global pandemics, fraud, or security attacks. Additionally, we rely on last mile partners for the delivery and installation of our products, and intend to increase our reliance on third-party Member support partners. The level or quality of service provided by these providers and partners, or regular or prolonged delays or interruptions in that service, could also affect the use of, and our Members' satisfaction with, our products and services and could harm our business and reputation. In addition, hosting costs will increase as membership engagement grows, which could harm our business if we are unable to grow our revenue faster than the cost of using these services or the services of similar providers.

Furthermore, our providers have broad discretion to change and interpret the terms of service and other policies with respect to us, and those actions may be unfavorable to our business operations. Our providers may also take actions beyond our control that could seriously harm our

business, including discontinuing or limiting our access to one or more services, increasing pricing terms, terminating or seeking to terminate our contractual relationship altogether, or altering how we are able to process data in a way that is unfavorable or costly to us. Although we expect that we could obtain similar services from other third parties, if our arrangements with our current providers were terminated, we could experience interruptions on our platform and in our ability to make our content available to Members, as well as delays and additional expenses in arranging for alternative cloud infrastructure services.

Any of these factors could further reduce our revenue, subject us to liability, and cause our Subscribers to decline to renew their subscriptions, any of which could have an adverse effect on our business, financial condition, and operating results.

In addition, customers of certain of our providers have been subject to litigation by third parties claiming that the service and basic HTTP functions infringe their patents. If we become subject to such claims, although we expect our provider to indemnify us with respect to at least a portion of such claims, the litigation may be time consuming, divert management's attention, and, if our provider failed to indemnify us, adversely impact our operating results.

Our future success depends on the continuing efforts of our key employees and our ability to attract and retain highly skilled personnel and senior management.

Our future success depends, in part, on our ability to continue to identify, attract, develop, integrate, and retain qualified and highly skilled personnel, including senior management, engineers, producers, designers, product managers, logistics and supply chain personnel, retail managers, and fitness instructors. In particular, we are highly dependent on the services of our leadership team to the development of our business, future vision, and strategic direction. Among other recent changes in our senior management team, we have transitioned those serving as our Chief Executive Officer and President and our Chief Financial Officer, as well as other members of management. Our future performance will depend, in part, on the successful integration of these new senior level executives into their roles, and the continuity of leadership among the larger workforce. If we do not successfully manage these transitions, it could be viewed negatively by our customers, employees, investors, suppliers and other third-party partners, and could have an adverse impact on our business and results of operations. We also heavily rely on the continued service and performance of our senior management team, which provides leadership, contributes to the core areas of our business and helps us to efficiently execute our business, including with respect to strategic initiatives such as our restructuring plan. If members of our senior management team, including our executive leadership, become ill, or if we are otherwise unable to retain them, we may not be able to manage our business effectively and, as a result, our business and operating results could be harmed. If the senior management team, including any new hires that we make, fails to work together effectively and to execute our plans and strategies on a timely basis then our business and future growth prospects could be harmed.

Also imperative to our success are our fitness instructors, who we rely on to bring new, exciting, and innovative fitness and wellness content to our platform, and who act as brand ambassadors. The loss of any key personnel, including key instructors, could make it more difficult to manage our brand, operations and research and development activities, could reduce our employee retention and revenue, and impair our ability to compete. Although we have entered into employment agreements with our instructors, the U.S. agreements constitute at-will employment. We do not maintain key person life insurance policies on any of our employees.

Demand and competition for highly skilled personnel, including those with specific expertise, is often intense, especially in New York City, where we have a substantial presence and need for highly skilled personnel. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In addition, we issue equity awards to certain of our employees as part of our hiring and retention efforts, and job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Our employees' inability to sell their shares in the public market at times and/or at prices desired may lead to a larger than normal turnover rate. If the actual or perceived value of our Class A common stock declines, it may adversely affect our ability to hire or retain employees. In addition, we may periodically change our equity compensation practices, which may include reducing the number of employees eligible for equity awards or reducing the size of equity awards granted per employee or undertaking other efforts that may prove to be unsuccessful retention mechanisms. If we are unable to attract, integrate, or retain the qualified and highly skilled personnel required to fulfill our current or future needs, our business and future growth prospects could be harmed.

If we cannot maintain our "One Peloton" culture, we could lose the innovation, teamwork, and passion that we believe contribute to our success and our business may be harmed.

We believe that a critical component of our success has been our corporate culture. We have invested substantial time and resources in building our "One Peloton" culture, which is based on the idea that if we work together, we will be more efficient and perform better because of one another. As we continue to evolve, we will need to maintain our "One Peloton" culture among our employees dispersed across various geographic regions. Impacts resulting from the COVID-19 pandemic have also required us to make substantial changes to the way that our employee population does their work, and we have faced new and unforeseen challenges arising from the management of remote, geographically dispersed teams. Our response to the changing work environment has included a number of employee-focused benefits initiatives and office policies, which are aimed at increasing productivity and employee morale and which have increased our costs. As we continue to develop our infrastructure, and particularly in light of reductions in headcount, including as part of our restructuring initiatives, we may find it difficult to maintain valuable aspects of our culture, to prevent a negative effect on employee morale or attrition beyond our planned reduction in headcount, and to attract competent personnel who are willing to embrace our culture. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

Risks Related to the Ownership of Our Class A Common Stock

The stock price of our Class A common stock has been, and will likely continue to be, volatile and you could lose all or part of your investment.

The market price of our Class A common stock has been, and will likely continue to be, volatile. In addition, the trading prices of securities of technology companies in general have been highly volatile. Moreover, while the trading price of our Class A common initially increased during the outbreak of the COVID-19 pandemic, it has fluctuated widely and has now decreased as the public returned to pre-pandemic routines and due to other factors beyond our control. There are no assurances that the trading price of our Class A common stock will increase, decrease, or will continue at this level for any period of time.
In addition to the factors discussed in this Annual Report on Form 10-K, the market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- our ability to execute and realize the benefits of strategic plans, such as the restructuring initiative we announced in February 2022;
- impacts from the COVID-19 pandemic, for example, consumer demand and economic volatility or uncertainty;
- overall performance of the equity markets and the performance of technology companies in particular;
- variations in our operating results, cash flows, and other financial metrics and non-financial metrics, and how those results compare to analyst expectations;
- changes in the financial projections we may provide to the public or our failure to meet these projections;
- the timing and our ability to develop certain product solutions to enhance the safety of our Tread+ product to the satisfaction of the CPSC in connection with the Company’s voluntary safety recall, which it is conducting in collaboration with the CPSC;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- recruitment, satisfaction or departure of key personnel;
- the economy as a whole and market conditions in our industry;
- past or future investments, acquisitions or dispositions;
- negative publicity related to problems with our suppliers or partners, or the real or perceived quality of our products, as well as the failure to timely launch new products or services that gain market acceptance;
- rumors and market speculation involving us or other companies in our industry;
- announcements by us or our competitors of new products, pricing, services, features and content, significant technical innovations, acquisitions, dispositions, strategic partnerships, joint ventures, or capital commitments;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- lawsuits threatened or filed against us, litigation involving our industry, or both;
- developments or disputes concerning our or other parties’ products, services, or intellectual property rights;
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events;
- market reactions if there is a margin call or forced sale of any pledged shares;
- the expiration of contractual lock-up or market standoff agreements; and
- sales of shares of our Class A common stock by us or our stockholders.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. In April and May 2021, two shareholders filed putative class actions against the Company, our Chief Executive Officer, and our Chief Financial Officer, purportedly on behalf of a class consisting of those individuals who purchased or otherwise acquired our Class A common stock between September 11, 2020 and May 5, 2021, alleging that the defendants made false and/or misleading statements in violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. In addition, in May, August, and November 2021, four shareholders filed verified shareholder derivative action lawsuits purportedly on behalf of the Company against certain of our executive officers and the members of our Board of Directors alleging breaches of fiduciary duties and violations of Section 14(a) of the Securities Exchange Act, and, for three of the lawsuits, unjust enrichment, abuse of control, gross mismanagement, waste, and a claim for contribution under Sections 10(b) and 21D of the Exchange Act against certain of our executive officers. In addition, the Company, and certain of our officers, were named in a separate putative class action, purportedly on behalf of a class consisting of those individuals who purchased or otherwise acquired our common stock between February 5, 2021 and November 4, 2021, alleging that the defendants made false and/or misleading statements about demand for the Company’s products in violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. These lawsuits and any other securities litigation actions could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business. See “*Risks Related to Laws, Regulation, and Legal Proceedings.*”

Sales of a substantial amount of our Class A common stock in the public markets, or the perception that such sales might occur, could cause the price of our Class A common stock to decline.

The market price of our Class A common stock could decline as a result of sales of a substantial number of shares of our Class A common stock in the public market in the near future, or the perception that these sales might occur. Many of our existing security holders have substantial unrecognized gains on the value of the equity they hold, and may take, or attempt to take, steps to sell, directly or indirectly, their shares or otherwise secure, or limit the risk to, the value of their unrecognized gains on those shares. Additionally, some members of our senior leadership team have pledged shares to secure personal indebtedness. If the price of our Class A common stock declines, the executive could be forced by one or more of the banking institutions to sell shares of our Class A common stock in order to remain within the margin limitations imposed under the terms of the loans. Any conversion of pledged Class B common shares into shares of Class A common stock in connection with such a sale would result in dilution of the Class A stockholders.

There were a total of 338,274,016 shares of our Class A common stock and Class B common stock outstanding as of June 30, 2022. All shares of our Class A common stock and Class B common stock are freely tradable, except for certain limitations, including with respect to holding periods, on any shares purchased by our “affiliates” as defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act.

Further, certain holders of our common stock have rights, subject to some conditions, to require us to file registration statements for the public resale of the Class A common stock issuable upon conversion of such shares or to include such shares in registration statements that we may

file for us or other stockholders. Sales of our shares pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the trading price of our Class A common stock to fall and make it more difficult for you to sell shares of our Class A common stock.

In addition, as of June 30, 2022, we had 8,977,705 shares of Class A common stock underlying restricted stock units that were awarded but not yet vested, and stock options outstanding that, if fully exercised, would result in the issuance of 33,067,483 shares of Class B common stock and 28,748,443 shares of Class A common stock. Subject to the satisfaction of applicable vesting requirements, and limitations applicable to shares held by our affiliates, the vested restricted stock and shares issued upon exercise of outstanding stock options will be available for immediate resale in the open market.

The dual class structure of our common stock has the effect of concentrating voting control with our directors, executive officers, and certain other holders of our Class B common stock; this will limit or preclude your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.

Our Class B common stock has 20 votes per share and our Class A common stock has one vote per share. As of June 30, 2022, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates, held a majority of the voting power of our capital stock. Because of the twenty-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively control a substantial majority of the combined voting power of our common stock and therefore are able to control all matters submitted to our stockholders for approval until the earlier of (i) the date specified by a vote of the holders of 66 2/3% of the then outstanding shares of Class B common stock, (ii) ten years from the closing of the IPO, and (iii) the date the shares of Class B common stock cease to represent at least 1% of all outstanding shares of our common stock. This concentrated control limits or precludes your ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain permitted transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

The dual class structure of our common stock may adversely affect the trading market for our Class A common stock.

Certain stock index providers, such as S&P Dow Jones, exclude companies with multiple classes of shares of common stock from being added to certain stock indices, including the S&P 500. In addition, several stockholder advisory firms and large institutional investors oppose the use of multiple class structures. As a result, the dual class structure of our common stock may prevent the inclusion of our Class A common stock in such indices, may cause stockholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure, and may result in large institutional investors not purchasing shares of our Class A common stock. Any exclusion from stock indices could result in a less active trading market for our Class A common stock. Any actions or publications by stockholder advisory firms or institutional investors critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A common stock.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by the restrictions under the terms of our loan and security agreement. We anticipate that for the foreseeable future we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our Board of Directors. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may limit attempts by our stockholders to replace or remove our current management.

Provisions in our restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a merger, acquisition or other change of control of our company that the stockholders may consider favorable. In addition, because our Board of Directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors. Among other things, our restated certificate of incorporation and amended and restated bylaws include provisions that:

- provide that our Board of Directors is classified into three classes of directors with staggered three-year terms;
- permit the Board of Directors to establish the number of directors and fill any vacancies and newly-created directorships;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our Board of Directors could use to implement a stockholder rights plan;
- provide that only the chairman of our Board of Directors, our chief executive officer, or a majority of our Board of Directors will be authorized to call a special meeting of stockholders;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit cumulative voting;
- provide that directors may only be removed “for cause” and only with the approval of two-thirds of our stockholders;

- provide for a dual class common stock structure in which holders of our Class B common stock may have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the Board of Directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

Moreover, Section 203 of the Delaware General Corporation Law (the "DGCL"), may discourage, delay, or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock.

Our restated certificate of incorporation and amended and restated bylaws contain exclusive forum provisions for certain claims, which may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our restated certificate of incorporation provides that the Court of Chancery of the State of Delaware, to the fullest extent permitted by law, will be the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the DGCL, our restated certificate of incorporation, or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine.

Moreover, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all claims brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. In April 2020, we amended and restated our restated bylaws to provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (a Federal Forum Provision). Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case, application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court.

Section 27 of the Exchange Act creates exclusive federal jurisdiction over all claims brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. In addition, neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability created by the Exchange Act. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder must be brought in federal court.

Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.

Any person or entity purchasing or otherwise acquiring or holding any interest in any of our securities shall be deemed to have notice of and consented to our exclusive forum provisions, including the Federal Forum Provision. These provisions may limit a stockholders' ability to bring a claim in a judicial forum of their choosing for disputes with us or our directors, officers, or employees, which may discourage lawsuits against us and our directors, officers, and employees. Alternatively, if a court were to find the choice of forum provision contained in our restated certificate of incorporation and/or amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, financial condition, and operating results.

Short sellers of our stock may be manipulative and may drive down the market price of our Class A common stock.

Short selling is the practice of selling securities that the seller does not own, but rather has borrowed or intends to borrow from a third party with the intention of buying identical securities at a later date to return to the lender. A short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. It is therefore in the short seller's interest for the price of the stock to decline, and some short sellers publish, or arrange for the publication of, opinions or characterizations regarding the relevant issuer, often involving misrepresentations of the issuer's business prospects and similar matters calculated to create negative market momentum, which may permit them to obtain profits for themselves as a result of selling the stock short.

As a public entity, we may be the subject of concerted efforts by short sellers to spread negative information in order to gain a market advantage. In addition, the publication of misinformation may also result in lawsuits, the uncertainty and expense of which could adversely impact our business, financial condition, and reputation. There are no assurances that we will not face short sellers' efforts or similar tactics in the future, and the market price of our Class A common stock may decline as a result of their actions.

Risks Related to Our Indebtedness

The Notes are effectively subordinated to our existing and future secured indebtedness and structurally subordinated to the liabilities of our subsidiaries.

Our 0% Convertible Senior Notes due 2026 (the "Notes") are our senior, unsecured obligations and rank equal in right of payment with our existing and future senior, unsecured indebtedness, senior in right of payment to our existing and future indebtedness that is expressly subordinated to the Notes and effectively subordinated to our existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness. In addition, because none of our subsidiaries guarantee the Notes, the Notes are structurally subordinated

to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent we are not a holder thereof) preferred equity, if any, of our subsidiaries. As of June 30, 2022, we had approximately $1.0 billion in total indebtedness and approximately $430.1 million of available borrowing capacity under our Second Amended and Restated Credit Agreement (after deducting $69.9 million of outstanding letters of credit secured by the Revolver). Our subsidiaries had no outstanding indebtedness as of June 30, 2022. The indenture governing the Notes does not prohibit us or our subsidiaries from incurring additional indebtedness, including senior or secured indebtedness, in the future.

If a bankruptcy, liquidation, dissolution, reorganization or similar proceeding occurs with respect to us, then the holders of any of our secured indebtedness may proceed directly against the assets securing that indebtedness. Accordingly, those assets will not be available to satisfy any outstanding amounts under our unsecured indebtedness, including the Notes, unless the secured indebtedness is first paid in full. The remaining assets, if any, would then be allocated pro rata among the holders of our senior, unsecured indebtedness, including the Notes. There may be insufficient assets to pay all amounts then due.

If a bankruptcy, liquidation, dissolution, reorganization or similar proceeding occurs with respect to any of our subsidiaries, then we, as a direct or indirect common equity owner of that subsidiary (and, accordingly, holders of our indebtedness, including the Notes), will be subject to the prior claims of that subsidiary's creditors, including trade creditors and preferred equity holders. We may never receive any amounts from that subsidiary to satisfy amounts due under the Notes.

We may be unable to raise the funds necessary to repurchase the Notes for cash following a fundamental change or to pay any cash amounts due upon conversion, and our other indebtedness limits our ability to repurchase the Notes or pay cash upon their conversion.

Noteholders may require us to repurchase their Notes following a fundamental change at a cash repurchase price generally equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. In addition, upon conversion, we will satisfy part or all of our conversion obligation in cash unless we elect to settle conversions solely in shares of our Class A common stock. We may not have enough available cash or be able to obtain financing at the time we are required to repurchase the Notes or pay the cash amounts due upon conversion. In addition, applicable law, regulatory authorities and the agreements governing our other indebtedness may restrict our ability to repurchase the Notes or pay the cash amounts due upon conversion. Our failure to repurchase Notes or to pay the cash amounts due upon conversion when required will constitute a default under the indenture.

A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our other indebtedness, which may result in that other indebtedness becoming immediately payable in full. We may not have sufficient funds to satisfy all amounts due under the other indebtedness and the Notes.

The accounting method for the Notes could adversely affect our reported financial condition and results.

The accounting method for reflecting the Notes on our balance sheet, accruing interest expense for the Notes and reflecting the underlying shares of our Class A common stock in our reported diluted earnings per share may adversely affect our reported earnings and financial condition.

Under applicable accounting principles, the initial liability carrying amount of the Notes is the fair value of a similar debt instrument that does not have a conversion feature, valued using our cost of capital for straight, non-convertible debt. We reflected the difference between the net proceeds from our offering of the Notes and the initial carrying amount as a debt discount for accounting purposes, which will be amortized into interest expense over the term of the Notes. As a result of this amortization, the interest expense that we expect to recognize for the Notes for accounting purposes will be greater than the cash interest payments we will pay on the Notes, which will result in lower reported income or higher reported loss. The lower reported income or higher reported loss resulting from this accounting treatment could depress the trading price of our Class A common stock and the Notes. However, in August 2020, the Financial Accounting Standards Board published an Accounting Standards Update, which we refer to as ASU 2020-06, that in certain cases will eliminate the separate accounting for the debt and equity components as described above. ASU 2020-06 will be effective for SEC-reporting entities for fiscal years beginning after December 15, 2021 (or, in the case of smaller reporting companies, December 15, 2023), including interim periods within those fiscal years. However, early adoption is permitted in certain circumstances for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. When effective, we expect to qualify for the elimination of the separate accounting described above which, as a result, will reduce the interest expense that we expect to recognize for the Notes for accounting purposes.

In addition, because we intend to settle conversions by paying the conversion value in cash up to the principal amount being converted and any excess in shares, we expect to be eligible to use the treasury stock method to reflect the shares underlying the Notes in our diluted earnings per share. Under this method, if the conversion value of the Notes exceeds their principal amount for a reporting period, then we will calculate our diluted earnings per share assuming that all the Notes were converted and that we issued shares of our Class A common stock to settle the excess. However, if reflecting the Notes in diluted earnings per share in this manner is anti-dilutive, or if the conversion value of the Notes does not exceed their principal amount for a reporting period, then the shares underlying the Notes will not be reflected in our diluted earnings per share. In addition, when accounting standards change in the future and we are not permitted to use the treasury stock method, then our diluted earnings per share may decline. ASU 2020-06 amends these accounting standards, effective as of the dates referred to above, to eliminate the treasury stock method for convertible instruments and instead require application of the "if-converted" method. Under that method, diluted earnings per share would generally be calculated assuming that all the Notes were converted solely into shares of Class A common stock at the beginning of the reporting period, unless the result would be anti-dilutive. The application of the if-converted method may reduce our reported diluted earnings per share.

Furthermore, if any of the conditions to the convertibility of the Notes is satisfied, then we may be required under applicable accounting standards to reclassify the liability carrying value of the Notes as a current, rather than a long-term, liability. This reclassification could be required even if no noteholders convert their Notes and could materially reduce our reported working capital.

The capped call transactions may affect the value of the Notes and our Class A common stock.

In connection with the Notes, we entered into capped call transactions with certain financial institutions (the option counterparties). The capped call transactions are expected generally to reduce the potential dilution to our Class A common stock upon any conversion of the Notes and/or offset any potential cash payments we are required to make in excess of the principal amount upon conversion of any Notes, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, the option counterparties and/or their respective affiliates purchased shares of our Class A common stock and/or entered into various derivative transactions with respect to our Class A common stock. This activity could have increased (or reduced the size of any decrease in) the market price of our Class A common stock or the Notes at that time.

In addition, the option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock in secondary market transactions (and are likely to do so following any conversion of Notes, any repurchase of the Notes by us on any fundamental change repurchase date, any redemption date or any other date on which the Notes are retired by us). This activity could also cause or avoid an increase or a decrease in the market price of our Class A common stock or the Notes.

The potential effect, if any, of these transactions and activities on the market price of our Class A common stock or the Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our Class A common stock.

We are subject to counterparty risk with respect to the capped call transactions, and the capped call may not operate as planned

The option counterparties are financial institutions, and we will be subject to the risk that they might default under the capped call transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Global economic conditions have from time to time resulted in the actual or perceived failure or financial difficulties of many financial institutions, including the bankruptcy filing by
Lehman Brothers Holdings Inc. and its various affiliates. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with that option counterparty. Our exposure will depend on many factors, but, generally, the increase in our exposure will be correlated with increases in the market price or the volatility of our Class A common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our Class A common stock. We can provide no assurances as to the financial stability or
viability of any option counterparty.

In addition, the capped call transactions are complex, and they may not operate as planned. For example, the terms of the capped call transactions may be subject to adjustment, modification or, in some cases, renegotiation if certain corporate or other transactions occur. Accordingly, these transactions may not operate as we intend if we are required to adjust their terms as a result of transactions in the future or upon unanticipated developments that may adversely affect the functioning of the capped call transactions.

Our indebtedness and liabilities could limit the cash flow available for our operations, expose us to risks that could adversely affect our business, financial condition and results of operations and impair our ability to satisfy our obligations under applicable debt agreements.

As of June 30, 2022, we had $1.8 billion of indebtedness. We may also incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our security holders and our business, results of operations and financial condition by, among other things:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, which will reduce the amount of cash available for other purposes;
- limiting our flexibility to plan for, or react to, changes in our business;
- diluting the interests of our existing stockholders as a result of issuing shares of our Class A common stock upon conversion of the notes; and
- placing us at a possible competitive disadvantage with competitors that are less leveraged than us or have better access to capital.

Our business may not generate sufficient funds, and we may otherwise be unable to maintain sufficient cash reserves, to pay amounts due under our indebtedness, including the notes, and our cash needs may increase in the future. In addition, our existing credit facilities contain, and any future indebtedness that we may incur may contain, financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full.

We may require additional capital to support business growth and objectives, and this capital might not be available to us on reasonable terms, if at all, and may result in stockholder dilution.

We intend to continue to make investments to support our business growth and may require additional capital to fund our business and to respond to competitive challenges, including the need to promote our products and services, develop new products and services, enhance our existing products, services, and operating infrastructure, and potentially to acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. There can be no assurance that such additional funding will be available on terms attractive to us, or at all. Our inability to obtain additional funding when needed could have an adverse effect on our business, financial condition, and operating results. If additional funds are raised through the issuance of equity or convertible debt securities, holders of our Class A common stock could suffer significant dilution, and any new shares we issue could have rights, preferences, and privileges superior to those of our Class A common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

As of June 30, 2022, our principal properties included our corporate headquarter offices, retail locations, production studio facilities, member support locations, and field operations, distribution and manufacturing facilities.

We are headquartered in New York City, where we occupy facilities totaling approximately 336,000 square feet under a lease that expires in 2035. We also lease our international corporate headquarters, which is located in London, United Kingdom. We primarily use these facilities for technology, product design, research and development, sales and marketing, supply chain and logistics, finance, legal, human resources, and information technology. We also have Member support and sales teams located in Plano, Texas; however, in August 2022, we announced our plans for a reduction in workforce including approximately 230 Member support positions in North America, and therefore will either sublease or terminate our office lease in Plano.

We lease retail properties in the United States, Canada, the United Kingdom, Germany, and Australia, which consist of showrooms, microstores, and concessions. This included 87 North America and 48 international retail locations as of June 30, 2022. In August 2022, we announced our intention to reduce our retail presence across North America.

Our retail locations and office space are used to support both of our reporting segments, and are suitable and adequate for the conduct of our business. Refer to Note 19 in the “Notes to Consolidated Financial Statements” included in Part II, Item 8 of this Annual Report on Form 10-K for further details regarding our segments.

We lease our production studio facilities, which are located in New York City and London, and are used to support our Subscription segment. In addition, we lease and sublease field operations, distribution, and manufacturing facilities in North America, Europe, and Asia, which are used to support our Connected Fitness segment. In July 2022, we announced we are exiting all owned-manufacturing operations, which will include the sale of two owned manufacturing facilities in Taiwan. Additionally, in August 2022, we announced that we are eliminating our North American field operations warehouses, and therefore will either sublease or terminate our remaining leases.

In May 2021, we announced plans to build a U.S. manufacturing facility in Troy Township, Ohio, which we called "Peloton Output Park" and is where we had planned to manufacture Connected Fitness Products in addition to our existing manufacturing facilities. In February 2022, as part of the Restructuring Plan, we announced the closing of several assembly and manufacturing plants, including the completion and subsequent sale of the shell facility of Peloton Output Park.

Item 3. Legal Proceedings

From time to time, we may be involved in claims and proceedings arising in the ordinary course of our business. The outcome of any such claims or proceedings, regardless of the merits, is inherently uncertain.

For a discussion of legal and other proceedings in which we are involved, see *Note 13 - Commitments and Contingencies* in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

In addition, as previously disclosed, we have received reports of a number of injuries associated with our Tread+ product, one of which led to the death of a child. In April 2021, the CPSC issued a warning to consumers about the safety hazards associated with the Tread+ and, following our voluntary recall of our Tread+ product in collaboration with the CPSC in May 2021, the CPSC has continued to investigate the matter. As noted, more recently, in August 2022, we were notified by the CPSC that the agency staff believes we failed to meet our statutory obligations under the Consumer Product Safety Act and intends to recommend that the CPSC impose civil monetary penalties. While we disagree with the agency staff, we are engaged in ongoing confidential discussions with the CPSC. We are also subject to investigations by the DOJ and DHS related to our statutory obligations under the Consumer Product Safety Act, and the SEC is investigating our public disclosures concerning the Tread+ recall as well as other matters. We are cooperating fully with each of these investigations, and at this time, we are unable to predict the eventual scope, duration or final outcome of the investigations. See also Part I, Item 1A. “Risk Factors — Risks Related to Laws, Regulation, and Legal Proceedings” of this Annual Report on Form 10-K for more information on these matters.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our Class A common stock began trading on The Nasdaq Global Select Market under the symbol "PTON" on September 26, 2019. Prior to that date, there was no public trading market for our Class A common stock.

Our Class B common stock is not listed or traded on any stock exchange.

Holders of Record

As of July 29, 2022, there were 37 registered holders of our Class A common stock and 89 registered holders of our Class B common stock. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

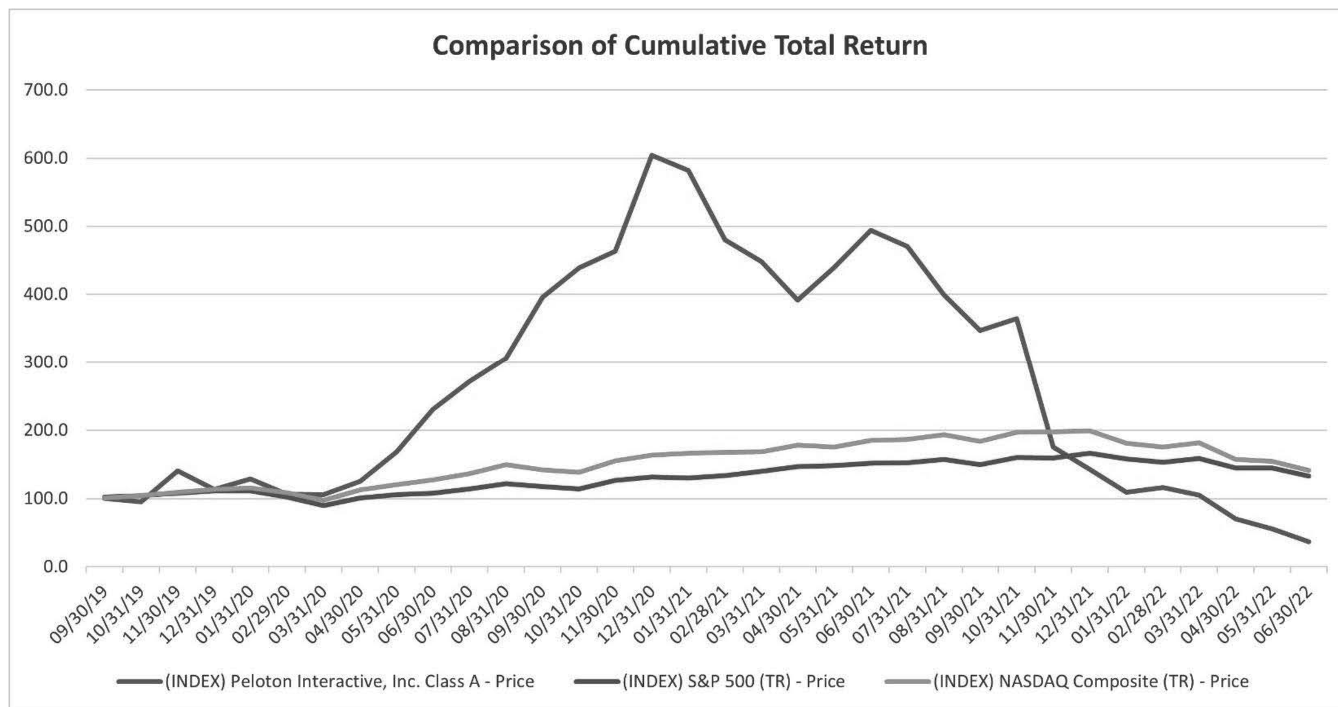
We have never declared or paid cash dividends on our capital stock. We do not expect to pay dividends on our capital stock for the foreseeable future. Instead, we anticipate that all of our earnings for the foreseeable future will be used for the operation and growth of our business. Any future determination to declare cash dividends would be subject to the discretion of our Board of Directors and would depend upon various factors, including our operating results, financial condition, and capital requirements, restrictions that may be imposed by applicable law, and other factors deemed relevant by our Board of Directors. In addition, our ability to pay dividends on our common stock is limited by the restrictions under the terms of our loan and security agreement.

Performance Graph

The following performance graph shall not be deemed soliciting material or to be filed with the SEC for purposes of Section 18 of the Exchange Act, nor shall such information be incorporated by reference into any of our other filings under the Exchange Act or the Securities Act.

The graph below compares the cumulative total stockholder return on our Class A common stock with the cumulative total return on the Standard & Poor’s 500 Index and the Nasdaq Composite Index. The graph assumes an initial investment of $100 in our common stock at the market close on September 26, 2019, which was our initial trading day. Data for the Standard & Poor’s 500 Index and the Nasdaq Composite Index assume reinvestment of dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. As discussed in the section titled "Special Note Regarding Forward Looking Statements," the following discussion and analysis contains forward looking statements that involve risks, uncertainties, assumptions, and other important factors that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

A discussion of our results of operations for our fiscal year ended June 30, 2021 compared to the year ended June 30, 2020 is included our Annual
Report on Form 10-K for the fiscal year ended June 30, 2021, filed with the SEC on August 27, 2021 (File No. 001-39058) under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Overview

Peloton is the largest interactive fitness platform in the world with a loyal community of 6.9 million Members as of June 30, 2022. We pioneered connected, technology-enabled fitness, and the streaming of immersive, instructor-led boutique classes to our Members anytime, anywhere. We make fitness entertaining, approachable, effective, and convenient, while fostering social connections that encourage our Members to be the best versions of themselves. We define a Member as any individual who has a Peloton account through a paid All-Access Membership, or a paid Peloton App subscription.

Our Connected Fitness Product portfolio includes the Peloton Bike, Bike+, Tread, Tread+, and our recently launched first connected strength product, Peloton Guide. Our revenue is generated primarily from the sale of our Connected Fitness Products and associated recurring Subscription revenue. We have historically experienced significant growth in sales of our Connected Fitness Products, which, when combined with our low Average Net Monthly Connected Fitness Churn has led to significant growth in Connected Fitness Subscriptions. From fiscal 2021 to fiscal 2022, Total revenue decreased 11%, and our Connected Fitness Subscription base grew 27%.

Our financial profile has been characterized by strong retention, recurring revenue, and efficient customer acquisition. Our low Average Net Monthly Connected Fitness Churn, together with our high Subscription Contribution Margin, yields an attractive LTV for our Connected Fitness Subscriptions well in excess of our CAC. Maintaining an attractive LTV/CAC ratio is a primary goal of our customer acquisition strategy.

Fourth Quarter Fiscal 2022 Update and Recent Developments

As we have previously disclosed, forecasting for our business during and following the COVID-19 pandemic, particularly in its more recent stages, has proven to be very challenging. While we have been able to grow more than we anticipated just two years ago, fluctuations in demand and supply that we have been navigating during this time period led us to grow our operations beyond what we believe is currently best suited to our business. Although our belief in the positive long-term outlook for Connected Fitness remains unchanged, the long-term cost demands of our business require us to recalibrate our near-term expectations. Additionally, while demand for our Connected Fitness Products has continued to strongly outpace pre-pandemic levels, we have had significant difficulty in forecasting near-term consumer demand and, as a result, our expected near-term operating performance. See *“Risk Factors—Risks Related to Our Business—Our operating results have been, and could in the future be, adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory*.”

Restructuring Plan

In February 2022, we announced and began implementing a restructuring plan to realign our operational focus to support our multi-year growth, scale the business, and improve costs (the “Restructuring Plan”). The Restructuring Plan includes: (i) reducing our headcount; (ii) closing several assembly and manufacturing plants, including the completion and subsequent sale of the shell facility for our previously planned Peloton Output Park; (iii) closing and consolidating several distribution facilities, and (iv) shifting to third-party logistics providers in certain locations. We expect the Restructuring Plan to be substantially implemented by the end of fiscal 2024.

Total charges related to the Restructuring Plan were $611.3 million for the fiscal year ended June 30, 2022, consisting of cash charges of $109.1 million for severance and other personnel and $15.4 million for professional fees and other related charges, and non-cash charges of $373.8 million related to non-inventory asset write-downs and write-offs, $56.5 million for stock-based compensation expense and $56.4 million for inventory markdowns.

In addition to the above charges, the Company has incurred approximately $86.6 million of capital expenditures related to Peloton Output Park since project inception.

On July 12, 2022, we announced we are exiting all owned-manufacturing operations and our expansion of our current relationship with Taiwanese manufacturer Rexon Industrial Corp. Additionally, on August 12, 2022, we announced our decision to perform the following additional restructuring activities: (i) eliminate our North American Field Ops warehouses, including the significant reduction of our delivery workforce teams; (ii) eliminate a significant number of roles on the North America Member Support team and exit our real-estate footprints in our Plano and Tempe locations; and (iii) reduce our North America retail showroom presence. In connection with the Restructuring Plan, we estimate that we will incur additional cash charges of approximately $95.0 million primarily composed of severance and other exit costs in fiscal year 2023 and beyond. Additionally, we expect to recognize approximately $75.0 million of asset impairment charges in fiscal year 2023 in connection with the Restructuring Plan.

We may not be able to fully realize the cost savings and benefits initially anticipated from the Restructuring Plan, and the expected costs may be greater than expected. See *"Risk Factors—Risks Related to Our Business—We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business*."

Product and Content Highlights

In April 2022, we soft-launched Peloton Guide, our first connected strength offering. Guide is an AI-enabled device that uses machine learning and innovative camera technology to create an evolving strength training experience. To date, engagement trends among Guide subscribers have been strong, driving higher than average activity levels for both Guide-only subscribers as well as existing Bike and Tread owners who added Guide to their Peloton fitness program. We continue to invest in our new Guide Product with many member-focused software improvements, including responding to top member requests by adding Apple Watch support and the ability to stack consecutive classes for customized strength workouts.

Delivering on our commitment to accessibility, in the fourth quarter of fiscal 2022, we welcomed our first adaptable athlete instructor, Logan Aldridge, and officially launched our Adaptive Training Content vertical. Off-air, Logan acts in a training specialist role working with all instructors in forwarding Peloton's commitment to content accessibility and inclusivity.

Responding to Member requests, we added a Spanish user interface to enable Spanish-speaking members to navigate more easily. We celebrated the upcoming opening of Peloton Studios New York and Peloton Studios London with an all-new in-studio Member software experience featuring easier login and the ability to race and high-five other Members both in and out of class. Finally, we made many improvements to the Peloton App, including allowing Members to track every outdoor running, walking, and cycling workout with Peloton with our GPS-enabled Just Work Out feature.

Product Recall Update

On May 5, 2021, we announced separate, voluntary recalls of each of our Tread+ and Tread products in collaboration with the CPSC and halted sales of these products to work on product enhancements. Members were notified that they could return their Tread or Tread+ for a full refund, or wait until a solution is available. Tread+ owners were also given the option to have Peloton move their Tread+ to a different location within their home. More recently, in August 2022, we were notified by the CPSC that the agency staff believes we failed to meet our statutory obligations under the Consumer Product Safety Act and intends to seek civil monetary penalties. While we disagree with the agency staff, we are engaged in ongoing confidential discussions with the CPSC. For the recall-to-date period, the Company recognized a reduction to Connected Fitness Products revenue for actual and estimated future returns of $139.9 million, and a return reserve of $39.9 million and $40.8 million is included within Accounts payable and accrued expenses in the accompanying Consolidated Balance Sheets related to the impacts of the recall as of June 30, 2022 and June 30, 2021, respectively. We may continue to incur additional costs which could include costs for which we have not accrued or established adequate reserves, including increases to the return reserves, inventory write-downs, logistics costs associated with Member requests to return or move their hardware, subscription waiver variable costs of service, anticipated recall-related hardware development and repair costs, and related legal and advisory fees. Recall charges are based upon estimates associated with our expected and historical consumer response rates. We announced a repair for the Tread in August 2021, shortly before resuming sales. We continue to work on potential hardware enhancements for Tread+, which remains recalled. Our plan for the Tread+ recall is still being finalized and actual costs related to this matter may vary from the estimate, and may result in further impacts to our future results of operations and business. See "*Risk Factors—Risks Related to Our Connected Fitness Products and Members—We may be subject to warranty claims that could result in significant direct or indirect costs, or we could experience greater product returns than expected, either of which could have an adverse effect on our business, financial condition, and operating results.*"

Key Operational and Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key operational and business metrics to evaluate our business, measure our performance, develop financial forecasts, and make strategic decisions.

	Fiscal Year Ended June 30,		
	2022	2021	2020
Ending Connected Fitness Subscriptions	2,965,677	2,330,700	1,091,100
Average Net Monthly Connected Fitness Churn	0.96 %	0.61 %	0.62 %
Total Workouts (in millions)	540.0	459.7	164.5
Average Monthly Workouts per Connected Fitness Subscription	16.4	22.0	17.9
Subscription Gross Profit (in millions)	$ 944.7	$ 541.7	$ 208.0
Subscription Contribution (in millions)[1]	$ 994.2	$ 586.5	$ 232.1
Subscription Gross Margin	67.7 %	62.1 %	57.2 %
Subscription Contribution Margin[1]	71.3 %	67.2 %	63.8 %
Net loss (in millions)	$ (2,827.7)	$ (189.0)	$ (71.6)
Adjusted EBITDA (in millions)[2]	$ (982.7)	$ 253.7	$ 117.7
Adjusted EBITDA Margin[2]	(27.4)%	6.3 %	6.4 %
Net Cash (Used in) Provided by Operating Activities (in millions)[3]	$ (2,020.0)	$ (239.7)	$ 376.4
Free Cash Flow (in millions)[3]	$ (2,357.4)	$ (491.9)	$ 220.0

(1) Please see the section titled “Non-GAAP Financial Measures—Subscription Contribution and Subscription Contribution Margin” for a reconciliation of Subscription Gross Profit to Subscription Contribution and an explanation of why we consider Subscription Contribution and Subscription Contribution Margin to be helpful metrics for investors.

(2) Please see the section titled “Non-GAAP Financial Measures—Adjusted EBITDA and Adjusted EBITDA Margin” for a reconciliation of Net (loss) income to Adjusted EBITDA and an explanation of why we consider Adjusted EBITDA to be a helpful metric for investors.

(3) Please see the section titled “Non-GAAP Financial Measures—Free Cash Flow” for a reconciliation of net cash provided by (used in) operating activities to Free Cash Flow and an explanation of why we consider Free Cash Flow to be a helpful metric for investors.

Connected Fitness Subscriptions

Our ability to expand the number of Connected Fitness Subscriptions is an indicator of our market penetration and growth. We define a “Connected Fitness Subscription” as a person, household, or commercial property, such as a hotel or residential building, who has either paid for a subscription to a Connected Fitness Product (a Connected Fitness Subscription with a successful credit card billing or with prepaid subscription credits or waivers) or requested a “pause” to their subscription for up to three months. We do not include canceled or unpaid Connected Fitness Subscriptions in the Connected Fitness Subscription count.

Average Net Monthly Connected Fitness Churn

We use Average Net Monthly Connected Fitness Churn to measure the retention of our Connected Fitness Subscriptions. We define “Average Net Monthly Connected Fitness Churn” as Connected Fitness Subscription cancellations, net of reactivations, in the quarter, divided by the average number of beginning Connected Fitness Subscriptions in each month, divided by three months. This metric does not include data related to our Peloton Digital subscriptions for Members who pay a monthly fee for access to our content library on their own devices.

Total Workouts and Average Monthly Workouts per Connected Fitness Subscription

We review Total Workouts and Average Monthly Workouts per Connected Fitness Subscription to measure engagement, which is the leading indicator of retention for our Connected Fitness Subscriptions. We define “Total Workouts” as all workouts completed during a given period. We define a “Workout” as the completion of at least 50% of an instructor-led class or scenic ride or run, or ten or more minutes of “Just Ride” or “Just Run” mode by a Member associated with a Connected Fitness Subscription. We define “Average Monthly Workouts per Connected Fitness Subscription” as the Total Workouts completed in the quarter divided by the average number of Connected Fitness Subscriptions in each month, divided by three months.

Components of our Results of Operations

Revenue

Connected Fitness Products

Connected Fitness Product revenue consists of sales of our portfolio of Connected Fitness Products and related accessories, delivery and installation services, branded apparel, extended warranty agreements, and the sale, service, installation, and delivery contracts of our commercial business. Connected Fitness Product revenue is recognized at the time of delivery, except for extended warranty revenue which is recognized over the warranty period and service revenue which is recognized over the term, and is recorded net of returns and discounts and third-party financing program fees, when applicable.

Subscription

Subscription revenue consists of revenue generated from our monthly Connected Fitness Subscription and Peloton Digital subscription.

As of June 30, 2022, 98% and 86% of our Connected Fitness Subscription and Peloton Digital subscription bases were paying month-to-month, respectively.

If a Connected Fitness Subscription owns a combination of a Bike, Tread or Guide product in the same household, the price of the Subscription remains $44.00 monthly (price increased from $39 to $44 USD effective as of June 1, 2022). As of June 30, 2022, approximately 6% of our Connected Fitness Subscriptions owned both a Bike and Tread product.

Cost of revenue

Connected Fitness Products

Connected Fitness Product cost of revenue consists of our portfolio of Connected Fitness Products and branded apparel product costs, including manufacturing costs, duties and other applicable importing costs, shipping and handling costs, packaging, warranty replacement and service costs, fulfillment costs, warehousing costs, depreciation of property and equipment, and certain costs related to management, facilities, and personnel-related expenses associated with supply chain logistics.

Subscription

Subscription cost of revenue includes costs associated with content creation and costs to stream content to our Members. These costs consist of both fixed costs, including studio rent and occupancy, other studio overhead, instructor and production personnel-related expenses, depreciation of property and equipment as well as variable costs, including music royalty fees, content costs for past use, third-party platform streaming costs, and payment processing fees for our monthly subscription billings.

Operating expenses

Sales and marketing

Sales and marketing expense consists of performance marketing media spend, asset creation, and other brand creative, all showroom expenses and related lease payments, payment processing fees incurred in connection with the sale of our Connected Fitness Products, sales and marketing personnel-related expenses, expenses related to the Peloton App, and depreciation of property and equipment.

General and administrative

General and administrative expense includes personnel-related expenses and facilities-related costs primarily for our executive, finance, accounting, legal, human resources, IT functions and member support. General and administrative expense also includes fees for professional services principally comprised of legal, audit, tax and accounting services, depreciation of property and equipment, and insurance, as well as litigation settlement costs.

Research and development

Research and development expense primarily consists of personnel and facilities-related expenses, consulting and contractor expenses, tooling and prototype materials, software platform expenses, and depreciation of property and equipment. We capitalize certain qualified costs incurred in connection with the development of internal-use software which may also cause research and development expenses to vary from period to period.

Goodwill impairment

Goodwill impairment consists of non-cash impairment charges relating to goodwill. We review goodwill for impairment annually on April 1 and more frequently if events or changes in circumstances indicate that an impairment may exist. If the carrying value of the reporting unit continues to exceed its fair value, the fair value of the reporting unit's goodwill is calculated and an impairment loss equal to the excess is recorded.

Impairment expense

Impairment expense consists of non-cash impairment charges relating to long-lived assets. Impairments are determined using management's judgment about our anticipated ability to continue to use fixed assets in-service and under development, current economic and market conditions and their effects based on information available as of the date of these consolidated financial statements. Management disposes of fixed assets during the regular course of business due to damage, obsolescence, strategic shifts, and loss.

Additionally, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the assets. If the carrying amount of an asset group exceeds its estimated undiscounted net future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset group exceeds its fair value.

Restructuring expense

Restructuring expense consists of severance and other personnel costs, including stock-based compensation expense, professional services, facility closures and other costs associated with exit and disposal activities.

Supplier settlements

Supplier settlements are payments made to third-party suppliers to terminate certain future inventory purchase commitments.

Non-operating income and expenses

Other (expense) income, net

Other (expense) income, net consists of interest (expense) income, unrealized and realized gains (losses) on investments, and impacts from foreign exchange transactions.

Income tax provision

The provision for income taxes consists primarily of income taxes related to state and international taxes for jurisdictions in which we conduct business. We maintain a valuation allowance on the majority of our deferred tax assets as we have concluded that it is more likely than not that the deferred assets will not be utilized.

Results of Operations

The following tables set forth our consolidated results of operations in dollars and as a percentage of total revenue for the periods presented. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future.

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
Consolidated Statement of Operations Data:			
Revenue			
Connected Fitness Products	$ 2,187.5	$ 3,149.6	$ 1,462.2
Subscription	1,394.7	872.2	363.7
Total revenue	3,582.1	4,021.8	1,825.9
Cost of revenue[1][2]			
Connected Fitness Products	2,433.8	2,236.9	832.5
Subscription	450.0	330.5	155.7
Total cost of revenue	2,883.8	2,567.4	988.2
Gross profit	698.4	1,454.4	837.7
Operating expenses			
Sales and marketing[1][2]	1,018.9	728.3	476.7
General and administrative[1][2]	963.4	661.8	351.4
Research and development[1][2]	359.5	247.6	89.1
Goodwill impairment	181.9	—	—
Impairment expense	390.5	4.5	1.2
Restructuring expense[1]	180.7	—	—
Supplier settlements	337.6	—	—
Total operating expenses	3,432.4	1,642.2	918.4
Loss from operations	(2,734.0)	(187.8)	(80.7)
Other (expense) income, net:			
Interest expense	(43.0)	(14.8)	(2.0)
Interest income	2.3	7.9	18.2
Foreign exchange losses	(31.8)	(3.5)	(4.0)
Other (expense) income, net	(1.5)	0.1	0.1
Total other (expense) income, net	(74.1)	(10.4)	12.3
Loss before provision for income taxes	(2,808.1)	(198.2)	(68.4)
Income tax expense (benefit)	19.6	(9.2)	3.3
Net loss	$ (2,827.7)	$ (189.0)	$ (71.6)

____

(1) Includes stock-based compensation expense as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
Cost of revenue			
Connected Fitness Products	$ 20.2	$ 12.6	$ 3.2
Subscription	22.7	25.9	7.5
Total cost of revenue	42.9	38.5	10.7
Sales and marketing	30.5	26.2	15.3
General and administrative	152.4	102.1	52.4
Research and development	46.0	27.2	10.4
Restructuring	56.5	—	—
Total stock-based compensation expense	$ 328.4	$ 194.0	$ 88.8

(2) Includes depreciation and amortization expense as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
Cost of revenue			
Connected Fitness Products	$ 20.0	$ 7.7	$ 3.2
Subscription	26.8	19.0	16.6
Total cost of revenue	46.8	26.7	19.9
Sales and marketing	29.6	14.3	9.3
General and administrative	45.7	13.0	10.6
Research and development	20.7	9.9	0.3
Total depreciation and amortization expense	$ 142.8	$ 63.8	$ 40.2

Comparison of the fiscal years ended June 30, 2022 and 2021

Revenue

	Fiscal Year Ended June 30,		
	2022	2021	% Change
	(dollars in millions)		
Revenue:			
Connected Fitness Products	$ 2,187.5	$ 3,149.6	(30.5)%
Subscription	1,394.7	872.2	59.9
Total revenue	$ 3,582.1	$ 4,021.8	(10.9)%
Percentage of revenue			
Connected Fitness Products	61.1 %	78.3 %	
Subscription	38.9	21.7	
Total	100.0 %	100.0 %	

Connected Fitness Products revenue decreased $962.2 million for the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021. This decrease was primarily attributable to fewer Bike and Tread+ deliveries, and charges associated with the voluntary product recalls, partially offset by increased Tread deliveries for the fiscal year ended June 30, 2022. The decrease in Bike deliveries was primarily due to a return to our historical seasonality following the strong increase in demand for home fitness during the COVID-19 pandemic during the fiscal year ended June 30, 2021. The decrease was partially offset by revenues generated from Precor-branded commercial products of $186.6 million for the fiscal year ended June 30, 2022.

Subscription revenue increased $522.5 million for the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021. This increase was primarily attributable to the year-over-year growth in our Connected Fitness Subscriptions. The growth of our Connected Fitness Subscriptions was primarily driven by the number of Connected Fitness Products delivered during the fiscal year ended June 30, 2022 under new Subscriptions and our low Average Net Monthly Connected Fitness Churn of 0.96% for the fiscal year ended June 30, 2022.

Cost of Revenue, Gross Profit, and Gross Margin

	Fiscal Year Ended June 30,		
	2022	2021	% Change
	(dollars in millions)		
Cost of Revenue:			
Connected Fitness Products	$ 2,433.8	$ 2,236.9	8.8%
Subscription	450.0	330.5	36.1
Total cost of revenue	$ 2,883.8	$ 2,567.4	12.3%
Gross Profit:			
Connected Fitness Products	$ (246.3)	$ 912.7	(127.0)%
Subscription	944.7	541.7	74.4
Total Gross profit	$ 698.4	$ 1,454.4	(52.0)%
Gross Margin:			
Connected Fitness Products	(11.3)%	29.0 %	
Subscription	67.7 %	62.1 %	

Fiscal Years Ended June 30, 2022 and 2021

Connected Fitness Products cost of revenue for the fiscal year ended June 30, 2022 increased $196.9 million, or 8.8%, compared to the fiscal year ended June 30, 2021. This increase was primarily driven by increased inventory reserves in the amount of $222.1 million primarily related to excess inventory we do not expect to sell above cost and write-downs of raw materials that we estimate would have no future use as a result of our restructuring activities, costs of $169.0 million associated with Precor-branded commercial products, and increased Tread costs of $137.7 million, primarily driven by the launch of Tread in the first quarter of fiscal 2022. These increases were partially offset by fewer deliveries for the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021.

Our Connected Fitness Products Gross Margin decreased to (11.3)% from 29.0% for the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021, primarily driven by increased inventory reserves related to excess inventory we do not expect to sell above cost, higher logistics expenses per delivery, increased port and storage costs, fixed logistics cost deleveraging, the August 2021 Peloton Bike price reduction, and charges associated with the voluntary recall of our Tread+ product.

Subscription cost of revenue for the fiscal year ended June 30, 2022 increased $119.5 million, or 36.1%, compared to the fiscal year ended June 30, 2021. This increase was primarily driven by an increase of $83.6 million in music royalties and platform streaming costs and an increase of $17.0 million in personnel-related expenses, excluding stock-based compensation expense, due to increased average headcount.

Subscription Gross Margin increased by 563 basis points for the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021, primarily driven by fixed cost leverage with more Connected Fitness Subscriptions as well as modest efficiencies associated with certain variable costs.

Operating Expenses

Sales and Marketing

	Fiscal Year Ended June 30,		
	2022	2021	% Change
	(dollars in millions)		
Sales and marketing	$ 1,018.9	$ 728.3	39.9%
As a percentage of total revenue	28.4 %	18.1 %	

Sales and marketing expense increased $290.6 million in the fiscal year ended June 30, 2022 compared to the fiscal year ended June 30, 2021. The increase was primarily due to an increase in spending on advertising and marketing programs of $223.9 million and personnel-related expenses which increased $45.1 million, primarily due to increased average headcount as we expanded our operations rapidly throughout fiscal 2021 during the COVID-19 pandemic.

General and Administrative

	Fiscal Year Ended June 30,		
	2022	**2021**	**% Change**
	(dollars in millions)		
General and administrative	$ 963.4	$ 661.8	45.6%
As a percentage of total revenue	26.9 %	16.5 %	

General and administrative expense increased $301.6 million when comparing the fiscal year ended June 30, 2022 with the fiscal year ended June 30, 2021. This increase was primarily due to an increase in personnel-related expenses of $128.2 million, including stock-based compensation expense, due to increased average headcount and employee stock grants. This increase was also due to an increase in professional services fees and IT costs associated with ongoing systems implementations of $113.3 million, which related primarily to the upgrading of our back-office systems and infrastructure as well as integration costs related to our acquisitions, and an increase of $32.7 million in depreciation and amortization expense primarily due to our New York City headquarters that was placed in service in fiscal 2022.

Research and Development

	Fiscal Year Ended June 30,		
	2022	**2021**	**% Change**
	(dollars in millions)		
Research and development	$ 359.5	$ 247.6	45.2%
As a percentage of total revenue	10.0 %	6.2 %	

Research and development expense increased $111.8 million, or 45.2% when comparing the fiscal year ended June 30, 2022 with the fiscal year ended June 30, 2021. The increase was primarily due to an increase in personnel-related expenses which, including stock-based compensation expense, increased $79.9 million. This increase was due to increased average headcount and employee stock grants. The increase was also driven by $19.0 million in product development and research costs associated with development of new software features and products.

Goodwill impairment

	Fiscal Year Ended June 30,		
	2022	**2021**	**% Change**
	(dollars in millions)		
Goodwill impairment	$ 181.9	$ —	NM

During the fiscal year ended June 30, 2022, we recognized a Goodwill impairment charge of $181.9 million representing the entire amount of goodwill related to the Connected Fitness Products reporting unit in the Connected Fitness Products Segment.

Impairment expense

	Fiscal Year Ended June 30,		
	2022	**2021**	**% Change**
	(dollars in millions)		
Impairment expense	$ 390.5	$ 4.5	NM

Impairment expense was comprised primarily of $373.8 million of asset write-downs and write-offs related to our previously announced restructuring initiatives, including $165.6 million in write-offs of certain acquired developed technology, brand, distributor and customer relationships, and assembled workforce, $86.1 million related to Connected Fitness assets, primarily related to manufacturing and supply chain assets at several of our to-be-closed locations, $70.0 million related to software under development, and $40.3 million related to Peloton Output Park and related manufacturing assets. Additionally, we recognized impairment expense of $7.7 million driven by the disposal of lease build out costs for the fiscal year ended June 30, 2022.

Restructuring expense

	Fiscal Year Ended June 30,		
	2022	2021	% Change
	(dollars in millions)		
Restructuring expense	$ 180.7	$ —	NM

Restructuring expense was $180.7 million in the fiscal year ended June 30, 2022. The restructuring expenses consisted of $109.1 million of severance and other personnel costs, $56.5 million of stock-based compensation expense driven by the acceleration of certain vesting schedules and incremental stock-based compensation expense pursuant to severance arrangements, and $15.1 million of professional fees and other costs associated with exit and disposal activities. There were no restructuring expenses for the fiscal year ended June 30, 2021.

Supplier settlements

	Fiscal Year Ended June 30,		
	2022	2021	% Change
	(dollars in millions)		
Supplier settlements	$ 337.6	$ —	NM

Supplier settlements were $337.6 million in the fiscal year ended June 30, 2022, which consist of settlement and related costs paid to third-party suppliers to terminate certain future inventory purchase commitments.

Other Expense, Net and Income Tax Expense

	Fiscal Year Ended June 30,		
	2022	2021	% Change
	(dollars in millions)		
Other expense, net	$ (74.1)	$ (10.4)	NM
Income tax expense (benefit)	$ 19.6	$ (9.2)	NM

*NM - not meaningful

Other expense, net, was comprised of the following for the fiscal year ended June 30, 2022:

- Interest expense primarily related to the amortization of the convertible notes discount and deferred financing costs of $(43.0) million;
- Interest income from cash, cash equivalents, and short-term investments of $2.3 million;
- Foreign exchange losses of $(31.8) million; and
- Unrealized losses on short-term investments partially offset by gain on lease termination of $(1.5) million.

Other expense, net, was comprised of the following for the fiscal year ended June 30, 2021:

- Interest expense primarily related to the amortization of the convertible notes discount and deferred financing costs of $(14.8) million;
- Interest income from cash, cash equivalents, and short-term investments of $7.9 million; and
- Foreign exchange losses of $(3.5) million.

Income tax expense for the fiscal year ended June 30, 2022 of $19.6 million was primarily due to state and international taxes.

Non-GAAP Financial Measures

In addition to our results determined in accordance with accounting principles generally accepted in the United States, or GAAP, we believe the following non-GAAP financial measures are useful in evaluating our operating performance.

Adjusted EBITDA and Adjusted EBITDA Margin

We calculate Adjusted EBITDA as net (loss) income adjusted to exclude: other expense (income), net; income tax expense (benefit); depreciation and amortization expense; stock-based compensation expense; impairment expense; product recall costs; litigation and settlement expenses; transaction and integration costs; reorganization, severance, exit, disposal and other costs associated with restructuring plans; supplier settlements; and other adjustment items that arise outside the ordinary course of our business. Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by total revenue.

We use Adjusted EBITDA and Adjusted EBITDA Margin as measures of operating performance and the operating leverage in our business. We believe that these non-GAAP financial measures are useful to investors for period-to-period comparisons of our business and in understanding and evaluating our operating results for the following reasons:

- Adjusted EBITDA and Adjusted EBITDA Margin are widely used by investors and securities analysts to measure a company's operating performance without regard to items such as stock-based compensation expense, depreciation and amortization expense, other expense (income), net, and provision for income taxes that can vary substantially from company to company depending upon their financing, capital structures, and the method by which assets were acquired;
- Our management uses Adjusted EBITDA and Adjusted EBITDA Margin in conjunction with financial measures prepared in accordance with GAAP for planning purposes, including the preparation of our annual operating budget, as a measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance; and
- Adjusted EBITDA and Adjusted EBITDA Margin provide consistency and comparability with our past financial performance, facilitate period-to-period comparisons of our core operating results, and may also facilitate comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Our use of Adjusted EBITDA and Adjusted EBITDA Margin have limitations as analytical tools, and you should not consider these measures in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are, or may in the future be, as follows:

- Although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA and Adjusted EBITDA Margin do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA and Adjusted EBITDA Margin exclude stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (3) tax payments that may represent a reduction in cash available to us;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect certain litigation expenses, consisting of legal settlements and related fees for specific proceedings that we have determined arise outside of the ordinary course of business based on the following considerations which we assess regularly: (1) the frequency of similar cases that have been brought to date, or are expected to be brought within two years; (2) the complexity of the case; (3) the nature of the remedy(ies) sought, including the size of any monetary damages sought; (4) offensive versus defensive posture of us; (5) the counterparty involved; and (6) our overall litigation strategy;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect transaction and integration costs related to acquisitions;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect incremental costs associated with the COVID-19 pandemic, which consist of hazard pay for field operations employees;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect impairment charges for goodwill and fixed assets, and gains (losses) on disposals for fixed assets;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect the impact of purchase accounting adjustments to inventory related to the Precor acquisition;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect costs associated with Tread and Tread+ product recalls including increases to the return reserves, Tread+ inventory write-downs, logistics costs associated with Member requests on Tread and Tread+, the cost to move the Tread+ for those that elect the option, subscription waiver costs of service, and recall-related hardware development and repair costs;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect reorganization, severance, exit, disposal and other costs associated with restructuring plans;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect non-recurring supplier settlements; and
- The expenses and other items that we exclude in our calculation of Adjusted EBITDA and Adjusted EBITDA Margin may differ from the expenses and other items, if any, that other companies may exclude from Adjusted EBITDA when they report their operating results and we may, in the future, exclude other significant, unusual expenses or other items from these financial measures. Because companies in our industry may calculate such measures differently than we do, their usefulness as comparative measures can be limited.

Because of these limitations, Adjusted EBITDA and Adjusted EBITDA Margin should be considered along with other operating and financial performance measures presented in accordance with GAAP.

The following table presents a reconciliation of Adjusted EBITDA to Net (loss) income, the most directly comparable financial measure prepared in accordance with GAAP, for each of the periods indicated:

Adjusted EBITDA and Adjusted EBITDA Margin

	Fiscal Year Ended June 30,	
	2022	2021
	(dollars in millions)	
Net loss	$ (2,827.7)	$ (189.0)
Adjusted to exclude the following:		
Other expense (income), net	74.1	10.4
Income tax expense (benefit)	19.6	(9.2)
Depreciation and amortization expense	142.8	63.8
Stock-based compensation expense	271.8	194.0
Goodwill impairment	181.9	—
Impairment expense	390.5	4.5
Restructuring expense	237.5	—
Supplier settlements	337.6	—
Product recalls(1)	62.3	100.0
Litigation and settlement expenses(2)	118.6	35.8
Transaction and integration costs(3)	5.5	28.9
Other adjustment items (4)	2.9	14.5
Adjusted EBITDA	$ (982.7)	$ 253.7
Adjusted EBITDA margin	(27.4)%	6.3 %

(1) Represents adjustments and charges associated with the Tread and Tread+ product recall, as well as accrual adjustments. These include a reduction to Connected Fitness Products revenue for actual and estimated future returns of $48.9 million and $81.1 million, recorded costs in Connected Fitness Products cost of revenue associated with inventory write-downs and logistic costs of $8.1 million and $15.7 million, and operating expenses of $5.4 million and $3.2 million associated with recall-related hardware development costs, in each case for the fiscal years ended June 30, 2022 and 2021, respectively.

(2) Includes litigation-related expenses for certain non-recurring patent infringement litigation, consumer arbitration, and product recalls for the fiscal years ended June 30, 2022 and 2021.

(3) Includes transaction and integration costs primarily associated with the acquisition and integration of Precor Fitness for the fiscal years ended June 30, 2022 and 2021.

(4) Includes short-term non-cash purchase accounting adjustment amortization of $1.9 million for the fiscal year ended June 30, 2022. Includes incremental costs associated with the COVID-19 pandemic of $5.9 million and short-term purchase accounting adjustments of $4.6 million for the fiscal year ended June 30, 2021.

Subscription Contribution and Subscription Contribution Margin

We define “Subscription Contribution” as Subscription revenue less cost of Subscription revenue, adjusted to exclude from cost of Subscription revenue, depreciation and amortization expense, and stock-based compensation expense. Subscription Contribution Margin is calculated by dividing Subscription Contribution by Subscription revenue.

We use Subscription Contribution and Subscription Contribution Margin to measure our ability to scale and leverage the costs of our Connected Fitness Subscriptions. We believe that these non-GAAP financial measures are useful to investors for period-to-period comparisons of our business and in understanding and evaluating our operating results because our management uses Subscription Contribution and Subscription Contribution Margin in conjunction with financial measures prepared in accordance with GAAP for planning purposes, including the preparation of our annual operating budget, as a measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance.

The use of Subscription Contribution and Subscription Contribution Margin as analytical tools has limitations, and you should not consider these in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are as follows:

- Although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Subscription Contribution and Subscription Contribution Margin do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; and
- Subscription Contribution and Subscription Contribution Margin exclude stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy.

Because of these limitations, Subscription Contribution and Subscription Contribution Margin should be considered along with other operating and financial performance measures presented in accordance with GAAP.

The following table presents a reconciliation of Subscription Contribution to Subscription Gross Profit, the most directly comparable financial measure prepared in accordance with GAAP, for each of the periods indicated:

	Fiscal Year Ended June 30,	
	2022	2021
	(dollars in millions)	
Subscription Revenue	$ 1,394.7	$ 872.2
Less: Cost of Subscription	450.0	330.5
Subscription Gross Profit	$ 944.7	$ 541.7
Subscription Gross Margin	67.7 %	62.1 %
Add back:		
Depreciation and amortization expense	$ 26.8	$ 19.0
Stock-based compensation expense	22.7	25.9
Subscription Contribution	$ 994.2	$ 586.5
Subscription Contribution Margin	71.3 %	67.2 %

The continued growth of our Connected Fitness Subscription base will allow us to improve our Subscription Contribution Margin. While there are variable costs, including music royalties, associated with our Connected Fitness Subscriptions, a significant portion of our content creation costs are fixed given that we operate with a limited number of production studios and instructors. We expect the fixed nature of those expenses to scale over time as we grow our Connected Fitness Subscription base.

Free Cash Flow

We define Free Cash Flow as Net cash provided by (used in) operating activities less capital expenditures and capitalized internal-use software development costs. Free cash flow reflects an additional way of viewing our liquidity that, we believe, when viewed with our GAAP results, provides management, investors and other users of our financial information with a more complete understanding of factors and trends affecting our cash flows.

The use of Free Cash Flow as an analytical tool has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, Free Cash Flow does not incorporate payments made for purchases of marketable securities, business combinations and asset acquisitions. Because of these limitations, Free Cash Flow should be considered along with other operating and financial performance measures presented in accordance with GAAP.

The following table presents a reconciliation of Free Cash Flow to Net cash provided by (used in) operating activities, the most directly comparable financial measure prepared in accordance with GAAP, for each of the periods indicated:

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
Net cash (used in) provided by operating activities	$ (2,020.0)	$ (239.7)	$ 376.4
Capital expenditures, including software	(337.3)	(252.2)	(156.4)
Free Cash Flow	$ (2,357.4)	$ (491.9)	$ 220.0

Liquidity and Capital Resources

Our operations have been funded primarily through net proceeds from the sales of our equity and convertible debt securities, and term loan, as well as cash flows from operating activities. As of June 30, 2022, we had Cash and cash equivalents of approximately $1,253.9 million.

We anticipate approximately $90 million to $100 million of capital expenditures over the next 12 months, which includes amounts related to capitalized labor, investments in content and our studios, product development, systems implementation, and the impact of expenditures before any proceeds from the expected eventual sale of Peloton Output Park.

We believe our existing cash and cash equivalent balances and cash flow from operations will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, timing to adjust our supply chain and cost structures in response to material fluctuations in product demand, timing and amount of spending related to acquisitions, the timing and amount of spending on research and development and manufacturing initiatives, the timing and financial impact of product recalls, sales and marketing activities, the timing of new

product introductions, market acceptance of our Connected Fitness Products, timing and investments needed for international expansion, and overall economic conditions. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. There can be no assurances that we will be able to raise additional capital. The inability to raise capital would adversely affect our ability to achieve our business objectives.

Restructuring Plan

In February 2022, we announced and began implementing a restructuring plan to realign our operational focus to support our multi-year growth, scale the business, and improve costs (the "Restructuring Plan"). The Restructuring Plan includes: (i) reducing our headcount; (ii) closing several assembly and manufacturing plants, including the completion and subsequent sale of the shell facility for our previously planned Peloton Output Park; (iii) closing and consolidating several distribution facilities, and (iv) shifting to third-party logistics providers in certain locations. We expect the Restructuring Plan to be substantially implemented by the end of fiscal 2024.

Total charges related to the Restructuring Plan were $611.3 million for fiscal year ended June 30, 2022 consisting of cash charges of $124.5 million for severance and other personnel costs and $15.4 million for professional fees and other related charges, and non-cash charges of $373.8 million related to non-inventory asset write-downs and write-offs, $56.5 million for stock-based compensation expense and $56.4 million for inventory markdowns.

In addition to the above charges, we incurred approximately $86.6 million for capital expenditures related to Peloton Output Park since project inception.

On July 12, 2022 we announced we are exiting all owned-manufacturing operations and our expansion of our current relationship with Taiwanese manufacturer Rexon Industrial Corp. Additionally, on August 12, 2022 we announced the decision to perform the following additional restructuring activities: (i) eliminate our North American Field Ops warehouses, including the significant reduction of our delivery workforce teams; (ii) eliminate a significant number of roles on the North America Member Support team and exit our real-estate footprints in our Plano and Tempe locations; and (iii) reduce our North America retail showroom presence. In connection with the Restructuring Plan, we estimate that we will incur additional cash charges of approximately $95.0 million primarily composed of severance and other exit costs in fiscal year 2023 and beyond. Additionally, we expect to recognize approximately $75.0 million of asset impairment charges in fiscal year 2023 in connection with the Restructuring Plan.

We may not be able to realize the cost savings and benefits initially anticipated as a result of the Restructuring Plan, and the costs may be greater than expected. See *"Risk Factors—Risks Related to Our Business—We may not successfully execute or achieve the expected benefits of our restructuring initiatives and other cost-saving measures we may take in the future, and our efforts may result in further actions and/or additional asset impairment charges and adversely affect our business*."

Convertible Notes

In February 2021, we issued $1.0 billion aggregate principal amount of 0% Convertible Senior Notes due 2026 (the "Notes") in a private offering, including the exercise in full of the over-allotment option granted to the initial purchasers of $125.0 million. The Notes were issued pursuant to an Indenture (the "Indenture") between us and U.S. Bank National Association, as trustee. The Notes are our senior unsecured obligations and do not bear regular interest, and the principal amount of the Notes does not accrete. The net proceeds from the offering were approximately $977.2 million, after deducting the initial purchasers' discounts and commissions and our offering expenses.

Capped Call Transactions

In connection with the offering of the Notes, we entered into privately negotiated capped call transactions with certain counterparties (the "Capped Call Transactions"). The Capped Call Transactions have an initial strike price of approximately $239.23 per share, subject to adjustments, which corresponds to the approximate initial conversion price of the Notes. The cap price of the Capped Call Transactions will initially be approximately $362.48 per share. The Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, 6.9 million shares of Class A Common Stock. The Capped Call Transactions are expected generally to reduce potential dilution to the Class A Common Stock upon any conversion of Notes and/or offset any potential cash payments we would be required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap based on the cap price. If, however, the market price per share of Class A Common Stock, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions, there would be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that the then-market price per share of the Class A Common Stock exceeds the cap price of the Capped Call Transactions.

Class A Common Stock Offering

On November 16, 2021, we entered into an underwriting agreement (the "Underwriting Agreement") with Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC as representatives of the several underwriters named therein (collectively, the "Representatives") relating to the offer and sale by the Company (the "Offering") of 27,173,912 shares (the "Shares") of the Company's Class A common stock, par value $0.000025 per share, which includes 3,260,869 shares of Class A common stock issued and sold pursuant to the exercise in full by the underwriters of their option to purchase additional shares of Class A common stock pursuant to the Underwriting Agreement. We sold the Shares to the underwriters at the public offering price of $46.00 per share less underwriting discounts**.** The net proceeds from the Offering were approximately $1.2 billion, after deducting the underwriters' discounts and commissions and our offering expenses.

Second Amended and Restated Credit Agreement

In 2019, the Company entered into an amended and restated revolving credit agreement (as amended, modified or supplemented prior to entrance into the Second Amended and Restated Credit Agreement (as defined below), the “Amended and Restated Credit Agreement”). The Amended and Restated Credit Agreement provided for a $500.0 million secured revolving credit facility, including up to the lesser of $250.0 million and the aggregate unused amount of the facility for the issuance of letters of credit.

The Amended and Restated Credit Agreement also permitted the incurrence of indebtedness to permit the Capped Call Transactions and issuance of the Notes.

On May 25, 2022, the Company entered into an Amendment and Restatement Agreement to which the Second Amended and Restated Credit Agreement is attached (as amended, restated or otherwise modified from time to time, the “Second Amended and Restated Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and certain banks and financial institutions party thereto as lenders and issuing banks. Pursuant to the Second Amended and Restated Credit Agreement, the Company amended and restated the Amended and Restated Credit Agreement.

The Second Amended and Restated Credit Agreement provides for a $750.0 million term loan facility (the “Term Loan”), which will be due and payable on May 25, 2027 or, if greater than $200.0 million of our 0% convertible senior notes are outstanding on November 16, 2025 (the “Springing Maturity Condition”), November 16, 2025 (the “Springing Maturity Date”). The Term Loan amortizes in quarterly installments of 0.25%, payable at the end of each fiscal quarter and on the maturity date.

The Second Amended and Restated Credit Agreement also provides for a $500.0 million revolving credit facility (the “Revolving Facility”), $35.0 million of which will mature on June 20, 2024 (the “Non-Consenting Commitments”), with the rest ($465.0 million) maturing on December 10, 2026 (the “Consenting Commitments”) or if the Springing Maturity Condition is met and the Term Loan is outstanding on such date, the Springing Maturity Date. The key terms of the Revolving Facility remain substantially unchanged from those set forth in the Amended and Restated Credit Agreement, including requiring compliance with a total level of liquidity of not less than $250.0 million and maintaining a minimum total four-quarter revenue level of $3.0 billion (which are replaced with a covenant to maintain a minimum debt to adjusted EBITDA ratio upon our meeting a specified adjusted EBITDA threshold).

The Revolving Facility bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate (as defined in the Second Amended and Restated Credit Agreement) plus 2.25% per annum or the Alternate Base Rate (as defined in the Second Amended and Restated Credit Agreement) plus 1.25% per annum for the Consenting Commitments, and bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate plus 2.75% per annum or the Alternate Base Rate plus 1.75% per annum for the Non-Consenting Commitments. The Company is required to pay an annual commitment fee of 0.325% per annum and 0.375% per annum on a quarterly basis based on the unused portion of the Revolving Facility for the Consenting Commitments and the Non-Consenting Commitments, respectively.

The Term Loan bears interest at a rate equal to, at our option, either at the Alternate Base Rate (as defined in the Second Amended and Restated Credit Agreement) plus 5.50% per annum or the Adjusted Term SOFR Rate (as defined in the Second Amended and Restated Credit Agreement) plus 6.50% per annum. Each such margin will increase one time by 0.50% per annum if the Company chooses not to obtain a public rating for the Term Loan from S&P Global Ratings or Moody’s Investors Services, Inc. on or prior to November 25, 2022. Any borrowing at the Alternate Base Rate is subject to a 1.00% floor and a term loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.50% floor and any revolving loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.00% floor.

The Second Amended and Restated Credit Agreement contains customary affirmative covenants as well as customary covenants that restrict our ability to, among other things, incur additional indebtedness, sell certain assets, guarantee obligations of third parties, declare dividends or make certain distributions, and undergo a merger or consolidation or certain other transactions. The Second Amended and Restated Credit Agreement also contains certain customary events of default. Certain baskets and covenant levels have been decreased and will apply equally to both the Term Loan and Revolving Facility for so long as the Term Loan is outstanding. After the repayment in full of the Term Loan, such baskets and levels will revert to those previously disclosed in connection with the Amended and Restated Credit Agreement.

The obligations under the Second Amended and Restated Credit Agreement with respect to the Term Loan and the Revolving Facility are secured by substantially all of our assets, with certain exceptions set forth in the Second Amended and Restated Credit Agreement, and are required to be guaranteed by certain material subsidiaries of the Company if, at the end of future financial quarters, certain conditions are not met.

As of June 30, 2022, we were in compliance with the covenants under the Second Amended and Restated Credit Agreement. As of June 30, 2022, we had drawn the full amount of the Term Loan and we had not drawn on the Revolving Facility, and we therefore had $750.0 million total outstanding borrowings under the Second Amended and Restated Credit Agreement. As of June 30, 2022, we had outstanding letters of credit totaling $77.6 million, of which $69.9 million was secured against the Revolver.

Cash Flows

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
Net cash (used in) provided by operating activities	$ (2,020.0)	$ (239.7)	$ 376.4
Net cash provided by (used in) investing activities	153.3	(585.1)	(741.3)
Net cash provided by financing activities	2,015.1	916.8	1,240.2

Operating Activities

Net cash used in operating activities of $2,020.0 million for the fiscal year ended June 30, 2022 was primarily due to a net loss of $2,827.7 million and a net increase in operating assets and liabilities of $623.6 million, partially offset by an increase in non-cash adjustments of $1,431.2 million. The increase in cash used in operating activities was primarily due to a $398.6 million increase in inventory levels as we ramped up supply to support anticipated demand ahead of the 2021 holiday season that did not materialize and prepared for the relaunch of Tread in the United States, Canada, U.K. and Germany, a $168.6 million decrease in accounts payable and accrued expenses as a result of a decrease in payables due to decreased inventory spending in the latter half of fiscal 2022, as well as increased efficiency in our accounts payable process, and $36.8 million increase in customer deposits and deferred revenue driven by timing of sales and deliveries in the period. Non-cash adjustments primarily consisted of goodwill and long lived asset impairment expense, stock-based compensation expense, excess and obsolete inventory reserves, depreciation and amortization, and non-cash operating lease expense.

Investing activities

Net cash provided by investing activities for the fiscal year ended June 30, 2022 of $153.3 million was primarily related to sales and maturities of marketable securities of $517.7 million, partially offset by $337.3 million used for capital expenditures primarily related to construction of Peloton Output Park in Troy Township, Ohio, the continued build out of our showrooms and offices, and software placed into service throughout the year.

Financing activities

Net cash provided by financing activities of $2,015.1 million for the fiscal year ended June 30, 2022 was primarily related to proceeds of $1,218.8 million from the Offering, proceeds from issuance of the Term Loan of $696.4 million, exercises of stock options of $84.3 million, and $17.3 million in net proceeds from withholdings under the 2019 Employee Stock Purchase Plan.

Commitments

As of June 30, 2022, our contractual obligations were as follows:

	Payments due by period				
Contractual obligations:	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in millions)		
Lease obligations [1]	$ 1,091.1	$ 138.4	$ 246.9	$ 208.3	$ 497.5
Minimum guarantees [2]	298.7	129.8	168.9	—	—
Unused credit facility fee payments [3]	7.0	1.6	3.2	2.2	—
Other purchase obligations [4]	101.9	60.0	35.7	6.2	—
Convertible senior notes [5]	1,000.0	—	—	1,000.0	—
Supplier settlements [6]	148.8	148.8	—	—	—
Term loan	$ 750.0	$ 7.5	$ 15.0	$ 727.5	$ —
Total	$ 3,397.5	$ 486.1	$ 469.7	$ 1,944.2	$ 497.5

(1) Lease obligations relate to our office space, warehouses, production studios, equipment, and retail showrooms and microstores. As of June 30, 2022, the Company had additional operating leases for real estate that have not yet commenced of $15.2 million which has been included above. The original lease terms are between one and twenty-one years, and the majority of the lease agreements are renewable at the end of the lease period. The Company has finance lease obligations of $3.1 million, also included above.

(2) We are subject to minimum royalty payments associated with our license agreements for the use of licensed content. See *"Risk Factors — Risks Related to Our Business— We are a party to many music license agreements that are complex and impose numerous obligations upon us that may make it difficult to operate our business, and a breach of such agreements could adversely affect our business, operating results, and financial condition."*

(3) Pursuant to the Second Amended and Restated Credit Agreement, we are required to pay a commitment fee of 0.325% and 0.375% on a quarterly basis based on the unused portion of the Revolving Facility for the revolving loans maturing on December 10, 2026 and June 20, 2024, respectively. As of June 30, 2022, we had outstanding letters of credit totaling $77.6 million, of which $69.9 million was secured against the Revolver.

(4) Other purchase obligations include all other non-cancelable contractual obligations. These contracts are primarily related to cloud computing costs.

(5) Refer to *Note 12 - Debt* in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K for further details regarding our convertible senior notes obligations.

(6) Supplier settlements relate to payments to third-party suppliers to exit purchase commitments. Subsequent to June 30, 2022 the Company entered into an additional $97.3 million to be paid through fiscal 2023.

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts.

We utilize contract manufacturers to build our products and accessories. These contract manufacturers acquire components and build products based on demand forecast information we supply, which typically covers a rolling 12-month period. Consistent with industry practice, we acquire inventories from such manufacturers through blanket purchase orders against which orders are applied based on projected demand information and availability of goods. Such purchase commitments typically cover our forecasted product and manufacturing requirements for periods that range a number of months. In certain instances, these agreements allow us the option to cancel, reschedule, and/or adjust our requirements based on our business needs for a period of time before the order is due to be fulfilled. While our purchase orders are legally cancellable in many situations, some purchase orders are not cancellable in the event of a demand plan change or other circumstances, such as where the supplier has procured unique, Peloton-specific designs, and/or specific non-cancellable, non-returnable components based on our provided forecasts.

As of June 30, 2022, our commitments to contract with third-party manufacturers for their inventory on-hand and component purchase commitments related to the manufacture of our products were estimated to be approximately $334.7 million. See *“Risk Factors—Risks Related to Our Business—Our operating results could be adversely affected if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory*.”

Off-Balance Sheet Arrangements

We did not have any undisclosed off-balance sheet arrangements as of June 30, 2022.

Recent Accounting Pronouncements

See *Note 2 - Summary of Significant Accounting Policies* in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K under the heading *“Recently Issued Accounting Pronouncements”* for a discussion about new accounting pronouncements adopted and not yet adopted as of the date of this Annual Report on Form 10-K.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. In preparing the consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, stockholders’ equity, revenue, expenses, and related disclosures. We re-evaluate our estimates on an on-going basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because of the uncertainty inherent in these matters, actual results may differ from these estimates and could differ based upon other assumptions or conditions. The critical accounting policies that reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements include those noted below.

Revenue Recognition

Our primary source of revenue is from sales of our Connected Fitness Products and related accessories and associated recurring Subscription revenue, as well as Precor branded fitness products, delivery and installation services.

We determine revenue recognition through the following steps in accordance with ASC 606:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration that we expect to be entitled to in exchange for those goods or services. Our revenue is reported net of sales returns, discounts, incentives, and rebates to commercial distributors as a reduction of the transaction price. Certain contracts include consideration payable that is accounted for as a payment for distinct goods or services. Our transaction price estimate includes our estimate for product returns and concessions based on the terms and conditions of home trial programs, historical return trends by product category, impact of seasonality, an evaluation of current economic and market conditions, and current business practices, and record the expected customer refund liability as a reduction to revenue, and the expected inventory right of recovery as a reduction of cost of revenue. If actual return costs differ from previous estimates, the amount of the liability and corresponding revenue are adjusted in the period in which such costs occur.

There is not significant judgement required in the determination of performance obligations, allocation of our transaction price, or the recognition of revenue. See further discussion in Note 3 to the consolidated financial statements.

As described in Note 13 of the consolidated financial statements, the Company announced voluntary recalls of the Company's Tread+ and Tread products, permitting customers to return the products for a refund. The amount of a refund customers are eligible to receive may differ based on the status of an approved remediation of the issue driving the recall, and the age of the CFU being returned. We estimate a returns reserve primarily based on historical and expected product returns, product warranty and service call trends. We also consider current trends in

consumer behavior in order to identify correlations to current trends in returns. However, with current uncertainty in the global economy, negative press and general sentiment surrounding Peloton's post-pandemic business and financial performance, absence of a remediation plan with the Consumer Product Safety Commission, predicting expected product returns based on historical returns becomes less relevant, requiring reliance on highly subjective estimates based on our interpretation of how current conditions and factors will drive consumer behavior. Since the inception of the product recall, we have recorded return provisions as a reduction to Connected Fitness Products revenue of approximately $139.9 million. As of June 30, 2022 and June 30, 2021, our returns reserve related to the impacts of the recalls was $39.9 million and $40.8 million, respectively.

Inventory Valuation

We review our inventory to ensure that its carrying value does not exceed its net realizable value ("NRV"), with NRV based on the estimated selling price of inventory in the ordinary course of business, less estimated costs of completion, disposal and transportation. When our expectations indicate that the carrying value of inventory may exceed its NRV, we perform an exercise to calculate the approximate amount by which carrying value is greater than NRV and record additional cost of revenue for the difference. Once a write-off occurs, a new, lower cost basis is established. Should our estimates used in these calculations change in the future, such as estimated selling prices or disposal costs, additional write-downs may occur.

We also regularly monitor inventory quantities on hand and in transit and reserve for excess and obsolete inventories using estimates based on historical experience, historical and projected sales trends, specific categories of inventory, and age of on-hand inventory. Inventories presented in the Consolidated Balance Sheets are net of reserves for excess and obsolete inventory. If actual conditions or product demands are less favorable than our assumptions, additional inventory reserves may be required.

Product Warranty

We offer a standard product warranty that our Connected Fitness Products and Precor branded fitness products will operate under normal, non-commercial use for a period of one year covering the touchscreen and most original Bike, Bike+, Tread, Tread+, and Guide components from the date of original delivery. We have the obligation, at our option, to either repair or replace the defective product. At the time revenue is recognized, an estimate of future warranty costs, including costs associated with service of Connected Fitness Products outside of the warranty period, is recorded as a component of cost of revenue. Factors that affect the warranty obligation include historical as well as current product failure rates, service delivery costs incurred in correcting product failures, including the expected utilization of our logistics network, and warranty policies and business practices. Our products are manufactured both in-house and by contract manufacturers, and in certain cases, we may have recourse to such contract and component manufacturers.

We also offer the option for customers in some markets to purchase a third-party extended warranty and service contract that extends or enhances the technical support, parts, and labor coverage offered as part of the base warranty included with the Connected Fitness Product for an additional period of 12 to 36 months.

Revenue and related fees paid to the third-party provider are recognized on a gross basis as we have a continuing obligation to perform over the service period. Extended warranty revenue is recognized ratably over the extended warranty coverage period and is included in Connected Fitness Products revenue in the Consolidated Statements of Operations and Comprehensive Loss.

Goodwill and Intangible Assets

Goodwill represents the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest, if any, over the fair value of identifiable assets acquired and liabilities assumed in a business combination. The Company has no intangible assets with indefinite useful lives.

Intangible assets other than goodwill are comprised of acquired developed technology, brand name, customer relationships, distributor relationships, and other finite-lived intangible assets. At initial recognition, intangible assets acquired in a business combination or asset acquisition are recognized at their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at acquisition date fair value less accumulated amortization and impairment losses, if any, and are amortized on a straight-line basis over the estimated useful life of the asset.

We review goodwill for impairment annually on April 1 of each fiscal year or whenever events or changes in circumstances indicate that an impairment may exist. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment. In conducting our annual impairment test, we first review qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If factors indicate that the fair value of the reporting unit is less than its carrying amount, we perform a quantitative assessment and the fair value of the reporting unit is estimated by analyzing the expected present value of future cash flows. If the carrying value of the reporting unit continues to exceed its fair value, the fair value of the reporting unit's goodwill is calculated and an impairment loss equal to the excess is recorded.

We assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment of Long-Lived Assets

We test our long-lived asset groups when changes in circumstances indicate their carrying value may not be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues and expenses, present cash flow losses combined with a history of cash flow losses and a forecast that demonstrates significant continuing losses, significant negative industry or economic trends, a current

expectation that a long-lived asset group will be disposed of significantly before the end of its useful life, a significant adverse change in the manner in which an asset group is used or in its physical condition, or when there is a change in the asset grouping. When a triggering event occurs, a test for recoverability is performed, comparing projected undiscounted future cash flows to the carrying value of the asset group. If the test for recoverability identifies a possible impairment, the asset group's fair value is measured relying primarily on a discounted cash flow method. To the extent available, we will also consider third-party valuations of our long-lived assets that were prepared for other business purposes. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amounts of those assets are depreciated over their remaining useful life.

For our Connected Fitness segment and Subscription segment, we evaluate long-lived tangible assets at the lowest level at which independent cash flows can be identified, which is dependent on the strategy and expected future use of our long-lived assets. We evaluate corporate assets or other long-lived assets that are not segment-specific at the consolidated level.

We measure the fair value of an asset group based on market prices (i.e., the amount for which the asset could be sold to a third party) when available. When market prices are not available, we generally estimate the fair value of the asset group using the income approach and/or the market approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our operating results, business plan forecasts, expected growth rates, and cost of capital, similar to those a market participant would use to assess fair value. We also make certain assumptions about future economic conditions and other data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods.

Changes in assumptions or estimates can materially affect the fair value measurement of an asset group and, therefore, can affect the test results. Since there is typically no active market for our long-lived tangible assets, we estimate fair values based on the expected future cash flows. We estimate future cash flows based on historical results, current trends, and operating and cash flow projections. Our estimates are subject to uncertainty and may be affected by a number of factors outside our control, including general economic conditions and the competitive environment. While we believe our estimates and judgments about future cash flows are reasonable, future impairment charges may be required if the expected cash flow estimates, as projected, do not occur or if events change requiring us to revise our estimates.

During fiscal 2022, we identified various qualitative factors that collectively indicated that the Company had triggering events, including (i) realignment of cost structure in connection with the Restructuring Plan, (ii) softening demand and (iii) a sustained decrease in stock price.

Business Combination

To determine whether transactions should be accounted for as acquisitions of assets or business combinations, we make certain judgments, which include assessment of the inputs, processes, and outputs associated with the acquired set of activities. If we determine that substantially all of the fair value of gross assets included in a transaction is concentrated in a single asset (or a group of similar assets), the assets would not represent a business. To be considered a business, the assets in a transaction need to include an input and a substantive process that together significantly contribute to the ability to create outputs.

We allocate the fair value of the purchase consideration to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The fair values of intangible assets are determined utilizing information available near the acquisition date based on expectations and assumptions that are deemed reasonable by management. Given the considerable judgment involved in determining fair values, we typically obtain assistance from third-party valuation specialists for significant items. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs are expensed as incurred. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions that existed at the acquisition date becomes available.

Loss Contingencies

We are involved in legal proceedings, claims, and regulatory, tax, and government inquiries and investigations that arise in the ordinary course of business. Certain of these matters include claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is both probable that a loss has been incurred and the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be reasonably estimated, we disclose the possible loss in the accompanying notes to the consolidated financial statements. If we determine that a loss is reasonably possible but the loss or range of loss cannot be reasonably estimated, we state that such an estimate cannot be made.

We review the developments in our contingencies that could affect the amount of the provisions that have been previously recorded, and the matters and related reasonably possible losses disclosed. We make adjustments to our provisions and changes to our disclosures accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Significant judgment is required to determine both the probability and the estimated amount of loss. These estimates have been based on our assessment of the facts and circumstances at each balance sheet date and are subject to change based on new information and future events.

The outcome of legal proceedings, claims, and regulatory, tax, and government inquiries and investigations is inherently uncertain. Therefore, if one or more of these matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition, including in a particular reporting period in which any such outcome becomes probable and estimable, could be materially adversely affected.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

We had Cash and cash equivalents of $1,253.9 million as of June 30, 2022. The primary objective of our investment activities is the preservation of capital, and we do not enter into investments for trading or speculative purposes. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 10% increase in interest rates during any of the periods presented in this Annual Report on Form 10-K would not have had a material impact on our consolidated financial statements.

We are primarily exposed to changes in short-term interest rates with respect to our cost of borrowing under our Second Amended and Restated Credit Agreement. We monitor our cost of borrowing under our facilities, taking into account our funding requirements, and our expectations for short-term rates in the future. A hypothetical 10% change in the interest rate on our Second Amended and Restated Credit Agreement for all periods presented would not have a material impact on our consolidated financial statements.

Foreign Currency Risk

Our international sales are primarily denominated in foreign currencies and any unfavorable movement in the exchange rate between U.S. dollars and the currencies in which we conduct sales in foreign countries could have an adverse impact on our revenue. We source and manufacture inventory primarily in U.S. dollars and Taiwanese dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. For example, some of our contract manufacturing takes place in Taiwan and the related agreements are denominated in foreign currencies and not in U.S. dollars. Further, certain of our manufacturing agreements provide for fixed costs of our Connected Fitness Products and hardware in Taiwanese dollars but provide for payment in U.S. dollars based on the then-current Taiwanese dollar to U.S. dollar spot rate. In addition, our suppliers incur many costs, including labor and supply costs, in other currencies. While we are not currently contractually obligated to pay increased costs due to changes in exchange rates, to the extent that exchange rates move unfavorably for our suppliers, they may seek to pass these additional costs on to us, which could have a material impact on our gross margins. Our operating results and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. We use derivative instruments, such as foreign currency forwards, and have the ability to use option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. Our exposure to foreign currency exchange rates has historically been partially hedged as our foreign currency denominated inflows create a natural hedge against our foreign currency denominated expenses.

Inflation Risk

Given the recent rise in inflation, there have been and may continue to be additional pressures on the ongoing increases in supply chain and logistics costs, materials costs, and labor costs. Although we do not believe that inflation has had a material impact on our business, financial condition or results of operations, our business could be more affected by inflation in the future which could have an adverse effect on our ability to maintain current levels of gross margin and operating expenses as a percentage of net revenue if we are unable to fully offset such higher costs through price increases. Additionally, because we purchase component parts from our suppliers, we may be adversely impacted by their inability to adequately mitigate inflationary, industry, or economic pressures.

Item 8. Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID: 42)	69
Consolidated Balance Sheets	72
Consolidated Statements of Operations and Comprehensive Loss	73
Consolidated Statements of Cash Flows	74
Consolidated Statements of Stockholders' Equity	76
Notes to Consolidated Financial Statements	78

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Peloton Interactive, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Peloton Interactive, Inc. (the Company) as of June 30, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, cash flows and stockholders' equity for each of the three years in the period ended June 30, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated September 6, 2022 expressed an adverse opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

	Timing of Revenue Recognition – Connected Fitness Products
Description of the Matter	The Company recognized $2,187.5 million of Connected Fitness Products revenue for the year ended June 30, 2022. As discussed in Note 3 to the consolidated financial statements, the Company recognizes Connected Fitness Product revenue when control of the promised good is transferred to the customer, which is completed upon delivery of the Connected Fitness Product. Auditing the timing of Connected Fitness Products revenue recognition was especially challenging as it involved significant audit effort in evaluating the audit evidence from multiple sources supporting the delivery of the Connected Fitness Products to the customer.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over the timing of revenue recognition for Connected Fitness Products including management's reconciliation of revenue recognized to the evidence of delivery. To test the timing of revenue recognition, our audit procedures included, among others, reconciling the evidence of delivery from multiple sources to support the timing of revenue recognized. On a sample basis, we tested the completeness and accuracy of the underlying delivery data. In addition, we performed testing as of year-end to validate the appropriate cutoff associated with revenue recognition. Lastly, at year-end, we performed a review of revenue activity for any material or unusual transactions and obtained supporting evidence of delivery, as needed.

Impairments of Goodwill and Long-Lived Assets

Description of the Matter	As discussed in Notes 8 and 9 to the consolidated financial statements, the Company tests goodwill for impairment at least annually, or more frequently if events or changes in circumstances occur that would more likely than not result in impairment. The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the asset or group of assets may not be recoverable. During fiscal 2022, the Company identified various impairment indicators, including realignment of cost structure, softening demand, and sustained decrease in stock price, that indicated that the carrying amount of the long-lived assets might not be recoverable. During the year ended June 30, 2022, the Company evaluated the goodwill and long-lived assets (consisting primarily of property and equipment, operating lease right-of-use assets and intangible assets) for impairment. The Company recognized goodwill and long-lived assets impairment charges of $181.9 million and $390.5 million, respectively. Auditing the impairments of goodwill and the long-lived assets was especially challenging due to the material weakness in the Company’s internal control over financial reporting relating to goodwill and long-lived asset impairment testing. This in turn led to significant audit efforts to support the measurement and recognition of the Connected Fitness Products reporting unit and the long-lived assets subject to impairment.
How We Addressed the Matter in Our Audit	To test the impairments of goodwill and the long-lived assets, we performed audit procedures that included, among others, assessing methodologies used by the Company in assessing the recoverability and fair values of goodwill and the long-lived assets, as applicable. In addition, we obtained an understanding of the Company’s realignment of cost structure and the implications on the resulting fair values. We involved our valuation specialists and evaluated the reasonableness of management’s measurement of the long-lived assets and the Connected Fitness Products reporting unit subject to impairment. In response to the material weakness in the Company’s internal controls, we adjusted audit testing thresholds over the Company’s long-lived assets and performed incremental testing of the significant assumptions to support the determination of fair value of the long-lived assets.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2017.

New York, New York

September 6, 2022

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Peloton Interactive, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Peloton Interactive, Inc.'s internal control over financial reporting as of June 30, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weaknesses described below on the achievement of the objectives of the control criteria, Peloton Interactive, Inc. (the Company) has not maintained effective internal control over financial reporting as of June 30, 2022, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in the Company's inventory and goodwill and long-lived asset impairment processes and restructuring assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of June 30, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, cash flows and stockholders' equity for each of the three years in the period ended June 30, 2022, and the related notes. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2022 consolidated financial statements, and this report does not affect our report dated September 6, 2022, which expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

New York, New York

September 6, 2022

PELOTON INTERACTIVE, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share amounts)

	June 30, 2022	June 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,253.9	$ 1,134.8
Marketable securities	—	472.0
Accounts receivable, net	83.6	71.4
Inventories, net	1,104.5	937.1
Prepaid expenses and other current assets	192.5	202.8
Total current assets	2,634.6	2,818.1
Property and equipment, net	610.9	591.9
Intangible assets, net	41.3	247.9
Goodwill	41.2	210.1
Restricted cash	3.8	0.9
Operating lease right-of-use assets, net	662.5	580.1
Other assets	34.3	36.7
Total assets	$ 4,028.5	$ 4,485.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 797.4	$ 989.1
Current portion of long term debt	7.5	—
Customer deposits and deferred revenue	201.1	164.8
Operating lease liabilities, current	86.4	61.9
Other current liabilities	13.2	27.2
Total current liabilities	1,105.5	1,243.0
0% Convertible senior notes, net	864.0	829.8
Term loan, net	690.0	—
Operating lease liabilities, non-current	725.4	620.4
Other non-current liabilities	50.7	38.3
Total liabilities	3,435.6	2,731.5
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock, $0.000025 par value; 2,500,000,000 and 2,500,000,000 Class A shares authorized, 308,241,938 and 270,855,356 shares issued and outstanding as of June 30, 2022 and June 30, 2021, respectively; 2,500,000,000 and 2,500,000,000 Class B shares authorized, 30,032,078 and 29,291,774 shares issued and outstanding as of June 30, 2022 and June 30, 2021, respectively.	—	—
Additional paid-in capital	4,291.3	2,618.9
Accumulated other comprehensive income	12.2	18.2
Accumulated deficit	(3,710.6)	(883.0)
Total stockholders' equity	592.9	1,754.1
Total liabilities and stockholders' equity	$ 4,028.5	$ 4,485.6

See accompanying notes to these consolidated financial statements.

PELOTON INTERACTIVE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in millions, except share and per share amounts)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Revenue:			
Connected Fitness Products	$ 2,187.5	$ 3,149.6	$ 1,462.2
Subscription	1,394.7	872.2	363.7
Total revenue	3,582.1	4,021.8	1,825.9
Cost of revenue:			
Connected Fitness Products	2,433.8	2,236.9	832.5
Subscription	450.0	330.5	155.7
Total cost of revenue	2,883.8	2,567.4	988.2
Gross profit	698.4	1,454.4	837.7
Operating expenses:			
Sales and marketing	1,018.9	728.3	476.7
General and administrative	963.4	661.8	351.4
Research and development	359.5	247.6	89.1
Goodwill impairment	181.9	—	—
Impairment expense	390.5	4.5	1.2
Restructuring expense	180.7	—	—
Supplier settlements	337.6	—	—
Total operating expenses	3,432.4	1,642.2	918.4
Loss from operations	(2,734.0)	(187.8)	(80.7)
Other (expense) income, net:			
Interest expense	(43.0)	(14.8)	(2.0)
Interest income	2.3	7.9	18.2
Foreign exchange losses	(31.8)	(3.5)	(4.0)
Other (expense) income, net	(1.5)	0.1	0.1
Total other (expense) income, net	(74.1)	(10.4)	12.3
Loss before provision for income taxes	(2,808.1)	(198.2)	(68.4)
Income tax expense (benefit)	19.6	(9.2)	3.3
Net loss	$ (2,827.7)	$ (189.0)	$ (71.6)
Net loss attributable to Class A and Class B common stockholders	$ (2,827.7)	$ (189.0)	$ (71.6)
Net loss per share attributable to common stockholders, basic and diluted	$ (8.77)	$ (0.64)	$ (0.32)
Weighted-average Class A and Class B common shares outstanding, basic and diluted	322,368,818	293,892,643	220,952,237
Other comprehensive (loss) income:			
Net unrealized (losses) gains on marketable securities	$ (0.4)	$ (3.5)	$ 3.9
Change in foreign currency translation adjustment	(4.5)	11.5	6.0
Derivative adjustments:			
Net unrealized loss on hedging derivatives	(6.3)	—	—
Reclassification for derivative adjustments included in Net (loss) income	5.3	—	—
Total other comprehensive (loss) income	(5.9)	8.1	9.9
Comprehensive loss	$ (2,833.7)	$ (180.9)	$ (61.7)

See accompanying notes to these consolidated financial statements.

PELOTON INTERACTIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Fiscal Year Ended June 30,		
	2022	**2021**	**2020**
Cash Flows from Operating Activities:			
Net loss	$ (2,827.7)	$ (189.0)	$ (71.6)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization expense	142.8	63.8	40.2
Stock-based compensation expense	328.4	194.0	88.8
Non-cash operating lease expense	92.4	61.5	47.7
Amortization of premium from marketable securities	3.4	9.6	1.4
Amortization of debt discount and issuance costs	35.3	13.0	0.6
Goodwill impairment	181.9	—	—
Impairment expense	390.5	4.5	1.2
Excess and obsolete inventory reserve adjustments	224.9	38.7	(1.2)
Net foreign currency adjustments	31.8	3.4	3.3
Changes in operating assets and liabilities:			
Accounts receivable	(12.8)	15.1	11.3
Inventories	(398.6)	(625.9)	(95.6)
Prepaid expenses and other current assets	(32.5)	(32.3)	(33.1)
Other assets	(2.1)	(19.1)	(22.1)
Accounts payable and accrued expenses	(168.6)	439.8	133.4
Customer deposits and deferred revenue	36.8	(212.7)	272.3
Operating lease liabilities, net	(55.8)	(8.0)	(23.6)
Other liabilities	10.1	3.8	23.5
Net cash (used in) provided by operating activities	(2,020.0)	(239.7)	376.4
Cash Flows from Investing Activities:			
Purchases of marketable securities	—	(449.1)	(1,199.6)
Maturities of marketable securities	211.0	665.9	435.4
Sales of marketable securities	306.7	6.7	224.3
Capital expenditures, including software	(337.3)	(252.3)	(156.5)
Business combinations, net of cash acquired	(11.0)	(478.2)	(45.0)
Asset acquisitions, net of cash acquired	(16.0)	(78.1)	—
Net cash provided by (used in) investing activities	153.3	(585.1)	(741.3)
Cash Flows from Financing Activities:			
Proceeds from public offering, net of issuance costs	1,218.8	—	1,195.7
Proceeds from issuance of term loan, net of issuance costs	696.4	—	—
Proceeds from issuance of convertible notes, net of issuance costs	—	977.2	—
Purchase of capped calls	—	(81.3)	—
Proceeds from employee stock purchase plan withholdings	17.3	18.0	7.0
Proceeds from exercise of stock options	84.3	57.6	37.4
Taxes withheld and paid on employee stock awards	—	(53.9)	—
Principal repayments of finance leases	(1.7)	(0.8)	—
Net cash provided by financing activities	2,015.1	916.8	1,240.2
Effect of exchange rate changes	(26.5)	6.7	(1.2)
Net change in cash, cash equivalents, and restricted cash	121.9	98.7	874.0
Cash, cash equivalents, and restricted cash — Beginning of period	1,135.7	1,037.0	163.0

PELOTON INTERACTIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

Cash, cash equivalents, and restricted cash — End of period	$ 1,257.6	$ 1,135.7	$ 1,037.0
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ 1.0	$ 1.3	$ 1.9
Cash paid for income taxes	$ 15.2	$ 3.5	$ 4.1
Supplemental Disclosures of Non-Cash Investing and Financing Information:			
Conversion of convertible preferred stock to common stock	$ —	$ —	$ (941.1)
Accrued and unpaid capital expenditures, including software	$ 18.7	$ 46.1	$ 18.2
Stock-based compensation capitalized for software development costs	$ 10.4	$ 6.1	$ 2.2

See accompanying notes to these consolidated financial statements.

PELOTON INTERACTIVE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
(in millions)

	Redeemable Convertible Preferred Stock		Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders’ (Deficit) Equity
	Shares	Amount	Shares	Amount				
Balance - June 30, 2019	210.6	$ 941.1	25.3	$ —	$ 90.7	$ 0.2	$ (629.5)	$ (538.6)
Initial public offering, net of issuance costs of $6.3 million	—	$ —	43.4	$ —	$ 1,195.7	$ —	$ —	$ 1,195.7
Conversion of redeemable convertible preferred stock to common stock	(210.6)	(941.1)	210.6	—	941.1	—	—	941.1
Activity related to stock-based compensation	—	—	8.5	—	130.7	—	—	130.7
Issuance of common stock under employee stock purchase plan	—	—	0.2	—	3.7	—	—	3.7
Other comprehensive income	—	—	—	—	—	9.9	—	9.9
Net loss	—	—	—	—	—	—	(71.6)	(71.6)
Cumulative effect adjustment in connection with adoption of ASU 2016-02	—	—	—	—	—	—	7.2	7.2
Balance - June 30, 2020	—	$ —	288.1	$ —	$ 2,361.8	$ 10.1	$ (693.9)	$ 1,678.0
Activity related to stock-based compensation	—	$ —	11.6	$ —	$ 165.2	$ —	$ —	$ 165.2
Issuance of common stock under employee stock purchase plan	—	—	0.5	—	13.1	—	—	13.1
Equity component of convertible senior notes, net of issuance costs	—	—	—	—	160.1	—	—	160.1
Purchases of capped calls related to convertible senior notes	—	—	—	—	(81.3)	—	—	(81.3)
Other comprehensive income	—	—	—	—	—	8.1	—	8.1
Net loss	—	—	—	—	—	—	(189.0)	(189.0)
Balance - June 30, 2021	—	$ —	300.1	$ —	$ 2,618.9	$ 18.2	$ (883.0)	$ 1,754.1
Activity related to stock-based compensation	—	$ —	10.3	$ —	$ 431.7	$ —	$ —	$ 431.7
Issuance of common stock under employee stock purchase plan	—	—	0.7	—	21.9	—	—	21.9
Issuance of common stock pursuant to public offering, net of issuance costs			27.2	—	1,218.7	—	—	1,218.7
Other comprehensive loss	—	—	—	—	—	(5.9)	—	(5.9)
Net loss	—	—	—	—	—	—	(2,827.7)	(2,827.7)
Balance - June 30, 2022	—	$ —	338.3	$ —	$ 4,291.3	$ 12.2	$ (3,710.6)	$ 592.9

See accompanying notes to these consolidated financial statements.

[This page intentionally left blank]

1. Description of Business and Basis of Presentation

Description and Organization

Peloton Interactive, Inc. ("Peloton" or the "Company") is the largest interactive fitness platform in the world with a loyal community of Members, which we define as any individual who has a Peloton account through a paid Connected Fitness Subscription ("All-Access Membership") or a paid Peloton Digital Subscription. The Company pioneered connected, technology-enabled fitness with the creation of its interactive fitness equipment ("Connected Fitness Products") and the streaming of immersive, instructor-led boutique classes to its Members anytime, anywhere. The Company makes fitness entertaining, approachable, effective, and convenient while fostering social connections that encourage Members to be the best versions of themselves.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The consolidated financial statements include the accounts of Peloton Interactive, Inc. and its subsidiaries in which the Company has a controlling financial interest. All significant intercompany balances and transactions have been eliminated.

Certain monetary amounts, percentages, and other figures included elsewhere in these financial statements have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

Certain immaterial amounts presented in the consolidated statement of operations and comprehensive loss for the fiscal years ended June 30, 2021 and 2020 have been reclassified to conform to the current year presentation.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all cash and short-term investments purchased with maturities of three months or less when acquired to be cash equivalents. As of June 30, 2022 and 2021, the Company's cash and cash equivalents were primarily held in money market and operating accounts. At various times during the fiscal years ended June 30, 2022 and 2021, the balances of cash at financial institutions exceeded the federally insured limit. The Company has not experienced any losses in such accounts and believes its cash and cash equivalents are not subject to any significant credit risk.

Restricted Cash

Restricted cash primarily consists of cash held in reserve accounts related to operating lease obligations.

Accounts Receivable, Net of Allowances

The Company's accounts receivable primarily represent amounts due from third-party sales payment processors. The allowance is based upon a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the specific customer's ability to pay its obligation and any other forward-looking data regarding customers' ability to pay which may be available.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Refer to Note 3, Revenue for additional information.

Inventories

Inventories consist of finished goods, work-in-process and raw materials. Finished goods are manufactured by us and purchased from contract manufacturers. Connected Fitness Product, accessories, apparel, and raw material inventories are stated at the lower of cost or net realizable value on a weighted-average cost basis. The Company assesses the valuation of inventory and periodically adjusts the value for estimated excess and obsolete inventory based upon estimates of future demand and market conditions, as well as damaged or otherwise impaired goods. Spare parts are recorded as inventory and recognized in cost of revenue as consumed.

Marketable Securities

The Company classifies its marketable debt securities as available-for-sale and, accordingly, records them at fair value. Marketable securities with original maturities of greater than three months and remaining maturities of less than one year are classified as current investments. Unrealized holding gains and losses are excluded from earnings and are reported net of tax in other comprehensive income until realized. Dividend and interest income is recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Property and Equipment

Property and equipment purchased by the Company are stated at cost less accumulated depreciation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. For leasehold improvements, the useful life is the lesser of the applicable lease term or the expected asset life. Charges for repairs and maintenance that do not improve or extend the lives of the respective assets are expensed as incurred. The Company capitalizes the cost of pre-production tooling which it owns during a supply arrangement. Pre-production tooling, including the related engineering costs the Company will not own or will not be used in producing products under long-term supply arrangements are expensed as incurred.

Internal-Use Software

The Company capitalizes certain qualified costs incurred in connection with the development of internal-use software. The Company evaluates the costs incurred during the application development stage of internal use software and website development to determine whether the costs meet the criteria for capitalization. Costs related to preliminary project activities and post implementation activities including maintenance are expensed as incurred. Capitalized costs related to internal-use software are amortized on a straight-line basis over the estimated useful life of the software, not to exceed three years. Capitalized costs less accumulated amortization are included within Property and equipment, net on the Consolidated Balance Sheets.

Business Combination

To determine whether transactions should be accounted for as acquisitions of assets or business combinations, the Company makes certain judgments, which include assessment of the inputs, processes, and outputs associated with the acquired set of activities. If the Company determines that substantially all of the fair value of gross assets included in a transaction is concentrated in a single asset (or a group of similar assets), the assets would not represent a business. To be considered a business, the assets in a transaction need to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The Company allocates the fair value of the purchase consideration to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The fair values of intangible assets are determined utilizing information available near the acquisition date based on expectations and assumptions that are deemed reasonable by management. Given the considerable judgment involved in determining fair values, the Company typically obtains assistance from third-party valuation specialists for significant items. Any excess of the purchase price

(consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs are expensed as incurred. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions that existed at the acquisition date becomes available.

Goodwill and Intangible Assets

Goodwill represents the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest, if any, over the fair value of identifiable assets acquired and liabilities assumed in a business combination. The Company has no intangible assets with indefinite useful lives.

Intangible assets other than goodwill are comprised of acquired developed technology, brand name, customer relationships, distributor relationships, and other finite-lived intangible assets. At initial recognition, intangible assets acquired in a business combination or asset acquisition are recognized at their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at acquisition date fair value less accumulated amortization and impairment losses, if any, and are amortized on a straight-line basis over the estimated useful life of the asset.

The Company reviews goodwill for impairment annually on April 1 of each fiscal year or whenever events or changes in circumstances indicate that an impairment may exist. In conducting its annual impairment test, the Company first reviews qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If factors indicate that the fair value of the reporting unit is less than its carrying amount, the Company performs a quantitative assessment and the fair value of the reporting unit is determined by analyzing the expected present value of future cash flows. If the carrying value of the reporting unit continues to exceed its fair value, the fair value of the reporting unit's goodwill is calculated and an impairment loss equal to the excess is recorded.

The Company assesses the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future undiscounted net cash flows expected to be generated by the assets. If the carrying amount of an asset group exceeds its estimated undiscounted net future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset group exceeds its fair value.

Convertible Senior Notes

In February 2021, the Company issued in a private offering $1.0 billion aggregate principal amount of 0% Convertible Senior Notes due 2026 (the "Notes"), including the initial purchasers' exercise in full of their option to purchase additional notes. See Note 12 for additional details.

The Notes are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 470-20, *Debt with Conversion and Other Options*. Pursuant to ASC Subtopic 470-20, issuers of certain convertible debt instruments, such as the Notes, that have a net settlement feature and may be settled wholly or partially in cash upon conversion are required to separately account for the liability (debt) and equity (conversion option) components of the instrument.

The carrying amount of the liability component of the instrument is computed by estimating the fair value of a similar liability without the conversion option using a market-based approach. The amount of the equity component is then calculated by deducting the fair value of the liability component from the initial proceeds of the instrument. The difference between the principal amount and the liability component represents a debt discount that is amortized to interest expense over the respective term of the Notes using the effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, the allocation of issuance costs incurred between the liability and equity components was based on their relative values.

Simultaneously, the Company entered into privately negotiated capped call transactions with certain counterparties to minimize the impact of potential dilution upon conversion. See Note 12 for additional details.

Derivative Instruments and Hedging Activities

Our Company, when deemed appropriate, uses derivatives as a risk management tool to mitigate the potential impact of foreign currency exchange risk. As required by ASC 815, the Company records all derivatives on the balance sheet at fair value in the following line items: Prepaid expenses and other current assets; and Other current liabilities. For hedging derivatives that the Company has determined qualify as effective cash flow hedges, the Company records the cumulative changes in the fair value in Other comprehensive (loss) income in the Consolidated Statements of Operations and Comprehensive Loss. Hedge ineffectiveness is recorded in Other expense, net in the Consolidated Statements of Operations and Comprehensive Loss. Fair value changes for derivatives that are not in qualifying hedge relationships are recorded in Other expense, net in the Consolidated Statements of Operations and Comprehensive Loss.

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. The Company does not currently have fair value or net investment hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument

with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge.

In addition to our derivatives where the Company applies hedge accounting, the Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. The Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

The Company evaluates its convertible instruments and other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives requiring separate recognition in the Company's financial statements in accordance with the criteria under ASC 815-15. As of June 30, 2022, the Company did not have any material derivative contracts or contracts with material embedded derivative features requiring bifurcation.

Cost of Revenue

Connected Fitness Products

Connected Fitness Products cost of revenue consists of product costs, including manufacturing costs, duties and other applicable importing costs, shipping and handling costs, packaging, warranty replacement costs, fulfillment costs, warehousing costs, depreciation of property and equipment, and certain allocated costs related to management, facilities, and personnel-related expenses associated with supply chain logistics.

Subscription

Subscription cost of revenue includes costs associated with content creation and cost to stream content to Members across the Company's platform. These costs consist of both fixed costs, including studio rent and overhead costs and instructor and production personnel costs, depreciation of property and equipment, as well as variable costs, including music royalty fees, content costs for past use, third-party platform streaming costs, and payment processing fees for monthly subscription billings.

Music Royalty Fees

The Company recognizes music royalty fees on all music it streams to Members as these fees are incurred in accordance with the terms of the relevant license agreement with the music rights holder. The incurrence of the royalties is primarily driven by content usage by the Company's Members through the use of a paid subscription or as part of a free-trial offer and it is classified as subscription cost of revenue or sales and marketing expense, respectively, within the Company's statement of operations and comprehensive loss. The Company's license agreements with music rights holders may include provisions for advance royalty payments as well as minimum guarantees. When a minimum guarantee is paid in advance, the guarantee is recorded as a cost to fulfill or prepaid asset and amortized over the shorter of the period consumed or the term of the agreement.

As the Company executes music license agreements with various music rights holders for go-forward usage, the Company may also simultaneously enter into a settlement agreement whereby the Company is released from all potential licensor claims regarding the Company's alleged past use of copyrighted material in exchange for a negotiated payment. These are referred to as "content costs for past use" and are recorded within subscription cost of revenue. The Company has entered into agreements with music rights holders who represent all the music catalogs that the Company needs to operate its service, however, given the at times uncertain and opaque nature of music rights ownership, the Company's archived library may continue to include music for which certain rights or fractional interests have not been accurately determined or fully licensed. Prior to the execution of a music license agreement, the Company estimates and records a charge based upon license agreements previously entered into and the respective music rights holdings.

Income Taxes

The Company utilizes the asset and liability method for computing its income tax provision. Deferred tax assets and liabilities reflect the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities as well as operating loss, capital loss, and tax credit carryforwards, using enacted tax rates. Management makes estimates, assumptions, and judgments to determine the Company's provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes recovery is not likely, establishes a valuation allowance.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties related to unrecognized tax benefits, which to date have not been material, are recognized within income tax expense.

Advertising Costs

Advertising and other promotional costs to market the Company's products are expensed as incurred. Advertising expenses were $637.3 million, $417.6 million, and $302.8 million for the fiscal years ended June 30, 2022, 2021 and 2020, respectively, and are included within Sales and marketing expenses in the consolidated statements of operations.

Research and Development Costs

Research and development expenses consist primarily of personnel- and facilities-related expenses, consulting and contractor expenses, tooling and prototype materials software platform expenses, and depreciation of property and equipment. Substantially all of the Company's research

and development expenses are related to developing new products and services and improving existing products and services. Research and development expenses are expensed as incurred.

Stock-Based Compensation

In August 2019, the Company's Board of Directors ("Board of Directors") adopted the 2019 Employee Stock Purchase Plan ("ESPP"), which was subsequently approved by the Company's stockholders in September 2019. The Company recognizes stock-based compensation expense related to shares issued pursuant to its ESPP on a straight-line basis over the offering period, which is twenty-four months. The ESPP allows employees to purchase shares of the Company's Class A common stock at a 15 percent discount. The ESPP also includes a look-back provision for the purchase price if the stock price on the purchase date is less than the stock price on the offering date.

In August 2019, the Board of Directors adopted the 2019 Equity Incentive Plan ("the 2019 Plan"), which was subsequently approved by the Company's stockholders in September 2019. Stock-based awards are measured at the grant date based on the fair value of the award and are recognized as expense, net of actual forfeitures, on a straight-line basis over the requisite service period, which is generally the vesting period of the respective award. For performance-based awards issued, the value of the instrument is measured at the grant date as the fair value of the award and expensed over the vesting term under an accelerated attribution method when the performance targets are considered probable of being achieved. The Company estimates the fair value of stock options using the Black-Scholes option pricing model. The determination of the grant date fair value of stock awards issued is affected by a number of variables, including the fair value of the Company's common stock, the expected common stock price volatility over the expected life of the awards, the expected term of the stock option, risk-free interest rates, and the expected dividend yield of the Company's common stock. Prior to the fourth quarter of fiscal year ended June 30, 2021, the Company derived its volatility from the average historical stock volatilities of several peer public companies over a period equivalent to the expected term of the awards. Beginning in the fourth quarter of fiscal year ended June 30, 2021, the expected volatility is based on a blended average of average historical stock volatilities of several peer companies over the expected term of the stock options, historical volatility of the Company's stock price, and implied stock price volatility derived from the price of exchange traded options on the Company's stock. The Company estimates the expected term based on the simplified method for employee stock options considered to be "plain vanilla" options, as the Company's historical share option exercise experience does not provide a reasonable basis upon which to estimate the expected term. The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of grant. Expected dividend yield is 0.0% as the Company has not paid and does not currently anticipate paying dividends on its common stock.

Generally, the 2015 Stock Plan permitted the early exercise of stock options granted prior to the IPO. The unvested portion of shares exercised is recorded within Other current liabilities on the Company's balance sheet and reclassified to equity as vesting occurs.

Restructuring

Costs and liabilities associated with restructuring activities are recognized when the actions are probable and estimable, which is when management approves the associated actions. Employee-related severance charges are recognized at the time of communication to employees. Contract termination and other charges primarily reflect costs to terminate a contract before the end of its term (measured at fair value at the time the Company provided notice to the counterparty).

Defined Contribution Plan

The Company maintains a defined contribution retirement plan offered to all of its U.S. employees, as well as plans at certain foreign and domestic subsidiaries. For the fiscal years ended June 30, 2022, 2021, and 2020, the Company's matching contributions totaled $26.3 million, $19.6 million, and $8.4 million, respectively, and were expensed as contributed.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. If a loss is reasonably possible and the loss or range of loss can be reasonably estimated, the Company discloses the possible loss or states that such an estimate cannot be made.

Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive income when they occur. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurement or assumptions that market participants would use in pricing the assets or liabilities, such as inherent risk, transfer restrictions, and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 inputs are based on quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 inputs are based on unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The Company's material financial instruments consist primarily of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses, and the convertible senior notes. The carrying values of the Company's accounts receivable, accounts payable and accrued expenses approximated their fair values at June 30, 2022 and 2021, due to the short period of time to maturity or repayment.

Earnings (Loss) Per Share

The Company computes earnings (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. The Company's restricted stock awards and common stock issued upon early exercise of stock options are participating securities. The Company considers any shares issued upon early exercise of stock options, subject to repurchase, to be participating securities because holders of such shares have non-forfeitable dividend rights in the event a cash dividend is declared on common stock. These participating securities do not contractually require the holders of such shares to participate in the Company's losses. As such, net losses for the periods presented were not allocated to the Company's participating securities.

Basic earnings (loss) per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted earnings (loss) per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of incremental shares issuable upon the assumed exercise of stock options, ESPP shares to be issued, and vesting of restricted stock awards.

Use of Estimates

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. On an ongoing basis, the Company evaluates its estimates, including, among others, those related to revenue related reserves, the realizability of inventory, content costs for past use reserve, fair value measurements, the incremental borrowing rate associated with lease liabilities, impairment of long-lived and intangible assets, useful lives of long lived assets, including property and equipment and finite lived intangible assets, product warranty, goodwill, accounting for income taxes, stock-based compensation expense, transaction price estimates, the fair values of assets acquired and liabilities assumed in business combinations and asset acquisitions, valuation of the debt component of convertible senior notes, contingent consideration, and commitments and contingencies. Actual results may differ from these estimates.

Recently Issued Accounting Pronouncements

Accounting Pronouncements Recently Adopted

ASU 2020-01

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.* This guidance clarifies the interaction of the accounting for equity investments under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. This standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company has completed its assessment and adopted this standard on July 1, 2021. The adoption of this standard did not materially impact the Company's consolidated financial statements.

ASU 2020-04 and ASU 2021-01

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides temporary optional expedients and exceptions to accounting guidance on contract modifications and hedge accounting to ease entities' financial reporting burdens as the market transitions from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848)*, which refines the scope of Topic ASC 848 and clarifies some of its guidance. The amendments in ASU 2021-01 are elective and apply to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The guidance in both updates was effective upon issuance and generally can be applied through December 31, 2022. The Company adopted this standard after LIBOR was discontinued on December 31, 2021. The adoption of this standard did not materially impact the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

ASU 2020-06

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging- Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. The guidance will simplify the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock, thereby limiting the accounting results in fewer embedded conversion features being separately recognized from the host contract as compared with current GAAP. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative,

and that do not qualify for a scope exception from derivative accounting and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. ASU 2020-06 also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. In addition, the guidance eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. ASU 2020-06 will be effective for public companies for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company plans to adopt the standard effective July 1, 2022 using the modified retrospective transition method. Adoption of the new standard is expected to result in a reduction to Additional paid-in capital of $160.1 million to remove the equity component separately recorded for the conversion features associated with the Notes (as defined in *Note 12 - Debt* of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K), an increase of $119.6 million in the carrying value of its Notes to reflect the full principal amount of the Notes outstanding net of issuance costs, and a decrease to Accumulated deficit of $40.5 million.

ASU 2021-08

In October 2021, the Financial Accounting Standards Board issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.* The guidance requires that an acquirer recognize and measure contract assets and liabilities acquired in a business combination in accordance with ASC 606, *Revenue from Contracts with Customers*. This standard is effective for annual periods beginning after December 15, 2022, including interim periods therein, with early adoption permitted, and should be applied prospectively to acquisitions occurring on or after the effective date. The Company will continue to evaluate the impact of this guidance, which will depend on the contract assets and liabilities acquired in future business combinations.

3. Revenue

The Company's primary source of revenue is from sales of its Connected Fitness Products and associated recurring Subscription revenues.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company's revenue is reported net of sales returns, discounts, incentives, and rebates to commercial distributors as a reduction of the transaction price. Certain contracts include consideration payable that is accounted for as a payment for distinct goods or services. The Company estimates its liability for product returns and concessions based on historical trends by product category, impact of seasonality, and an evaluation of current economic and market conditions and records the expected customer refund liability as a reduction to revenue, and the expected inventory right of recovery as a reduction of cost of revenue. If actual return costs differ from previous estimates, the amount of the liability and corresponding revenue are adjusted in the period in which such costs occur.

Some of the Company's contracts with customers contain multiple performance obligations. For customer contracts that include multiple performance obligations, the Company accounts for individual performance obligations if they are distinct. The transaction price is then allocated to each performance obligation based on its standalone selling price. The Company generally determines the standalone selling price based on the prices charged to customers.

The Company applies the practical expedient as per ASC 606-10-50-14 and does not disclose information related to remaining performance obligations due to their original expected terms being one year or less.

The Company expenses sales commissions on its Connected Fitness Products when incurred because the amortization period would have been less than one year. These costs are recorded in Sales and marketing in the Company's Consolidated Statements of Operations and Comprehensive Loss.

Connected Fitness Products

Connected Fitness Products include the Company's portfolio of Connected Fitness Products and related accessories, Precor branded fitness products, delivery and installation services, Peloton branded apparel, extended warranty agreements, and commercial service contracts. The Company recognizes Connected Fitness Product revenue net of sales returns and discounts when the product has been delivered to the customer, except for extended warranty revenue which is recognized over the warranty period and service revenue which is recognized over the term of the service contract. The Company allows customers to return Peloton branded Connected Fitness Products within thirty days of purchase, as stated in its return policy.

The Company records fees paid to third-party financing partners in connection with its consumer financing program as a reduction of revenue, as it considers such costs to be a customer sales incentive. The Company records payment processing fees for its credit card sales for Connected Fitness Products within Sales and marketing in the Company's Consolidated Statements of Operations and Comprehensive Loss.

Subscription

The Company's subscriptions provide unlimited access to content in its library of live and on-demand fitness classes. The Company's subscriptions are offered on a month-to-month basis.

Amounts paid for subscription fees, net of refunds are included within Customer deposits and deferred revenue on the Company's Consolidated Balance Sheets and recognized ratably over the subscription term. The Company records payment processing fees for its monthly subscription charges within cost of Subscription revenue in the Company's Consolidated Statements of Operations and Comprehensive Loss.

Sales tax collected from customers and remitted to governmental authorities is not included in revenue and is reflected as a liability on the Company's Consolidated Balance Sheets.

Standard Product Warranty

The Company offers a standard product warranty that its Connected Fitness Products will operate under normal, non-commercial use for a period of one year covering the touchscreen and most original Bike, Bike+, Tread, Tread+, and Guide components from the date of original delivery. The Company has the obligation, at its option, to either repair or replace the defective product. At the time revenue is recognized, an estimate of future warranty costs are recorded as a component of cost of revenue. Factors that affect the warranty obligation include historical as well as current product failure rates, service delivery costs incurred in correcting product failures, and warranty policies and business practices. The Company's products are manufactured both in-house and by contract manufacturers, and in certain cases, the Company may have recourse to such contract manufacturers.

Activity related to the Company's accrual for our estimated future product warranty obligation was as follows:

	Fiscal Year Ended June 30,	
	2022	2021
	(in millions)	
Balance at beginning of period	$ 51.5	$ 34.2
Provision for warranty accrual	59.7	71.1
Warranty claims	(60.0)	(53.9)
Balance at end of period	$ 51.1	$ 51.5

The Company also offers the option for customers in some markets to purchase an extended warranty and service contract that extends or enhances the technical support, parts, and labor coverage offered as part of the base warranty included with the Connected Fitness Products for additional periods ranging from 12 to 36 months.

Extended warranty revenue is recognized on a gross basis as the Company has a continuing obligation to perform over the service period. Extended warranty revenue is recognized ratably over the extended warranty coverage period and is included in Connected Fitness Product revenue in the Consolidated Statements of Operations and Comprehensive Loss.

Disaggregation of Revenue

The Company's revenue from contracts with customers disaggregated by major product lines, excluding sales-based taxes, are included in *Note 19- Segment Information* of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

The Company's revenue disaggregated by geographic region, were as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
North America	$ 3,259.6	$ 3,738.9	$ 1,743.6
International	322.5	283.0	82.3
Total revenue	$ 3,582.1	$ 4,021.8	$ 1,825.9

The Company's revenue attributable to the United States was $3,100.0 million, $3,577.1 million and $1,699.5 million, representing 87%, 89% and 93% of Total revenue for the fiscal years ended June 30, 2022, 2021 and 2020, respectively.

Customer Deposits and Deferred Revenue

As of June 30, 2022 and June 30, 2021, customer deposits of $109.2 million and $92.2 million, respectively, and deferred revenue of $91.9 million and $72.6 million, respectively, were included in Customer deposits and deferred revenue on the Company's Consolidated Balance Sheets.

In the fiscal years ended June 30, 2022 and 2021, the Company recognized revenue of $70.4 million and $22.1 million, respectively, that was included in the deferred revenue balance as of June 30, 2021 and 2020, respectively.

Deferred revenue is recorded for nonrefundable cash payments received for the Company’s performance obligation to transfer, or stand ready to transfer, goods or services in the future. Customer deposits represent payments received in advance before the Company transfers a good or service to the customer and are refundable.

4. Restructuring

In February 2022, we announced and began implementing a restructuring plan to realign the Company’s operational focus to support its multi-year growth, scale the business, and improve costs (the “Restructuring Plan”). The Restructuring Plan includes: (i) reducing the Company’s headcount; (ii) closing several assembly and manufacturing plants, including the completion and subsequent sale of the shell facility for the Company’s previously planned Peloton Output Park; (iii) closing and consolidating several distribution facilities, and (iv) shifting to third-party logistics providers in certain locations. The Company expects the Restructuring Plan to be substantially implemented by the end of fiscal 2024.

As a result of the Restructuring Plan, the Company incurred the following charges, of which Asset write-downs and write-offs are included within Impairment expense in the Consolidated Statements of Operations and Comprehensive Loss. The remaining charges incurred due to the restructuring plan are included within Restructuring expense in the Consolidated Statements of Operations and Comprehensive Loss:

	Fiscal Year Ended June 30, 2022
Cash restructuring charges:	(in millions)
Severance and other personnel costs	$ 109.1
Professional fees and other related charges	15.4
Total cash charges	124.5
Non-cash charges:	
Asset write-downs and write-offs	373.8
Stock-based compensation expense	56.5
Write-offs of inventory related to restructuring activities	56.4
Total non-cash charges	486.8
Total	$ 611.3

In connection with the Restructuring Plan, the Company committed to the closures of certain warehouse and retail locations, the discontinuation of manufacturing in North America, and the wind down of certain software implementation and development projects. Due to the actions taken the Company tested certain fixed assets for recoverability by comparing the carrying value of the asset group to an estimate of the future undiscounted cash flows which was generally the liquidation value. Based on the results of the recoverability test, the Company determined that during the year ended June 30, 2022, the undiscounted cash flows of the asset groups were below the carrying values, indicating impairment. The assets were written down to their estimated fair value, which was determined based on their estimated liquidation or sales value.

The following table presents a roll-forward of cash restructuring-related liabilities, which is included within Accounts payable and accrued expenses in the Consolidated Balance Sheets, as follows:

	Severance and other personnel costs	Professional fees and other related charges	Total
		(in millions)	
Balance as of June 30, 2021	$ —	$ —	$ —
Charges	109.1	15.4	124.5
Cash payments	(98.2)	(15.4)	(113.6)
Balance as of June 30, 2022	$ 10.9	$ —	$ 10.9

In addition to the above charges, the Company incurred approximately $86.6 million of capital expenditures related to Peloton Output Park since project inception.

On July 12, 2022, the Company announced it is exiting all owned-manufacturing operations and expanding its current relationship with Taiwanese manufacturer Rexon Industrial Corp. Additionally, on August 12, 2022, the Company announced the decision to perform the following restructuring activities: (i) eliminate its North American Field Ops warehouses, including the significant reduction of its delivery workforce teams; (ii) eliminate a significant number of roles on the North America Member Support team and exit its real-estate footprints in our Plano and Tempe locations; and (iii) reduce its North America retail showroom presence. In connection with the Restructuring Plan, the Company estimates that it

will incur additional cash charges of approximately $95.0 million primarily composed of severance and other exit costs in fiscal year 2023 and beyond. Additionally, the Company expects to recognize approximately $75.0 million of asset impairment charges in fiscal year 2023 in connection with the Restructuring Plan.

5. Fair Value Measurements

Fair Value Measurements of Other Financial Instruments

The following tables present the estimated fair values of the Company's financial instruments that are not recorded at fair value on the Consolidated Balance Sheets:

	As of June 30, 2022			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Convertible Senior Notes	$ —	$ 632.2	$ —	$ 632.2

	As of June 30, 2021			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Convertible Senior Notes	$ —	$ 972.8	$ —	$ 972.8

The fair value of the 0% Convertible Senior Notes due February 15, 2026 (the "Notes") is determined based on the closing price on the last trading day of the reporting period.

The carrying value of the Term Loan approximates the fair value as the Term Loan June 30, 2022.

6. Inventories

Inventories were as follows:

	June 30,	
	2022	2021
	(in millions)	
Raw materials	$ 76.7	$ 109.8
Work-in-process	3.7	7.9
Finished products[1]	1,306.3	879.5
Total inventories	1,386.7	997.2
Less: Reserves	(282.2)	(60.1)
Total inventories, net	$ 1,104.5	$ 937.1

(1) Includes $36.4 million and $249.9 million of finished goods inventory in transit, products owned by the Company that have not yet been received at a Company distribution center, as of June 30, 2022 and June 30, 2021, respectively.

The Company periodically adjusts the value of inventory for estimated excess and obsolete inventory based upon estimates of future demand and market conditions, as well as damaged or otherwise impaired goods. The Company recorded inventory reserves as of June 30, 2022 primarily in the amounts of $123.9 million related to excess accessories and apparel inventory that the Company does not expect to sell above its current carrying value, $85.9 million related primarily to returned Connected Fitness Products that the Company does not expect to sell, and $51.2 million in reserves for component parts that the Company estimated would have no future use.

7. Acquisitions

Business Combination

Precor Incorporated

On April 1, 2021, the Company acquired the Precor business, which consisted of 15 legal entities ("Precor") from Amer Sports Corporation ("Amer") for a purchase price of approximately $412.0 million, net of cash acquired, which was paid in cash. During the fiscal year ended June 30, 2022, the purchase consideration was reduced by $2.9 million associated with working capital adjustments, resulting in a revised purchase price of $409.2 million. Upon completion of the transaction, Precor became wholly owned subsidiaries of the Company.

During the fourth quarter of fiscal 2021, the Company completed a preliminary analysis to determine the fair values of the assets acquired and liabilities assumed and the amounts recorded reflected management's initial assessment of fair value as of the closing date. Based on additional

information obtained to date, the Company refined its initial assessment of fair value and, as a result, recognized the following adjustments to the Company's preliminary purchase price allocation during the first quarter of fiscal 2022: Inventory decreased $4.0 million, Intangible assets, net increased $1.0 million, and deferred tax liability increased $3.4 million. The adjustments resulted in a corresponding increase to Goodwill of $3.5 million, of which $3.4 million relates to the deferred tax liability and $0.1 million relates to the updated fair value assessment. The adjustments did not result in a material impact on the financial results of prior periods. The purchase price allocation was finalized as of June 30, 2022.

Other Acquisitions

During the fiscal year ended June 30, 2022, the Company completed two transactions to acquire certain developed software and assembled workforce for use in the development of the Company's data platform and content supply chain. The transactions were completed on November 1, 2021 and November 8, 2021, and were accounted for as a business combination and asset acquisition, respectively.

The acquisitions resulted in the recognition of $12.0 million of Goodwill, and $17.7 million of assets primarily consisting of developed software. The developed software was assigned a useful life of 3 years and is recorded in Property and equipment, net on the Company's Consolidated Balance Sheets.

8. **Property and Equipment**

Property and equipment consisted of the following:

	June 30,	
	2022	**2021**
	(in millions)	
Land	$ 17.9	$ 14.0
Buildings	19.4	22.2
Leasehold Improvements	362.5	253.7
Machinery	24.3	31.1
Equipment	65.1	55.4
Furniture and Fixtures	39.1	26.8
Construction in Progress	78.4	129.1
Software	145.5	108.3
Software under development	31.5	44.3
Total property and equipment	783.9	684.9
Accumulated depreciation and amortization	(173.0)	(93.0)
Total property and equipment, net	$ 610.9	$ 591.9

During fiscal 2022, management identified various qualitative factors that collectively indicated that the Company had triggering events, including (i) realignment of cost structure in connection with the Restructuring Plan, (ii) softening demand and (iii) a sustained decrease in stock price. The Company determined that the estimated undiscounted future cash flows were less than the carrying values for certain asset groups. The Company recognized impairment charges for the fiscal year ended June 30, 2022, primarily consisting of impairment loss of $57.6 million related to Connected Fitness assets, $21.3 million related to manufacturing equipment, $19.0 million related to Peloton Output Park and $15.9 million related to acquired technology. These impairment charges reduced the carrying value of these asset groups from $222.9 million to $109.1 million. Additionally, management identified changes to the product and enterprise technology roadmaps that indicated that certain programs no longer had expected future use. Accordingly, the Company recognized an impairment loss of $54.1 million related to software under development that reduced the carrying value of those assets from $61.0 million to $6.9 million. Impairment charges are included within Impairment expense in the Consolidated Statements of Operations and Comprehensive Loss.
There were no material impairments in the fiscal years ended June 30, 2021 and 2020.

As of June 30, 2022, 82% and 11% of the Company's total Property and equipment, net was attributable to the United States and the United Kingdom, respectively. As of June 30, 2021, 78% and 13% of the Company's total Property and equipment, net was attributable to the United States and the United Kingdom, respectively.

The estimated useful lives of property and equipment are as follows:

Buildings	40 years
Leasehold Improvements	Shorter of remaining lease term or useful life
Machinery	Three to ten years
Equipment	Two to five years
Furniture and Fixtures	Four to ten years
Software	Two to three years

Depreciation and amortization expense amounted to $99.5 million, $44.6 million, and $35.1 million for the fiscal years ended June 30, 2022, 2021 and 2020, respectively, of which $23.5 million, $8.7 million, and $6.8 million related to amortization of capitalized software costs for the fiscal years ended June 30, 2022, 2021, and 2020, respectively.

9. Goodwill and Intangible Assets

The changes in the carrying value of goodwill are as follows:

		Amount (in millions)
June 30, 2020	$	39.1
Acquisition		168.1
Foreign currency translation		2.8
June 30, 2021		210.1
Acquisitions		12.0
Foreign currency translation		1.0
Impairment		(181.9)
June 30, 2022	$	41.2

The Company reviews goodwill for impairment annually on April 1 and more frequently if events or changes in circumstances indicate that an impairment may exist ("a triggering event"). During the fiscal year ended June 30, 2022, management identified various qualitative factors that collectively, indicated that the Company had triggering events, including (i) softening demand; (ii) increased costs of inventory and logistics; and (iii) sustained decrease in stock price. The Company performed a valuation of the Connected Fitness Products reporting unit using liquidation value and discounted cash flow methodologies. Given the results of the quantitative assessment, the Company determined that the Connected Fitness Products reporting unit's goodwill was impaired. During the fiscal year ended June 30, 2022, the Company recognized a Goodwill impairment charge of $181.9 million representing the entire amount of goodwill related to the Connected Fitness Products reporting unit in the Connected Fitness Products Segment.

The gross carrying amount, accumulated amortization and impairment of the Company's Intangible assets, net, as of June 30, 2022 were as follows:

		Gross Carrying Value		Accumulated Amortization		Impairment		Net Carrying Value	Weighted Average Remaining Useful Life (Years)
Acquired developed technology	$	130.8	$	(51.8)	$	(41.0)	$	38.0	2.6
Brand		94.0		(13.1)		(80.9)		—	—
Distributor relationships		25.0		(2.0)		(23.0)		—	—
Customer relationships		17.4		(2.3)		(15.0)		0.1	—
Other definite-lived intangibles		12.5		(3.7)		(5.6)		3.3	2.5
Total intangible assets	$	279.8	$	(72.8)	$	(165.6)	$	41.3	

The gross carrying amount and accumulated amortization of the Company's Intangible assets, net, as of June 30, 2021 were as follows:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Useful Life (Years)
Acquired developed technology	$ 130.8	$ (24.8)	$ 106.0	4.4
Brand	94.0	(2.6)	91.4	8.7
Distributor relationships	24.0	(0.4)	23.6	15.7
Customer relationships	18.0	(0.5)	17.5	9.7
Other definite-lived intangibles	10.5	(1.3)	9.3	4.6
Total intangible assets	$ 277.5	$ (29.6)	$ 247.9	

During fiscal year ended June 30, 2022, the Company recognized an impairment loss of $165.6 million primarily due to the write-off of certain acquired developed technology, brand, distributor and customer relationships, and assembled workforce, which resulted from strategic actions taken by the Company under the Restructuring Plan. The Company determined that the estimated future cash flows were less than the carrying values for certain intangibles. The impairment loss is included in Impairment expense in the consolidated statements of operations.

The Company recognized intangible asset amortization in the consolidated statements of operations in the amount of $43.3 million, $19.2 million, and $5.1 million for the fiscal years ended June 30, 2022, 2021, and 2020, respectively.

As of June 30, 2022, estimated amortization related to the Company's identifiable acquisition-related intangible assets in future periods were as follows:

Fiscal Year Ending June 30,	**Amount**
	(in millions)
2023	$ 15.8
2024	10.6
2025	9.4
2026	5.4
2027	—
Thereafter	0.2
Total	$ 41.3

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

	June 30,	
	2022	2021
	(in millions)	
Accounts payable	$ 93.0	$ 364.4
Accrued settlement costs[1]	222.3	1.2
Inventory received but not billed	86.1	134.2
Accrued music licensing royalties	65.7	70.9
Employee-related liabilities	59.6	107.3
Return reserve liability	48.6	50.2
Accrued professional services	36.5	30.7
Accrued marketing	29.3	59.9
Product warranty	19.5	34.2
Accrued capital expenditures	17.0	40.9
Other	119.8	95.2
Total accounts payable and accrued expenses	$ 797.4	$ 989.1

(1) Accrued settlement costs consist primarily of payments made to third-party suppliers to terminate certain future inventory purchase commitments

11. Leases

The Company leases facilities under operating leases with various expiration dates through 2039. The Company leases space for its corporate headquarters and the operation of its production studio facilities, showrooms, distribution facilities, warehouses, factories, and other office spaces.

Right-of-use assets and lease liabilities are established on the Consolidated Balance Sheets for leases with an expected term greater than one year. As the rate implicit in the lease is not determinable, the Company uses its secured incremental borrowing rate to determine the present value of the lease payments.

Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets. The Company recognizes lease expense for these leases on a straight-line basis over the term of the lease. The Company has elected to not separate lease and non-lease components. The Company's lease terms include options to extend or terminate the underlying lease when it is reasonably certain that the Company will exercise that option. The operating lease arrangements included in the measurement of lease liabilities do not reflect options to extend or terminate, as management does not consider the exercise of these options to be reasonably certain.

Variable lease payments include, but are not limited to, percentage of sales, common area charges, taxes paid by the landlord that are charged to the Company, and changes to the consumer price index. Variable lease payments are expensed as incurred.

As of June 30, 2022, the total remaining lease payments included in the measurement of lease liabilities for operating leases were as follows:

Fiscal Year Ended June 30,	Future Minimum Payments
	(in millions)
2023[1]	$ 136.2
2024	129.6
2025	113.2
2026	106.2
2027	98.6
Thereafter	487.2
Total	$ 1,071.0

(1) Includes $13.0 million in tenant improvement receivable.

Supplemental information related to operating leases was as follows:

Reconciliation of Lease Liabilities	As of June 30,	
	2022	2021
	(dollars in millions)	
Weighted-average remaining lease term (years)	9.7	11.4
Weighted-average discount rate	4.98 %	5.35 %
Total Undiscounted Lease Liability	$ 1,071.0	$ 944.0
Less: Imputed interest	(259.1)	(261.6)
Total Discounted Lease Liability	$ 811.8	$ 682.3
Current portion of lease liability	$ 86.4	$ 61.9
Non-current portion of lease liability	$ 725.4	$ 620.4

Supplemental cash flow and other information related to leases was as follows:

Cash Paid For Amounts Included In Measurement of Liabilities	Fiscal Year Ended June 30,	
	2022	2021
	(in millions)	
Operating cash flows from operating leases	$ 109.8	$ 47.3
Right-of-use assets obtained in exchange for operating lease liabilities (non-cash)	$ 213.7	$ 149.2

For the fiscal years ended June 30, 2022 and 2021, total operating lease expense was $167.4 million and $122.4 million, respectively, of which $29.5 million and $17.2 million was attributable to variable lease expense, and $1.5 million and $4.2 million was attributable to short-term lease expense, respectively.

As discussed in Note 4 - Property and Equipment, management identified various qualitative factors that collectively indicated that the Company had triggering events for our long-lived assets, including the Company's right-of-use assets. The Company recognized impairment charges for the fiscal year ended June 30, 2022, primarily consisting of impairment loss of $28.5 million related to Connected Fitness right-of-use assets. These impairment charges reduced the carrying value of these right-of-use assets from $161.2 million to $132.7 million. Impairment charges are included within Impairment expense in the Consolidated Statements of Operations and Comprehensive Loss.

There were no material impairments in the fiscal years ended June 30, 2021 and 2020.

12. Debt

Convertible Notes and the Indenture

In February 2021, the Company issued $1.0 billion aggregate principal amount of the Notes in a private offering, including the exercise in full of the over-allotment option granted to the initial purchasers of $125.0 million. The Notes were issued pursuant to an Indenture (the "Indenture") between the Company and U.S. Bank National Association, as trustee. The Notes are senior unsecured obligations of the Company and do not bear regular interest, and the principal amount of the Notes does not accrete. The net proceeds from this offering were approximately $977.2 million, after deducting the initial purchasers' discounts and commissions and the Company's offering expenses.

Each $1,000 principal amount of the Notes is initially convertible into 4.1800 shares of the Company's Class A Common Stock, which is equivalent to an initial conversion price of approximately $239.23 per share. The conversion rate is subject to customary adjustments under certain circumstances in accordance with the terms of the Indenture. In addition, if certain corporate events that constitute a make-whole fundamental change occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes will mature on February 15, 2026, unless earlier converted, redeemed, or repurchased. The Notes will be convertible at the option of the holders at certain times and upon the occurrence of certain events in the future.

On or after August 15, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash, shares of the Class A Common Stock or a combination of cash and shares of the Class A Common Stock, at the Company's election, in the manner and subject to the terms and conditions provided in the Indenture. It is the Company's current intent to settle the principal amount of the Notes with cash.

The Company may redeem for cash all or any portion of the Notes, at its option, on or after February 20, 2024 and on or before the 20th scheduled trading day immediately before the maturity date, if the last reported sale price per share of the Class A Common Stock exceeds 130% of the conversion price then in effect on (1) each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption and (2) the trading day immediately before the date the Company sends such notice at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid special interest, if any, to, but excluding, the redemption date. No sinking fund is provided for the Notes, which means that the Company is not required to redeem or retire the Notes periodically.

Upon the occurrence of a fundamental change (as defined in the Indenture), subject to certain conditions, holders may require the Company to repurchase all or a portion of the Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid special interest, if any, to, but excluding, the fundamental change repurchase date.

The Notes are the Company's senior unsecured obligations and rank senior in right of payment to any of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of the Company's existing and future unsecured indebtedness that is not so subordinated; effectively subordinated in right of payment to any of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness; and structurally subordinated to all existing and future indebtedness and other liabilities of current or future subsidiaries of the Company (including trade payables and to the extent the Company is not a holder thereof, preferred equity, if any, of the Company's subsidiaries).

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components, using an effective interest rate of 3.69% to determine the fair value of the liability component. The carrying amount of the equity component representing the conversion option was $163.8 million and was determined by deducting the fair value of the liability component from the initial proceeds ascribed to the Notes as a whole. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense using the effective interest method over the contractual term of the Notes.

In accounting for the transaction costs related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on the proportion of the proceeds allocated to the debt and equity components. Issuance costs attributable to the liability component recorded as additional debt discount were $19.0 million and will be amortized to interest expense using the effective interest method over the contractual terms of the Notes. Issuance costs attributable to the equity component of $3.7 million were netted with the equity component in stockholders' equity.

The net carrying amount of the liability component of the Notes was as follows:

	June 30,	
	2022	2021
	(in millions)	
Principal	$ 1,000.0	$ 1,000.0
Unamortized debt discount	(121.5)	(152.4)
Unamortized debt issuance costs	(14.5)	(17.8)
Net carrying amount	$ 864.0	$ 829.8

The following table sets forth the interest expense recognized related to the Notes:

	Fiscal Year Ended June 30,	
	2022	2021
	(in millions)	
Amortization of debt discount	$ 30.8	$ 11.5
Amortization of debt issuance costs	3.3	1.2
Less: Interest capitalized	(0.3)	—
Total interest expense related to the Notes	$ 33.9	$ 12.6

Capped Call Transactions

In connection with the offering of the Notes, the Company entered into privately negotiated capped call transactions with certain counterparties (the "Capped Call Transactions"). The Capped Call Transactions have an initial strike price of approximately $239.23 per share, subject to adjustments, which corresponds to the approximate initial conversion price of the Notes. The cap price of the Capped Call Transactions will initially be approximately $362.48 per share. The Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, 6.9 million shares of Class A Common Stock. The Capped Call Transactions are expected generally to reduce potential dilution to the Class A Common Stock upon any conversion of Notes and/or offset any potential cash payments the Company would be required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap based on the cap price. If, however, the market price per share of Class A Common Stock, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions, there would be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that the then-market price per share of the Class A Common Stock exceeds the cap price of the Capped Call Transactions.

For accounting purposes, the Capped Call Transactions are separate transactions, and are not part of the terms of the Notes. The net cost of $81.3 million incurred to purchase the Capped Call Transactions was recorded as a reduction to Additional paid-in capital on the Company's Consolidated Balance Sheets.

Second Amended and Restated Credit Agreement

In 2019, the Company entered into an amended and restated revolving credit agreement (as amended, modified or supplemented prior to entrance into the Second Amended and Restated Credit Agreement (as defined below). The Amended and Restated Credit Agreement provided for a $500.0 million secured revolving credit facility, including up to the lesser of $250.0 million and the aggregate unused amount of the facility for the issuance of letters of credit.

The Amended and Restated Credit Agreement also permitted the incurrence of indebtedness to permit the Capped Call Transactions and issuance of the Notes.

On May 25, 2022, the Company entered into an Amendment and Restatement Agreement to which the Second Amended and Restated Credit Agreement is attached (and as amended, restated or otherwise modified from time to time, the “Second Amended and Restated Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and certain banks and financial institutions party thereto as lenders and issuing banks. Pursuant to the Second Amended and Restated Credit Agreement, the Company amended and restated the Amended and Restated Credit Agreement.

The Second Amended and Restated Credit Agreement provides for a $750.0 million term loan facility (the “Term Loan”), which will be due and payable on May 25, 2027 or, if greater than $200.0 million of our 0% convertible senior notes are outstanding on November 16, 2025 (the “Springing Maturity Condition”), November 16, 2025 (the “Springing Maturity Date”). The Term Loan amortizes in quarterly installments of 0.25%, payable at the end of each fiscal quarter and on the maturity date.

The Second Amended and Restated Credit Agreement also provides for a $500.0 million revolving credit facility (the “Revolving Facility”), $35.0 million of which will mature on June 20, 2024 (the “Non-Consenting Commitments”), with the rest ($465.0 million) maturing on December 10, 2026 (the “Consenting Commitments”) or if the Springing Maturity Condition is met and the Term Loan is outstanding on such date, the Springing Maturity Date. The key terms of the Revolving Facility remain substantially unchanged from those set forth in the Amended and Restated Credit Agreement, including requiring compliance with a total level of liquidity of not less than $250.0 million and maintaining a minimum total four-quarter revenue level of $3.0 billion (which are replaced with a covenant to maintain a minimum debt to adjusted EBITDA ratio upon our meeting a specified adjusted EBITDA threshold).

The Revolving Facility bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate (as defined in the Second Amended and Restated Credit Agreement) plus 2.25% per annum or the Alternate Base Rate (as defined in the Second Amended and Restated Credit Agreement) plus 1.25% per annum for the Consenting Commitments, and bears interest at a rate equal to, at our option, either at the Adjusted Term SOFR Rate plus 2.75% per annum or the Alternate Base Rate plus 1.75% per annum for the Non-Consenting Commitments. The Company is required to pay an annual commitment fee of 0.325% per annum and 0.375% per annum on a quarterly basis based on the unused portion of the Revolving Facility for the Consenting Commitments and the Non-Consenting Commitments, respectively.

The Term Loan bears interest at a rate equal to, at our option, either at the Alternate Base Rate plus 5.50% per annum or the Adjusted Term SOFR Rate plus 6.5% per annum. Each such margin will increase one time by 0.50% per annum if the Company chooses not to obtain a public rating for the Term Loan from S&P Global Ratings or Moody’s Investors Services, Inc. on or prior to November 25, 2022. Any borrowing at the Alternate Base Rate is subject to a 1.00% floor and a term loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.50% floor and any revolving loan borrowed at the Adjusted Term SOFR Rate is subject to a 0.00% floor.

The Second Amended and Restated Credit Agreement contains customary affirmative covenants as well as customary covenants that restrict our ability to, among other things, incur additional indebtedness, sell certain assets, guarantee obligations of third parties, declare dividends or make certain distributions, and undergo a merger or consolidation or certain other transactions. The Second Amended and Restated Credit Agreement also contains certain customary events of default. Certain baskets and covenant levels have been decreased and will apply equally to both the Term Loan and Revolving Facility for so long as the Term Loan is outstanding. After the repayment in full of the Term Loan, such baskets and levels will revert to those previously disclosed in connection with the Amended and Restated Credit Agreement.

The obligations under the Second Amended and Restated Credit Agreement with respect to the Term Loan and the Revolving Facility are secured by substantially all of our assets, with certain exceptions set forth in the Second Amended and Restated Credit Agreement, and are required to be guaranteed by certain material subsidiaries of the Company if, at the end of future financial quarters, certain conditions are not met.

During the fiscal years ended June 30, 2022 and 2021, the Company incurred total commitment fees of $1.4 million and $1.0 million, respectively, which are included in Interest expense in the Consolidated Statements of Operations and Comprehensive Loss.

As of June 30, 2022, the Company had drawn the full amount of the Term Loan and we had not drawn on the Revolving Facility, and we had $750.0 million total outstanding borrowings under the Second Amended and Restated Credit Agreement.

In connection with the execution of the Second Amended and Restated Credit Agreement, the Company incurred debt issuance costs of $1.1 million which are capitalized and presented as Other assets on the Company’s Consolidated Balance Sheets. These costs are being amortized to interest expense using the effective interest method over the term of the Second Amended and Restated Credit Agreement.

As of June 30, 2022, the Company was in compliance with the covenants under the Second Amended and Restated Credit Agreement. The Company is required to pledge or otherwise restrict a portion of cash and cash equivalents as collateral for standby letters of credit. As of June 30, 2022, we had outstanding letters of credit totaling $77.6 million, of which $69.9 million was secured against the Revolver.

Our proceeds in connection with the Term Loan were $696.4 million, net of discount of $33.8 million and issuance costs of $19.8 million. Both the discount and issuance costs are being amortized to interest expense over the term of the Term Loan using the effective interest rate method. The effective interest rate was 10.2%.

The net carrying amount of the Term Loan was as follows:

	June 30, 2022
	(in millions)
Principal	$ 750.0
Unamortized debt discount	(33.1)
Unamortized debt issuance costs	(19.4)
Net carrying amount	$ 697.5

The following table sets forth the interest expense recognized related to the Term Loan:

	Fiscal Year Ended June 30, 2022
	(in millions)
Amortization of debt discount	$ 0.7
Amortization of debt issuance costs	0.4
Total interest expense related to the Notes	$ 1.1

13. Commitments and Contingencies

The Company is subject to minimum guarantee royalty payments associated under certain music license agreements.

The following represents the Company's minimum annual guarantee payments under music license agreements for the next three years as of June 30, 2022:

Fiscal Year	Future Minimum Payments (in millions)
2023	$ 129.8
2024	125.1
2025	43.8
Total	$ 298.7

Content Costs for Past Use Reserve

To secure the rights to stream music on the Peloton platform, the Company must obtain licenses from, and pay royalties to, copyright owners of both sound recordings and musical compositions. The licensors have the right to audit our royalty calculations and routinely exercise those rights. The Company has entered into negotiations with various music rights holders, to pay for any and all uses of musical compositions and sound recordings to date and, at the same time, enter into go-forward license agreements for the use of music in the future.

Prior to the execution of go-forward music license agreements, the Company estimates and records expenses inclusive of estimated content costs for past use as well as normal and recurring music royalty expenses. The Company includes both of these components in its reserve. As of June 30, 2022 and 2021, the Company recorded reserves of $9.7 million and $11.5 million, respectively, included in Accounts payable and accrued expenses in the accompanying Consolidated Balance Sheets.

Product Recall Return Reserves

On May 5, 2021, the Company announced separate, voluntary recalls of its Tread+ and Tread products in collaboration with the U.S. Consumer Product Safety Commission ("CPSC") and halted sales of these products to work on product enhancements. As a result of these recalls, the Company accrued for a reduction to Connected Fitness Products revenue for actual and estimated future returns of $48.9 million and $81.1 million for the fiscal years ended June 30, 2022 and 2021, and as of June 30, 2022 and 2021, a return reserve of $39.9 million and $40.8 million, respectively, is included within Accounts payable and accrued expenses in the accompanying Consolidated Balance Sheets related to the impacts of the recall. The estimated returns reserve is primarily based on historical and expected product returns. The Company recorded costs associated with inventory write-downs and logistic costs of $8.1 million and $15.7 million for the years ended June 30, 2022 and 2021 in Connected Fitness Products cost of revenue.

Commitments to Suppliers

The Company utilizes contract manufacturers to build its products and accessories. These contract manufacturers acquire components and build products based on demand forecast information the Company supplies, which typically covers a rolling 12-month period. Consistent with industry practice, the Company acquires inventories from such manufacturers through blanket purchase orders against which orders are applied based

on projected demand information and availability of goods. Such purchase commitments typically cover the Company's forecasted product and manufacturing requirements for periods that range a number of months. In certain instances, these agreements allow the Company the option to cancel, reschedule, and/or adjust our requirements based on its business needs for a period of time before the order is due to be fulfilled. While the Company's purchase orders are legally cancellable in many situations, there are some which are not cancellable in the event of a demand plan change or other circumstances, such as where the supplier has procured unique, Peloton-specific designs, and/or specific non-cancellable, non-returnable components based on our provided forecasts.

Through the date of this filing, the Company's commitments to contract with third-party manufacturers for their inventory on-hand and component purchase commitments related to the manufacture of Peloton products were estimated to be approximately $334.7 million.

Supplier Settlements

During the fiscal year ended June 30, 2022, the Company accrued for $337.6 million in settlement agreements with various third-party suppliers to terminate certain future inventory purchase commitments. The Company paid $99.5 million during the fiscal year ended June 30, 2022, with the remainder to be paid through fiscal 2023.

Legal and Regulatory Proceedings

The Company is, or may become, a party to legal and regulatory proceedings with respect to a variety of matters in the ordinary course of business.

For example, we received reports of a number of injuries associated with our Tread+ product, one of which led to the death of a child. As a result of those reported Tread+ incidents, in April 2021, the CPSC unilaterally issued a warning to consumers about the safety hazards associated with the Tread+. While we do not agree with all of the assertions in the CPSC's warning, in May 2021 we initiated a voluntary recall of our Tread+ product in collaboration with the CPSC. The CPSC is currently investigating the matter, and in August 2022 the CPSC notified us that the agency staff believes we failed to meet our statutory obligations under the Consumer Product Safety Act and intends to recommend that the CPSC impose civil monetary penalties. While we disagree with the agency staff, we are engaged in ongoing confidential discussions with the CPSC. In addition, shortly after the May 2021 recalls, the DOJ and DHS subpoenaed us for documents and other information related to our statutory obligations under the Consumer Product Safety Act and is continuing to investigate the matter. The SEC is also investigating our public disclosures concerning the recall, as well as other matters. In addition to the regulatory investigations, we are presently subject to class action litigation and private personal injury claims related to these perceived defects in the Tread+ and incidents reported to result from its use.

Additionally on April 29, 2021, Ashley Wilson filed a putative securities class action lawsuit against the Company and certain of its officers, captioned Wilson v. Peloton Interactive, Inc., et al., Case No. 1:21-cv-02369-CBA-PK, in the United States District Court for the Eastern District of New York (the "Wilson Action"), and on May 24, 2021, Leigh Drori filed a related putative securities class action lawsuit, captioned Drori v. Peloton Interactive, Inc., et al., Case No. 1:21-cv-02925-CBA-PK, also in the United States District Court for the Eastern District of New York (the "Drori Action"). On November 16, 2021, the district judge consolidated the Wilson and Drori Actions under the caption *In re Peloton Interactive, Inc. Securities Litigation*, Master File No. 21-cv-02369-CBA-PK, and appointed Richard Neswick as lead plaintiff. On January 21, 2022, lead plaintiff filed an amended consolidated complaint in the action purportedly on behalf of a class consisting of those individuals who purchased or otherwise acquired our common stock between September 11, 2020 and May 5, 2021. Lead plaintiff alleges that the Company and certain of its officers made false or misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act of 1934 ("Exchange Act") regarding the Company's Tread and Tread+ products and the safety of those products. Defendants served their motion to dismiss the amended consolidated complaint on March 7, 2022, and briefing was complete on April 26, 2022.

On May 20, 2021, Alan Chu filed a verified shareholder derivative action lawsuit purportedly on behalf of the Company against certain of the Company's executive officers and the members of the Board of Directors, captioned Chu v. Foley, et al., Case No. 1:21-cv-02862, in the United States District Court for the Eastern District of New York (the "Chu Action"). Plaintiff Chu alleges breaches of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste, and violations of Section 14(a) of the Securities and Exchange Act of 1934, as well as a claim for contribution under Sections 10(b) and 21D of the Securities Exchange Act of 1934 against the Company's Chief Executive Officer and Chief Financial Officer. On August 13, 2021 and August 19, 2021, two related verified shareholder derivative complaints were filed, captioned Genack v. Foley, et al., Case No. 1:21-cv-04583 and Liu v. Foley, et al., Case No. 1:21-cv-04687, also purportedly on behalf of the Company, in the United States District Court for the Eastern District of New York. On October 13, 2021, the parties in the three putative derivative actions filed a stipulation seeking to consolidate the actions, and agreeing to a schedule for plaintiffs to file motions to be appointed lead plaintiff. On October 26, 2021, the court entered the stipulation consolidating the three actions under the caption *In re Peloton Interactive, Inc. Derivative Litigation*, Master File No. 21-cv-02862-CBA-PK. On November 23, 2021, Anthony Franchi filed a shareholder derivative action in the United States District Court for the Eastern District of New York against certain of the Company's executive officers and members of the board of directors captioned *Franchi v. Blachford, et al.*, Case No. CV 21-06544 (the "Franchi Action"), which alleges breaches of fiduciary duty, unjust enrichment, and violations of Sections 14(a) and 20(a) of the Exchange Act. On January 24, 2022, the court entered a stipulation consolidating the Franchi Action into *In re Peloton Interactive, Inc. Derivative Litigation* and appointed each plaintiff a co-lead plaintiff. On February 3, 2022, the parties filed a stipulation to stay the consolidated derivative action, which the Court entered on February 11, 2022.

On November 18, 2021, the City of Hialeah Employees' Retirement System filed a putative securities class action lawsuit against the Company and certain of its officers in the United States District Court for the Southern District of New York, captioned *City of Hialeah Employees' Retirement System v. Peloton Interactive, Inc.*, Case No. 21-cv-09582-ALC (the "Hialeah Action"), and on December 2, 2021, Anastasia Deulina filed a related putative securities class action against the same defendants also in the United States District Court for the Southern District of New York captioned *Deulina v. Peloton Interactive, Inc.*, Case No. 21-cv-10266-ALC (the "Deulina Action"). On May 5, 2022, the Court consolidated the Hialeah and Deulina Actions and appointed Robeco Capital Growth Funds SICAV – Robeco Global Consumer Trends as lead plaintiff. Lead plaintiff filed its amended complaint on June 25, 2022, purportedly on behalf of a class of individuals who purchased or otherwise acquired the Company's common stock between February 5, 2021 and November 4, 2021, alleging that the Company and certain of its officers

made false or misleading statements about demand for the Company's products and engaged in improper trading in violation of Sections 10(b), 20(a), and 20A of the Exchange Act. Defendants' filed their motion to dismiss on August 22, 2022.

In April 2021, DISH Technologies L.L.C., and Sling TV L.L.C. (DISH) filed a complaint in the United States District Court for the Eastern District of Texas. DISH, along with DISH DBS Corporation, also filed a complaint in the United States International Trade Commission (ITC) under Section 337 of the Tariff Act of 1930 against the Company, along with ICON Health & Fitness, Inc. (now iFIT Inc. f/k/a Icon Health & Fitness, Inc.), FreeMotion Fitness, Inc., NordicTrack, Inc., lululemon athletica, inc., and Curiouser Products Inc. d/b/a MIRROR. The complaints allege infringement of various patents related to fitness devices containing internet-streaming enabled video displays. In the ITC complaint, DISH seeks an exclusion order barring the importation of Peloton Connected Fitness devices, and streaming components and systems containing components thereof that infringe one or more of the asserted patents, as well as a cease and desist order preventing the Company from carrying out commercial activities within the United States related to those products. In the Eastern District of Texas complaint, DISH is seeking an order permanently enjoining the Company from infringing the asserted patents, an award of damages for the infringement of the asserted patents, and an award of damages for lost sales. The ITC investigation is ongoing and the Texas litigation remains stayed pending resolution to the ITC investigation.

We dispute the allegations in the above-referenced matters, intend to defend the matters vigorously, and believe that the claims are without merit. Some of our legal and regulatory proceedings, such as the above-referenced matters and litigation that centers around intellectual property claims, may be based on complex claims involving substantial uncertainties and unascertainable damages. Accordingly, except where otherwise indicated, it is not possible to determine the probability of loss or estimate damages for any of the above matters, and therefore, the Company has not established reserves for any of these proceedings. When the Company determines that a loss is both probable and reasonably estimable, the Company records a liability, and, if the liability is material, discloses the amount of the liability reserved. Given that such proceedings are subject to uncertainty, there can be no assurance that such legal proceedings, either individually or in the aggregate, will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

14. Stockholders' Equity

On November 16, 2021, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC as representatives of the several underwriters named therein (collectively, the "Representatives") relating to the offer and sale by the Company (the "Offering") of 27,173,912 shares (the "Shares") of the Company's Class A common stock, par value $0.000025 per share, which includes 3,260,869 shares of Class A common stock issued and sold pursuant to the exercise in full by the underwriters of their option to purchase additional shares of Class A common stock pursuant to the Underwriting Agreement. The Company sold the Shares to the underwriters at the public offering price of $46.00 per share less underwriting discounts**.**

The net proceeds to the Company from the Offering were approximately $1.2 billion after deducting the underwriters' discounts and commissions.

15. Equity-Based Compensation

2019 Equity Incentive Plan

In August 2019, the Board of Directors adopted the 2019 Plan, which was subsequently approved by the Company's stockholders in September 2019. The 2019 Plan serves as the successor to the 2015 Stock Plan (the "2015 Plan"). The 2015 Plan continues to govern the terms and conditions of the outstanding awards previously granted thereunder. Any reserved shares not issued or subject to outstanding grants under the 2015 Plan on the effective date of the 2019 Plan became available for grant under the 2019 Plan and will be issued as Class A common stock. The number of shares reserved for issuance under the 2019 Plan will increase automatically on July 1 of each of 2020 through 2029 by the number of shares of the Company's Class A common stock equal to 5% of the total outstanding shares of all of the Company's classes of common stock as of each June 30 immediately preceding the date of increase, or a lesser amount as determined by the Board of Directors. On July 1, 2021, the number of shares of Class A common stock available for issuance under the 2019 Plan was automatically increased according to its terms by 15,007,356 shares. As of June 30, 2022, 43,189,572 shares of Class A common stock are available for future award under the 2019 Plan.

Stock Options

The following summary sets forth the stock option activity under the 2019 Plan:

	Options Outstanding			
	Number of Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding — June 30, 2021	57,946,608	$ 18.47	7.3	$ 6,119.2
Granted	19,382,327	$ 44.00		
Exercised	(8,698,931)	$ 6.20		$ 376.3
Forfeited or expired	(6,814,078)	$ 45.82		
Outstanding — June 30, 2022	61,815,926	$ 25.28	6.7	$ 93.2
Vested and Exercisable— June 30, 2022	36,468,691	$ 15.63	5.2	$ 92.7

Unvested option activity is as follows:

	Options	Weighted-Average Grant Date Fair Value
Unvested - June 30, 2021	28,160,034	$ 13.52
Granted	19,382,327	$ 22.27
Early exercised unvested	(13,501)	$ 2.02
Vested	(16,125,139)	$ 12.09
Forfeited or expired	(6,056,486)	$ 20.92
Unvested - June 30, 2022	25,347,235	$ 19.35

The aggregate intrinsic value of options outstanding and vested and exercisable, were calculated as the difference between the exercise price of the options and the fair value of the Company's common stock as of June 30, 2022. The fair value of the common stock is the closing stock price of the Company's Class A common stock as reported on The Nasdaq Global Select Market. The aggregate intrinsic value of exercised options was $376.3 million, $1,216.6 million, and $274.0 million for the fiscal years ended June 30, 2022, 2021, and 2020, respectively.

For the fiscal years ended June 30, 2022, 2021, and 2020 the weighted-average grant date fair value per option was $22.27, $43.76, and $12.17, respectively. The fair value of each option was estimated at the grant date using the Black-Scholes method with the following assumptions:

	Fiscal Year Ended June 30,		
	2022	2021	2020
Weighted average risk-free interest rate [(1)]	1.7 %	0.7 %	1.1 %
Weighted average expected term (in years)	6.0	6.2	6.2
Weighted average expected volatility [(2)]	56.2 %	43.5 %	44.9 %
Expected dividend yield	—	—	—

(1) Based on U.S. Treasury yield curve in effect at the time of grant.

(2) Expected volatility is based on a blended average of average historical stock volatilities of several peer companies over the expected term of the stock options, historical volatility of the Company's stock price, and implied stock price volatility derived from the price of exchange traded options on the Company's stock.

Restricted Stock and Restricted Stock Units

The following table summarizes the activity related to the Company's restricted stock and restricted stock units:

	Restricted Stock Units Outstanding	
	Number of Awards	**Weighted-Average Grant Date Fair Value**
Outstanding — June 30, 2021	1,785,946	$ 99.43
Granted	10,810,980	$ 43.92
Vested and converted to shares	(1,601,686)	$ 81.19
Cancelled	(2,017,535)	$ 69.83
Outstanding — June 30, 2022	8,977,705	$ 42.49

Employee Stock Purchase Plan

In August 2019, the Board of Directors adopted, and in September 2019, the Company's stockholders approved, the ESPP, through which eligible employees may purchase shares of the Company's Class A common stock at a discount through accumulated payroll deductions. The ESPP became effective on the date the registration statement, in connection with the Company's IPO, was declared effective by the SEC (the "Effective Date"). The number of shares of the Company's Class A common stock that will be available for issuance and sale to eligible employees under the ESPP will increase automatically on the first day of each fiscal year of the Company beginning on July 1, 2020 through 2029, equal to 1% of the total number of outstanding shares of all classes of the Company's common stock on the immediately preceding June 30, or such lesser number as may be determined by the Board of Directors or applicable committee in its sole discretion. On July 1, 2021, the number of shares of Class A common stock available for issuance under the ESPP was automatically increased according to its terms by 3,001,471 shares. As of June 30, 2022, a total of 10,148,459 shares of Class A common stock were available for sale to employees under the ESPP.

Unless otherwise determined by the Board of Directors, each offering period will consist of four six-month purchase periods, provided that the initial offering period commenced on the Effective Date and ended on August 31, 2021, and the initial purchase period ended February 28, 2020. Thereafter, each offering period and each purchase period will commence on September 1 and March 1 and end on August 31 and February 28 of each two-year period or each six-month period, respectively, subject to a reset provision. If the closing stock price on the first day of an offering period is higher than the closing stock price on the last day of any applicable purchase period, participants will be withdrawn from the ongoing offering period immediately following the purchase of ESPP shares on the purchase date and would automatically be enrolled in the subsequent offering period ("ESPP reset"), resulting in a modification under ASC 718.

Unless otherwise determined by the Board of Directors, the purchase price for each share of Class A common stock purchased under the ESPP will be 85% of the lower of the fair market value per share on the first trading day of the applicable offering period or the fair market value per share on the last trading day of the applicable purchase period. During the year ended June 30, 2022, there were ESPP resets that resulted in total modification charges of $0.5 million, which is recognized over the new two-year offering period ending February 28, 2024.

The Black-Scholes option pricing model assumptions used to calculate the fair value of shares estimated to be purchased at the commencement of the ESPP offering periods were as follows:

	Fiscal Year Ended June 30, 2022
Weighted average risk-free interest rate	0.6%
Weighted average expected term (in years)	1.2
Weighted average expected volatility	70.7%
Expected dividend yield	—

The expected term assumptions were based on each offering period's respective purchase date. The expected volatility was derived from the blended average of historical stock volatilities of several unrelated public companies that the Company considers to be comparable to its business over a period equivalent to the expected terms of the stock options and the historical volatility of the Company's stock price. Beginning in the fiscal quarter ended March 31, 2022, the expected volatility is based on the historical volatility of the Company's stock price. The risk-free rate assumptions were based on the U.S. treasury yield curve in effect at the time of the grants. The dividend yield assumption was zero as the Company has not historically paid any dividends and does not expect to declare or pay dividends in the foreseeable future.

During the fiscal years ended June 30, 2022, 2021, and 2020 the Company recorded Stock-based compensation expense associated with the ESPP of $13.0 million, $9.5 million, and $3.3 million respectively.

In connection with the offering period which ended on August 31, 2021, employees purchased 293,337 shares of Class A common stock at a weighted-average price of $39.95 under the ESPP. In connection with the offering period ended on February 28, 2022, employees purchased under the ESPP 420,359 shares of Class A common stock at a weighted-average price of $24.30. As of June 30, 2022, total unrecognized compensation cost related to the ESPP was $21.2 million, which will be amortized over a weighted-average remaining period of 1.7 years.

Stock-Based Compensation Expense

The Company's total stock-based compensation expense was as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
	(in millions)		
Cost of revenue			
Connected Fitness Products	$ 20.2	$ 12.6	$ 3.2
Subscription	22.7	25.9	7.5
Total cost of revenue	42.9	38.5	10.7
Sales and marketing	30.5	26.2	15.3
General and administrative	152.4	102.1	52.4
Research and development	46.0	27.2	10.4
Restructuring expense	56.5	—	—
Total stock-based compensation expense	$ 328.4	$ 194.0	$ 88.8

As of June 30, 2022, the Company had $806.7 million of unrecognized stock-based compensation expense related to unvested stock-based awards that is expected to be recognized over a weighted-average period of 3.1 years.

In the fiscal year ended June 30, 2022, six employees of the Company who were eligible to participate in the Company’s Severance and Change in Control Plan (the “Severance Plan”) terminated employment, and two board members terminated service to the Company. Certain modifications were made to equity awards, including, in certain instances, the post-termination period during which an employee may exercise outstanding stock options was extended from 90 days to one year (or the option expiration date, if earlier), and extended vesting was tied to certain consulting services that were deemed to be non-substantive. As a result of these modifications, the Company recognized incremental Stock-based compensation expense of $18.7 million within Restructuring expense in the Consolidated Statements of Operations and Comprehensive Loss.

16. Concentration of Credit Risk and Major Customers and Vendors

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company’s cash and cash equivalents are maintained with high-quality financial institutions, the compositions and maturities of which are regularly monitored by management.

For the fiscal years ended June 30, 2022, 2021, and 2020, there were no customers representing greater than 10% of the Company’s Total revenue.

The Company's top two vendors accounted for approximately 60% and 46% of inventory purchased for the fiscal years ended June 30, 2022 and June 30, 2021, respectively.

The Company’s top four vendors accounted for approximately 61% of inventory purchased for the fiscal year ended June 30, 2020.

The Company procures components from a broad group of suppliers. Some of the products manufactured by the Company require one or more components that are available from only a single source.

17. Income Taxes

The components of loss before income taxes are as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
	(in millions)		
United States	$ (2,454.4)	$ (120.0)	$ (15.6)
Foreign	(353.7)	(78.2)	(52.8)
Loss from operations before income taxes	$ (2,808.1)	$ (198.2)	$ (68.4)

The components of income tax (benefit) expense are as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
Current:			
Federal	$ —	$ —	$ —
State	1.3	0.4	1.2
Foreign	13.6	11.5	3.0
	14.9	11.9	4.2
Deferred:			
Federal	—	(14.1)	—
State	—	(3.2)	—
Foreign	4.7	(3.8)	(0.9)
	4.7	(21.1)	(0.9)
Total	$ 19.6	$ (9.2)	$ 3.3

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate is as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
Federal income tax rate	21.0 %	21.0 %	21.0 %
Permanent differences	(0.9)	(0.6)	(1.8)
Share based compensation	1.6	99.6	34.2
Return to provision	—	1.5	(3.8)
Effects of rates different than statutory	0.4	(1.3)	—
State and local income taxes, net of federal benefit	4.4	24.1	8.6
Franchise tax	—	—	(1.2)
Change in valuation allowance	(28.3)	(150.2)	(65.6)
Rate change	0.3	8.0	(0.5)
Federal credits	0.9	2.5	4.4
Other	(0.1)	—	(0.1)
Effective income tax rate	(0.7)%	4.6 %	(4.8)%

The primary differences from the U.S. statutory rate and the Company's effective tax rate for the fiscal year ended June 30, 2022 are due to the change in valuation allowance, share based compensation including excess tax benefits, state and international taxes. The primary differences from the U.S. statutory rate and the Company's effective tax rate for the fiscal year ended June 30, 2021 were due to the change in valuation allowance, share based compensation including excess tax benefits, state and international taxes. The primary differences from the U.S. statutory rate and the Company's effective tax rate for the fiscal year ended June 30, 2020 were due to the change in valuation allowance and permanent differences related to stock compensation.

On August 16, 2022, the Inflation Reduction Act was signed into law in the United States. Among other provisions, the Inflation Reduction Act includes a 15% minimum tax rate applied to corporations with profits in excess of $1 billion and also includes an excise tax on the repurchase of corporate stock. The Company has reviewed the provisions of the law and does not believe that any of the provisions will have a material impact on the business.

On March 11, 2021, the American Rescue Plan was enacted, which extends the period companies can claim an Employee Retention Credit, expands the IRC Section 162(m) limit on deductions for publicly traded companies, and repeals the election that allows US affiliate groups to allocate interest expense on a worldwide basis, among other provisions. The Company reviewed the provisions of the law and determined it had no material impact for the fiscal year ended June 30, 2021.

On December 21, 2020, Congress passed the Consolidated Appropriations Act, 2021. The act includes the Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the COVID-related Tax Relief Act of 2020, both of which extend many credits and other COVID-19 relief, among other extensions. The Company evaluated the provisions of the Consolidated Appropriations Act, including but not limited to the Employee Retention

Credit extension, the extension for the IRC Section 45S credit for paid family and medical leave, and the provision allowing a full deduction for certain business meals, and determined that there was no material impact for the fiscal year ended June 30, 2021.

On March 27, 2020, The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law in the United States. The CARES Act and related notices include several significant provisions. The Company has utilized the Qualified Improvement Property provision and has correctly filed an accounting method change to capture this, but has determined the CARES Act does not have a material impact on its financial results for the fiscal year ended June 30, 2021.

As of June 30, 2022 and June 30, 2021, the Company's deferred tax assets were primarily the result of U.S. federal and state net operating losses ("NOLs"), accruals and reserves, non-qualified stock options, lease liability, §263A UNICAP, and research and development tax credits. A valuation allowance was maintained and/or established in substantially all jurisdictions on the Company's gross deferred tax asset balances as of June 30, 2022 and 2021. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. The realization of deferred tax assets was based on the evaluation of current and estimated future profitability of the operations, reversal of deferred tax liabilities and the likelihood of utilizing tax credit and/or loss carryforwards. As of June 30, 2022 and June 30, 2021, the Company continued to maintain that it is not at the more likely than not standard, wherein deferred taxes will be realized due to the recent history of losses and management's expectation of continued tax losses.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets (liabilities) are as follows:

	Fiscal Year Ended June 30,	
	2022	**2021**
	(in millions)	
Deferred tax assets:		
Net operating loss	$ 850.8	$ 337.9
Accruals and reserves	101.2	45.3
R&D credit	41.9	16.1
Accrued legal and professional fees	3.9	3.3
Non-qualified stock options	88.9	39.6
Restricted stock options	5.7	10.9
Disallowed Interest Carryover	1.2	—
Intangible Amortization	46.5	—
Inventory capitalization	38.8	23.1
Lease liability	197.0	150.4
Deferred revenue	9.5	6.0
Construction in Progress	31.8	—
Other	5.5	2.4
Total deferred tax assets:	1,422.7	635.0
Valuation allowance	(1,191.2)	(413.8)
Deferred tax liabilities:		
Prepaid Expenses	(10.2)	(7.8)
Property and equipment	(40.8)	(48.3)
Intangibles	—	(14.4)
Right-of-use assets	(166.6)	(125.7)
Convertible securities	(15.6)	(18.7)
Other	(0.1)	—
Total deferred tax liabilities:	(233.3)	(214.9)
Deferred tax assets, net	$ (1.8)	$ 6.3

As of June 30, 2022 and 2021, the Company had federal NOLs of approximately $2,896.7 million and $1,086.5 million, respectively, of which $64.8 million will begin to expire in 2034 and the remainder will be carried forward indefinitely. The Company has undergone three ownership changes on November 30, 2015, April 18, 2017, and February 24, 2020 and its NOLs are subject to a Section 382 limitation. The total NOLs subject to a 382 limitation are $193.8 million as of June 30, 2022. The resulting Section 382 limitations are large enough to avail the Section 382 limited NOLs by June 30, 2022. As of June 30, 2022 and 2021, the Company had state NOLs of approximately $2,130.0 million and $706.2

million, respectively, which will begin to expire at various dates beginning in 2022 if not utilized. As of June 30, 2022 and 2021, the Company had foreign NOLs of approximately $458.3 million and $274.6 million, respectively, generated primarily from its operations in the United Kingdom, which will be carried forward indefinitely. As of June 30, 2022 and 2021, the Company had $41.9 million and $16.1 million, respectively, of U.S. research and development credit carryovers that will begin to expire in 2036.

As of June 30, 2022, the Company did not have material undistributed foreign earnings. The Company has not recorded a deferred tax liability for foreign withholding or other foreign local tax on the undistributed earnings from the Company's international subsidiaries as such earnings are considered to be indefinitely reinvested.

The Company utilizes a two-step approach to recognize and measure unrecognized tax benefits. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company's policy is to include interest and penalties related to unrecognized tax benefits, if any, within Income tax expense (benefit) in the consolidated statements of operations and comprehensive income (loss).

At June 30, 2022 and 2021, the Company had zero and $0.7 million of unrecognized tax benefits, included as a component of income taxes payable within accrued expenses within the accompanying Consolidated Balance Sheets, respectively. During the fiscal year ended June 30, 2022, the Company settled positions with the taxing authorities resulting in a recognition of the benefit and reduction in the payable The Company has the following activity relating to unrecognized tax benefits:

	Fiscal Year Ended June 30,	
	2022	2021
	(in millions)	
Beginning balance	$ 0.7	$ —
Gross (decrease) increase in unrecognized tax positions	$ (0.7)	$ 0.7
Ending balance	$ —	$ 0.7

Although it is possible that unrecognized tax benefits may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities, we do not anticipate any significant changes to unrecognized tax benefits over the next 12 months.

The Company is subject to taxation in the United States, various state and local jurisdictions, as well as foreign jurisdictions where the Company conducts business. Accordingly, on a continuing basis, the Company cooperates with taxing authorities for the various jurisdictions in which it conducts business to comply with audits and inquiries for tax periods that are open to examination. The tax years ended June 30, 2019 and later remain open to examination by tax authorities in the United States and United Kingdom.

18. Net Loss Per Share

The computation of loss per share is as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
	(in millions)		
Basic loss per share:			
Net loss attributable to common stockholders	$ (2,827.7)	$ (189.0)	$ (71.6)
Shares used in computation:			
Weighted-average common shares outstanding	322,368,818	293,892,643	220,952,237
Basic loss per share	$ (8.77)	$ (0.64)	$ (0.32)

Basic and diluted loss per share are the same for each class of common stock because they are entitled to the same liquidation and dividend rights.

The following potentially dilutive shares were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive:

	Fiscal Year Ended June 30,		
	2022	2021	2020
Employee stock options	36,846,242	54,076,445	41,476,591
Restricted stock units and awards	174,580	546,687	41,855
Shares estimated to be purchased under ESPP	28,370	363,741	66,019

Impact of 2021 Notes

The Company expects to settle the principal amount of the Notes in cash upon conversion, and therefore, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion option on diluted net income per share, if applicable. The conversion option will have a dilutive impact on net income per share of common stock when the average market price per share of the Company's Class A common stock for a given period exceeds the conversion price of the Notes of $239.23 per share. During the fiscal year ended June 30, 2022, the weighted average price per share of the Company's Class A common stock was below the conversion price of the Notes.

The denominator for basic and diluted loss per share does not include any effect from the Capped Call Transactions the Company entered into concurrently with the issuance of the Notes as this effect would be anti-dilutive. In the event of conversion of the Notes, if shares are delivered to the Company under the Capped Call Transactions, they will offset the dilutive effect of the shares that the Company would issue under the Notes.

19. Segment Information

The Company applies ASC 280, *Segment Reporting*, in determining reportable segments. The Company has two reportable segments: Connected Fitness Products and Subscription. Segment information is presented in the same manner that the chief operating decision maker ("CODM") reviews the operating results in assessing performance and allocating resources. The CODM reviews revenue and gross profit for both of the reportable segments. Gross profit is defined as revenue less cost of revenue incurred by the segment.

No operating segments have been aggregated to form the reportable segments. The Company does not allocate assets at the reportable segment level as these are managed on an entity wide group basis and, accordingly, the Company does not report asset information by segment.

The Connected Fitness Products segment derives revenue from sale of the Company's portfolio of Connected Fitness Products and related accessories, delivery and installation services, branded apparel, and extended warranty agreements. The Subscription segment derives revenue from monthly Subscription fees. There are no internal revenue transactions between the Company’s segments.

Key financial performance measures of the segments including Revenue, Cost of revenue, and Gross profit are as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
		(in millions)	
Connected Fitness Products:			
Revenue	$ 2,187.5	$ 3,149.6	$ 1,462.2
Cost of revenue	2,433.8	2,236.9	832.5
Gross profit	$ (246.3)	$ 912.7	$ 629.7
Subscription:			
Revenue	$ 1,394.7	$ 872.2	$ 363.7
Cost of revenue	450.0	330.5	155.7
Gross profit	$ 944.7	$ 541.7	$ 208.0
Consolidated:			
Revenue	$ 3,582.1	$ 4,021.8	$ 1,825.9
Cost of revenue	2,883.8	2,567.4	988.2
Gross profit	$ 698.4	$ 1,454.4	$ 837.7

Reconciliation of Gross Profit

Operating expenditures, interest income and other expense, and taxes are not allocated to individual segments as these are managed on an entity wide group basis. The reconciliation between reportable Segment Gross Profit to consolidated (loss) income before tax is as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
	(in millions)		
Segment Gross Profit	$ 698.4	$ 1,454.4	$ 837.7
Sales and marketing	(1,018.9)	(728.3)	(476.7)
General and administrative	(963.4)	(661.8)	(351.4)
Research and development	(359.5)	(247.6)	(89.1)
Goodwill impairment	(181.9)	—	—
Impairment expense	(390.5)	(4.5)	(1.2)
Restructuring expense	(180.7)	—	—
Supplier settlements	(337.6)	—	—
Total other (expense) income, net	(74.1)	(10.4)	12.3
Loss before provision for income taxes	$ (2,808.1)	$ (198.2)	$ (68.4)

20. Quarterly Financial Data (unaudited)

Selected summarized quarterly financial information for the fiscal years ended June 30, 2022 and 2021 was as follows:

	Year ended	Three months ended			
	Jun. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021
			(in millions)		
Revenue	$ 3,582.1	$ 678.7	$ 964.3	$ 1,133.9	$ 805.2
Gross profit	698.4	(29.8)	184.2	281.0	263.0
Loss from operations	(2,734.0)	(1,212.8)	(735.8)	(425.7)	(359.7)
Net loss	$ (2,827.7)	$ (1,255.3)	$ (757.1)	$ (439.4)	$ (376.0)
Net loss per share attributable to common stockholders, basic and diluted [2]	$ (8.77)	$ (3.72)	$ (2.27)	$ (1.39)	$ (1.25)

(1) The sum of the (loss) income per share for the four quarters may differ from annual (loss) income per share due to the required method of computing the weighted average shares in interim periods.

	Year ended	Three months ended			
	Jun. 30, 2021	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020
			(in millions)		
Revenue	$ 4,021.8	$ 936.9	$ 1,262.2	$ 1,064.8	$ 757.9
Gross profit	1,454.4	254.7	445.1	425.1	329.5
(Loss) income from operations [1]	(187.8)	(301.5)	(14.1)	58.8	69.1
Net (loss) income	$ (189.0)	$ (313.2)	$ (8.6)	$ 63.6	$ 69.3
Net (loss) income per share attributable to common stockholders, basic [2]	$ (0.64)	$ (1.05)	$ (0.03)	$ 0.22	$ 0.24
Net (loss) income per share attributable to common stockholders, diluted [2]	$ (0.64)	$ (1.05)	$ (0.03)	$ 0.18	$ 0.20

(1) Net income from operations for the three months ended September 30, 2020 and December 31, 2020, reflects strong demand due to the COVID-19 pandemic coupled with the pause on the majority of marketing spend.
(2) The sum of the (loss) income per share for the four quarters may differ from annual (loss) income per share due to the required method of computing the weighted average shares in interim periods.

21. Subsequent Events

On July 1, 2022, the Compensation Committee approved a one-time repricing of stock option awards that had been granted to date under the 2019 Plan. The repricing impacted stock options held by all employees who remained employed through July 25, 2022. The repricing did not apply to our U.S.-based hourly employees (or employees with equivalent roles in non-U.S. locations) or our C-level executives. The original exercise prices of the repriced stock options ranged from $12.94 to $146.79 per share for the 2,138 total grantees. Each stock option was repriced to have a per share exercise price of $9.13. There were no changes to the number of shares, the vesting schedule or the expiration date of the repriced stock options.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures
None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2022.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. As described below, we previously identified a material weakness in our internal control over financial reporting. Solely as a result of this material weakness, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2022 due to the material weaknesses in our internal control over financial reporting described below.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2022 based on the guidelines established in the Internal Control—Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was not effective as of June 30, 2022 because of the material weaknesses described below.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

As first reported in Item 9A. "Controls and Procedures" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, we previously identified a material weakness in our internal control over financial reporting related to controls around the existence, completeness, and valuation of inventory.

While management has made enhancements to its physical inventory compilation process throughout fiscal year 2022, we identified ongoing deficiencies in the operation of controls to validate the completeness and accuracy of key reports used in compiling and reviewing the results of our physical inventory counts.

These same reports are also used in other controls over the valuation of ending inventory balances which results in those controls also being deficient. We continue to implement remediation efforts, which include:

- Increasing our communication with third-party logistics providers and our oversight over third-party logistics providers' inventory management policies and procedures.
- Implementing additional monitoring controls to ensure consistency of inventory data across Peloton internal systems, our warehouses, and third-party logistic providers.
- Evaluating the effectiveness of our current cycle count program and controls, including IT general controls over systems facilitating cycle counts, to automate inventory count and reporting.
- Providing training of standard operating procedures and internal controls to key stakeholders within the supply chain, logistics, and inventory processes.

In addition, in connection with our assessment of the effectiveness of internal control over financial reporting as of June 30, 2022, control deficiencies were identified that, in the aggregate, represent a material weakness in our internal control over financial reporting. These control deficiencies relate to (i) the design of our controls associated with the application of fair value measurements pertaining to goodwill and long-lived asset impairment analyses, as well as (ii) evidence of the review supporting the validation of the inputs and assumptions used in our goodwill and long-lived asset impairment testing and restructuring assessment. In order to remediate this material weakness, we are implementing the following measures:

- Enhancing the design of our controls and implementing guidelines setting forth specific requirements for documenting our procedures for validating the data used in our impairment analysis and restructuring assessment.
- Implementing additional review and analysis procedures to validate compliance with our guidelines and our policies outlining the application fair value in accounting processes when required, including steps to improve the operation and monitoring of control activities and procedures associated with our impairment assessments.
- Determining any additional resources that may be necessary to effectively implement additional review and analysis procedures over the assumptions, inputs, and methodologies described herein.

The actions that we are taking are subject to ongoing senior management review, as well as oversight of the audit committee of our Board of Directors. We also may conclude that additional measures may be required to remediate the material weaknesses or determine to modify the remediation plans described above. We will not be able to conclude that we have remediated the material weaknesses until the applicable controls are fully implemented and operate for a sufficient period of time and management has concluded, through formal testing, that these

controls are operating effectively. We will continue to monitor the design and effectiveness of these and other processes, procedures, and controls and make any further changes management deems appropriate.

These material weaknesses did not result in any material misstatements in our financial statements or disclosures. Based on additional procedures and post-closing review, management concluded that the consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Changes in Internal Control over Financial Reporting

Other than the remediation efforts described above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Report of Independent Registered Public Accounting Firm

Ernst & Young LLP, our independent registered public accounting firm that audited the consolidated financial statements, has issued an audit report on our internal control over financial reporting as of June 30, 2022, which is included in Item 8 of this Annual Report on Form 10-K.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections
Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended June 30, 2022, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended June 30, 2022, and is incorporated herein by reference.

Item 12. Securities Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended June 30, 2022, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended June 30, 2022, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be included in our Proxy Statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC, within 120 days of the fiscal year ended June 30, 2022, and is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed, furnished or incorporated by reference as part of this Annual Report on Form 10-K:

1. Financial Statements

Our consolidated financial statements are listed in the “Index to Consolidated Financial Statements” under Part II, Item 8, of this Annual Report on Form 10-K.

2. Financial Statement Schedules

All financial statement schedules have been omitted because they are not required or are not applicable, or the required information is shown in our consolidated financial statements or the notes thereto.

3. Exhibits

		Incorporated by Reference				Filed or Furnished Herewith
Exhibit Number	Exhibit Title	Form	File No.	Exhibit	Filing Date	
2.1	Stock and Asset Purchase Agreement, dated December 21, 2020, by and between the Registrant and Amer Sports Corporation	10-Q	001-39058	2.1	02/05/2021	
3.1	Restated Certificate of Incorporation.	10-Q	001-39058	3.1	11/06/2019	
3.2	Amended and Restated Bylaws.	8-K	001-39058	3.1	04/27/2020	
4.1	Form of Class A common stock certificate.	S-1/A	333-233482	4.1	09/10/2019	
4.2	Fourth Amended and Restated Investors’ Rights Agreement by and between the Registrant and certain security holders of the Registrant, dated April 5, 2019.	S-1	333-233482	4.2	08/27/2019	
4.3	Indenture, dated as of February 11, 2021, between the Registrant and U.S. Bank National Association, as trustee.	8-K	001-39058	4.1	02/11/2021	
4.4	Form of 0.00% Convertible Senior Notes due 2026 (included in Exhibit 4.3)	8-K	001-39058	4.2	02/11/2021	
4.5	Description of Class A Common Stock Registered Under Section 12 of the Securities Exchange Act of 1934, as amended.	10-K	001-39058	4.3	09/11/2020	
10.1†	Form of Indemnification Agreement.	S-1	333-233482	10.1	08/27/2019	
10.2†	2015 Stock Plan and forms of award agreements thereunder.	S-1	333-233482	10.2	08/27/2019	

10.3†	2019 Equity Incentive Plan and forms of award agreements thereunder.					X
10.4†	2019 Employee Stock Purchase Plan and form of subscription agreement thereunder.	S-8	333-233941	4.8	09/26/2019	
10.5†	Offer Letter by and between John Foley and the Registrant, dated September 9, 2019.	S-1/A	333-233482	10.5	09/10/2019	
10.6†	Offer Letter by and between William Lynch and the Registrant, dated January 28, 2017.	S-1/A	333-233482	10.6	09/10/2019	
10.7†	Offer Letter by and between Jill Woodworth and the Registrant, dated December 8, 2017.	S-1/A	333-233482	10.7	09/10/2019	
10.8†	Offer Letter by and between Thomas Cortese and the Registrant, dated February 6, 2017.	10-K	001-39058	10.8	09/11/2020	
10.9†	Employment Contract by and between Kevin Cornils and Peloton Interactive UK Limited, dated February 1, 2018.					X
10.10†	Offer Letter by and between Barry McCarthy and the Registrant, dated February 7, 2022.	8-K	001-39058	10.1	02/08/2022	
10.11†	Transition and Consulting Agreement by and between Jill Woodworth and the Registrant, dated June 6, 2022.	8-K	001-39058	10.2	06/06/2022	
10.12†	Offer Letter by and between Ms. Coddington and the Registrant, dated June 6, 2022.	8-K	001-39058	10.1	06/06/2022	
10.13†	Severance and Change in Control Plan and form of participation agreement thereunder.	10-K	001-39058	10.9	09/11/2020	
10.14	Agreement of Lease by and between the Registrant and Maple West 25th Owner, LLC, dated November 11, 2015, as amended.	S-1/A	333-233482	10.9	09/10/2019	
10.15	Agreement of Lease by and between the Registrant and CBP 441 Ninth Avenue Owner LLC, dated November 16, 2018.	S-1/A	333-233482	10.10	09/10/2019	
10.16	Form of Base Capped Call Transaction Confirmation.	8-K	001-39058	10.1	02/11/2021	
10.17	Form of Additional Capped Call Transaction Confirmation.	8-K	001-39058	10.2	02/11/2021	

Exhibit No.	Description	Form	File No.	Exhibit	Filing Date	Filed/Furnished Herewith
10.18	Amendment and Restatement Agreement, dated as of May 25, 2022, by and among the Company, JPMorgan Chase Bank, N.A., as administrative agent, and certain banks and financial institutions party thereto as lenders and issuing banks, as amended					X
21.1	List of Subsidiaries.	S-1	333-233482	21.1	08/27/2019	
23.1	Consent of Ernst & Young LLP, Independent registered public accounting firm.					X
24.1	Power of Attorney (included in the signature page).					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					XX
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					XX
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)					X

† *Indicates a management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.*
X Filed herewith.
XX Furnished herewith.
The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Annual Report on Form 10-K and are not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of the Exchange Act.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PELOTON INTERACTIVE, INC.

Date: September 6, 2022

By: /s/ Barry McCarthy

Barry McCarthy
Chief Executive Officer
(Principal Executive Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Barry McCarthy, Elizabeth F. Coddington, and Allen Klingsick and each of them, as his or her true and lawful attorneys-in-fact, proxies, and agents, each with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, proxies, and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, proxies, and agents, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By: /s/ Barry McCarthy Barry McCarthy	President, Chief Executive Officer and Director (Principal Executive Officer)	September 6, 2022
By: /s/ Elizabeth F Coddington Elizabeth F Coddington	Chief Financial Officer (Principal Financial Officer)	September 6, 2022
By: /s/ Allen Klingsick Allen Klingsick	Chief Accounting Officer (Principal Accounting Officer)	September 6, 2022
By: /s/ John Foley John Foley	Director and Executive Chair	September 6, 2022
By: /s/ Karen Boone Karen Boone	Director	September 6, 2022
By: /s/ Jon Callaghan Jon Callaghan	Director	September 6, 2022
By: /s/ Jay Hoag Jay Hoag	Director	September 6, 2022
By: /s/ Angel Mendez Angel Mendez	Director	September 6, 2022
By: /s/ Jonathan Mildenhall Jonathan Mildenhall	Director	September 6, 2022
By: /s/ Pamela Thomas-Graham Pamela Thomas-Graham	Director	September 6, 2022

[This page intentionally left blank]

CORPORATE INFORMATION

BOARD OF DIRECTORS

KAREN BOONE [1][2]
Chairperson of the Board

JON CALLAGHAN [1][2]
Director

JAY HOAG [3]
Director

BARRY MCCARTHY
Director, President & Chief Executive Officer

ANGEL L. MENDEZ [1][3]
Director

JOHNATHAN MILDENHALL
Director

PAMELA THOMAS-GRAHAM [2][3]
Director

LEADERSHIP TEAM

BARRY MCCARTHY
Director, President & Chief Executive Officer

LIZ CODDINGTON
Chief Financial Officer

TAMMY ALBARRÁN
Chief Legal Officer

TOM CORTESE
Co-Founder, Chief Product Officer

JENNIFER COTTER
Chief Content Officer

DION CAMP SANDERS
Chief Emerging Business Officer

SHARI EATON
Chief People Officer

ANDREW RENDICH
Chief Supply Chain Officer

STOCKHOLDER ACCOUNT ASSISTANCE

Registered stockholder records are maintained by our transfer agent:
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
Website: www.astfinancial.com
Telephone: (800) 937-5449 or (718) 921-8124
Email: help@astfinancial.com

FORM 10-K

Our Form 10-K is incorporated herein and has been filed with the Securities and Exchange Commission. To request a copy of our Form 10-K, free of charge from the Company, please contact Investor Relations.

INVESTOR RELATIONS

Company information is available upon request without charge. Please contact the Investor Relations team by email at investor@onepeloton.com.

ANNUAL STOCKHOLDERS MEETING

Our annual meeting will be held virtually at www.virtualshareholdermeeting.com/PTON2022 on December 6, 2022 at 5:00 p.m. EST.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
5 Times Square
New York, New York 10036

STOCK EXCHANGE

The Nasdaq Stock Market LLC
Trading Symbol—PTON

Committee memberships
(1) Audit Committee, (2) Nominating, Governance and Corporate Responsibility Committee, (3) Compensation Committee

© Peloton 2012–2022, Peloton Interactive, Inc. All rights reserved.