



Peloton Bulls Position for Upside Run

Ticker/Price: PTON (\$30.55)

Analysis:

Peloton (PTON) relative strength on Friday and continues to draw bullish flow in 2020 with buyers active for 1,950 ITM February 7th (W) \$25 calls, 1,500 March \$39 calls, 2,000 February \$28 calls and 2,500 February \$35/\$42 call spreads. PTON has also seen buyers in the March OTM \$50 calls accumulate over 20,000 while the March \$38 calls also with action. Shares ran strong to close 2019 from \$22 up to \$37.50 into the holidays and pulling back to base around the 50% retracement at \$28.50. On Friday, another reversal candle after two days of weakness and a third higher-low since late December with a move back above \$33 setting up for a re-test of the prior highs. The \$8.56B company trades 8.3X sales with mid-40% revenue growth. PTON is the most visible name in a growing niche of at-home health products whose value has been hotly debated since before it even started trading. 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. But, they're an impressive growth story with more than 1.5M customers and strong retention. Engagement continues to grow as well and PTON thinks they're only about 5% penetrated on the TAM of households. 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. Analysts have an average target for shares of \$34. Wedbush positive on 1-15 seeing their subscription business hitting 4M subs. They think PTON has the enduring force to survive a plethora of competitors in the space and given their first-mover advantage within a compelling subset of the market they can easily expand their user base. Argus starting at Buy in December noting that PTON is benefiting from consumer trends offering "personal privacy and interactive technology", while the shares trade at a "discount" valuation relative to the peer group. UBS has \$40 PT and they think consensus estimates will be conservative as their brand awareness grows. The firm also notes that early 2020 likely sees more conversions from their Home Trial initiative and momentum in International markets. Short interest is 10%. Notable hedge funds buying in Q3 included Eminence Capital, Adage Capital, Woodson, Anchorage Capital, Whale Rock, OZ Management, and Altimeter. PTON has insiders active buying on the IPO with two directors buying at \$29 on 9-30. One, Karen Boone, bought \$500k while Howard Draft bought \$2M.

Hawk Vision:



Hawk's Perspective: PTON is emerging as a strong growth story in a large and growing at-home workout market and impressive to see the smart funds investing in it despite the loud short bias.

Confidence Ranking: \$\$