



## Options Market Sees Peloton Riding Higher Through 2020

**Ticker/Price:** PTON (\$42.60)

### Analysis:

**Peloton (PTON)** with more than 1500 October \$45 calls bought on 5/28 that added to open interest in size trades with contracts going for around \$6.50 and has 5,500 October \$35 calls in open interest from a \$3M purchases on 5/1. PTON has also seen recently an opening sale of 1,580 January 2022 \$40 puts, a buyer of 1000 January 2022 \$60 calls for \$1.3M, and buyers accumulating 10,000 January 2022 \$65 calls. PTON shares are +50% YTD and seen a strong boost from the stay at home orders with gyms closing fueling demand for its in-home equipment and subscription service. Shares pulled back this week and nearing trend support off March lows as well as 34 day moving average support and a 38.2% retracement level at \$37.50 seen as likely support. PTON now has a market cap of \$11.9B and trades 7.5X EV/Sales with robust revenue growth of 110% in 2019 and estimates at 86% for 2020 as its fiscal year closes in June. Costs are high as they overload on marketing spend to build out a base of customers and also expand studios and talent and profitability is several years away. PTON is also pushing their standalone app which offers live and recorded workouts that don't require hardware. They range from yoga to strength training and running. It continues to see strong engagement and estimates only 5% household penetration. PTON reported results in early May that blew away even the highest of analyst estimates and even a surprise positive adjusted EBITDA quarter, 92% subscription growth, 93% retention and a strong rise in average monthly workouts. PTON now has over 2.6M members and disrupting the fitness industry with an entertaining, approachable, effective and convenient offering. The market opportunity is massive with \$600B annual spend in fitness/wellness with 183M global gym memberships, 90M in PTON markets and an industry resilient to recessions. PTON has 97 showrooms but DTC and word of mouth is driving a large amount of sales. Analysts have an average target of \$48 and short interest down 72% Q/Q to 5.5% of the float. Goldman Sachs started coverage in October at Buy noting PTON is creating a new market in connected fitness and is an early-stage platform with a large opportunity, growing competitive moats, and potential to expand across a variety of hardware devices, applications, partners and services. It sees \$5.7B revenues with a 49% CAGR over the next five years and expects profitability in FY23/FY24. It thinks Peloton can reach 20%+ adj. EBITDA margins in the long-term, driven by growing mix of subscription gross profit and leverage on other operating expenses as the company scales. OpCo raised its target to \$50 earlier this week citing web traffic data and also sees a lower priced bike yielding a 30% increase in the base-case TAM. SunTrust raised its target to \$60 seeing strong momentum shown by the 7-10 week delivery period with a recent surge in demand. Argus with a \$55 target sees consumers returning to brick-and-mortar gyms gradually and PTON disrupting the traditional fitness market. Hedge Fund ownership soared 78.3% in Q1 filings with notable buyers including Tiger Global, Coatue, Soros, Whale Rock, and others.

### Hawk Vision:



**Hawk's Perspective:** PTON has a cult-like following and much like Tesla the name is seen as something it is not, just gym equipment, its disrupting a large industry with massive potential, and I like the name a lot.

**Confidence Ranking:** \$\$