PELOTON

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1. INTRODUCTION

My aim in this paper is to analyse Peloton's performance and investigate why it is a very interesting case study from a financial point of view, not having yet reached yet the Break - Even Point and registering negative profitability ratios, combined with a decrease in Net Income, with at the same time a huge growth in Revenues.

After a description of the industry and a thorough analysis of Peloton's profitability, financial policy, sustainability and operational efficiency, I will compare these same fields with two of its competitors, to get a better understanding of into the operational choices made by companies in the three-year period 2018-2020, especially how they approached 2020, the year of the pandemic. Finally, after describing the impact of Covid-19 on Peloton and its response, I will provide some personal recommendations about how Peloton could improve its performance in the future and explain why it is or is not worth buying Peloton's stock.

1.1 COMPANY'S PRESENTATION

Peloton (PTON) is an American technology company, founded in 2012 to disrupt the fitness equipment category. Peloton Interactive Inc. described itself as follows "A technology company, media company, software company, a product-design company, a retail company, an apparel company, and a social connection company that enables our community to support one another" (Owens, 2019).

It sells internet-connected bikes and treadmills, allowing customers to work-out without leaving their homes. The company developed their own hardware, software, and created their own content with the firm's world class instructors. The idea was to make boutique fitness classes convenient and affordable anywhere you are, anytime you want it. It took two years to get the first bike to the market, working with manufacturers making the best bikes and the best tablet computers in the world, and seven years to go public, with the goal of expanding the communities outside the existing boundaries. As leader in the home connected fitness and as COVID-19 outbroke globally, Peloton was favourably affected and used its unique positioning to enlarge its share of the niche market of home fitness products. Nevertheless, there is no assurance that they will continue to experience an increase in demand for their products and services nor that current subscribers will keep using the platform after the Pandemic ends.

1.2 BUSINESS MODEL

Peloton is a B2C vertically integrated business having the following core values: members, community, creativity and bias for action. From production to sale and delivery, Peloton took control of almost the whole production process, sales, and delivery cycle. Peloton is a fitness equipment industry leader because of its fusion of streaming training classes with fitness equipment.

Peloton is a fitness equipment industry leader because of its fusion of streaming training classes with fitness equipment. Its bike, treadmill, and smartphone app were the mainstays of its product line. While the cycle (beginning at $2,245) and treadmill (starting at $4,295) had distinctive features including handle placement and smaller size, Emily Bary, a market analyst and reporter, said the app and its classes provided Peloton a significant advantage over many of its competitors. The app featured a US$39/month membership that included limitless live and on-demand content, as well as over 10,000 classes and 14 daily live classes. The app charges US$39 a month for unlimited live and on-demand content, which included more than 10,000 lessons and 14 daily live classes ranging from cycling to yoga to strength training.

Target demographic is 35 to 65 years old. Facilities and employees are considered key resources of the firm, they are necessary to keep products on the cutting edge of technology. New and engaging content is being produced by Peloton’s 29 instructors, which have become internet famous personalities because of it. The primary stream of revenues comes from sales of their Connected Fitness Products i.e. bikes that were launched in 2014, followed by the treadmills that were introduced in 2018. Other sources of revenue are related subscriptions plans and merchandise. The cost of revenue is spread among manufacturing, logistics, warranty, warehousing, and importing costs. Other expenses are related to operations and content creation.

1.3 BUSINESS MODEL CANVA

KEY PARTNERS

- Main partners are high-end hotels across the US, Canada, UK and Puerto Rico. Through the Hotel Finder in the firm's website you can sell all the details.
- The vertical integration of the company is what really sets it apart. To create the best platform, the firm designs their own products, develops their own interactive software, and creates their own high production value fitness and wellness programming.

KEY ACTIVITIES

- Promotion of service
- Continuous development of platform and services
- Research & development
- Creating engaging-to-the-point-of-addictive original fitness and wellness content
- Interaction with a diverse cast of instructors

KEY RESOURCES

- Employees in US, UK, Canada, Taiwan, and Germany
- Physical assets (servers, computers, high speed Internet connection)
- Intellectual property
- Programming hubs in NYC for content development

VALUE PROPOSITION

MISSION:
Peloton uses technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime.

VALUES:
1. Put members first
2. Operate with a bias for action
3. Empower teams of smart creatives
4. Together we go far

Major emphasis to Social Belonging and Self Esteem in Maslow's hierarchy of needs.

CUSTOMER RELATIONSHIP

Social Media:
- Instagram: daily posts, 1.4m followers, 3 478 posts
- Facebook: daily posts, 783 521 followers, customer service trough chat
- LinkedIn: 2/3 posts per week; 171 229 followers

CHANNELS

- Direct: e-commerce and inside sales, showrooms, commercial
- Indirect: word of mouth

CUSTOMER SEGMENTS

- Peloton is a B2C type of business with a demographic target of individuals between 35 to 65 years old.
- These are people who have children, live in suburbs, have nice homes, they have the money and space but don't necessarily have time.
- They used a Tesla type of strategy: hit the high-end, high-profit portion of the market, then go broader

COST STRUCTURE

- Subscription plans: content creation ad costs to stream the content
- Apparel costs, related warehousing costs
- operating expenses: R&D, sales & marketing, general and administrative
- Connected Fitness Products: manufacturing costs, duties and other importing costs, shipping and handling costs, packaging, warranty replacement costs, fulfillment costs, warehousing costs, and certain allocated costs related to management, facilities, and personnel-related expenses associated with supply chain logistics

REVENUE STREAMS

- Three sources of revenue: Connected Fitness Product, subscription plans, apparel. Both bike and tread + subscription plans can be acquired at full price or split the payment with 0% APR for 39 months.

Two types of subscription plan are offered to customers:
- Peloton All-access membership comes out to $39/mo (tax excluded) and no prepayment is required. Bike or Treadmill required.
- Peloton Digital Membership offers different types of classes without the need for the Bike or Treadmill, which comes out to $12/mo.

1.4 SWOT ANALYSIS

Strengths

The following are some of Peloton's primary features and advantages:

- It has a strong brand in the United States, with millions of members and equipment sales.
- It has a one-of-a-kind business model that brings together technology, workout equipment, and media in one location.
- For customers in the United States, it offers reasonable prices and flexible financing alternatives.
- By listing multiple accounts for one subscription, customers can enjoy multi-device access for family members.
- Customers can choose to only pay for training classes when they sign up for a digital membership.
- It provides fitness trainees with high-quality information in the form of live and recorded sessions.
- The company has a unique subscription-based concept that is simple to use.

Weaknesses

Peloton's business strategy, like that of every other successful company, has significant flaws.

- It primarily services customers in the United States, with moderate expansion into other nations. For example, it does not yet cover the entire Canadian market.
- The company's principal fitness training items are cycles and treadmills, both of which come in two variations.
- When compared to some of its competitors, its accessory and apparel selection is restricted.
- Despite being a publicly traded firm with a well-known name, it has been losing money for numerous years.

Opportunities

Peloton has obvious room for expansion in a number of areas.

- It has the potential to expand its revolutionary equipment offering beyond motorcycles and treads.
- With a long history and a well-known brand, the company has the potential to expand globally.
- To lower net losses, the corporation might enhance its finances.
- Because it operates in such a competitive market, the company must invest in research and development to stay ahead of the competition.
- It relies on third-party services for live streaming and other critical features, which can put it at a competitive disadvantage.

Threats

Peloton, like any other competitive company, confronts business concerns that threaten its survival and growth.

- The corporation is primarily reliant on bike sales. A drop in sales or a new competitor can put the company's viability in jeopardy.
- Its market position can readily be challenged by a new entrant or an existing competitor.
- It is contingent on seasonal sales, which can be a risk concern.
- Many third-party licences and services, such as music material, suppliers, and logistics, are used by the company.
- Consistent net losses can put the company's finances at jeopardy.

2. INDUSTRY ANALYSIS

2.1 INDUSTRY OVERVIEW

In 2018, the global fitness industry including health clubs, studios, gyms, personal trainers and fitness equipment was estimated at $94 billion. The industry's revenue growth was estimated at 8.7%, with memberships and fitness options expected to keep pace with growing disposable income trends. The fitness industry has grown largely mostly thanks to the sense of community that consumers have with it, which resulted as one of the biggest contributors for this positive trend. For example, according to Forbes, this was their main reason when looking at various industries.

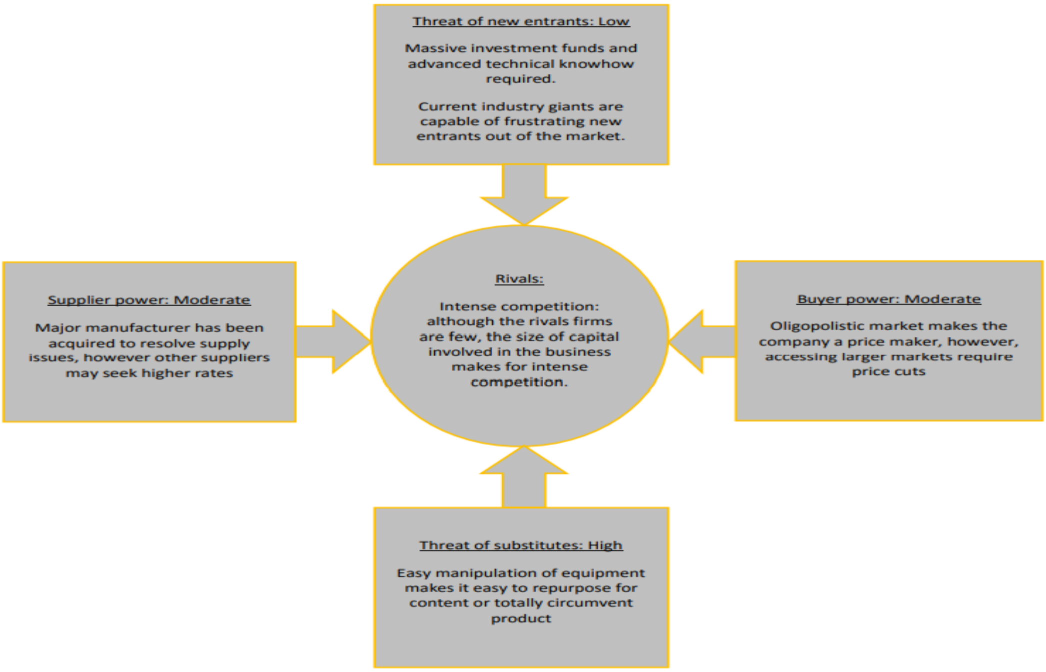
Consumers were also responsible for the quick advancement of technical advancements, particularly in the areas of coaching and motivation. Artificial intelligence (AI) was utilized to coach customers as an example. Sensors were employed to track the movement of the body and provide comprehensive directions on how to move. There was a "seasonal trend" working out at home that was particularly appealing during the winter months, according to Peloton and its training equipment designed for home use.

Peloton is a fitness company that operated in a variety of sectors, as previously stated. One of these was the category of personal trainers and classes, which encompassed both one-on-one and group fitness training. From 2018 to 2023, the industry's $9.1 billion in annual earnings were predicted to expand at a 1% yearly pace. The expected increase in leisure time available to consumers, as well as the expected increase in disposable income, were two important drivers to this forecast gain. Furthermore, as the motivational and social aspects of courses and personal trainers grew in popularity, the number of gyms and self-employed personal trainers offering these services grew.

Peloton also competed hard in the exercise equipment area. Overall, the $2 billion exercise equipment manufacturing industry had matured, and some speculated that it was in decline. Annual growth was 0.6 percent from 2014 to 2019, and was only predicted to increase to 0.9 percent from 2019 to 2024. However, the two most important income sources – sports participation and consumer spending – were predicted to rise in the coming years (pre-pandemic).

The COVID-19 pandemic, consumer health consciousness, outsourcing of manufacturing, industry globalization, and the integration of the internet with exercise equipment were the five primary themes projected to have an impact on the industry's future.

2.2 PORTER'S 5 FORCES



Source: [(PDF) A STRATEGIC ANALYSIS OF PELOTON 2 (researchgate.net)]

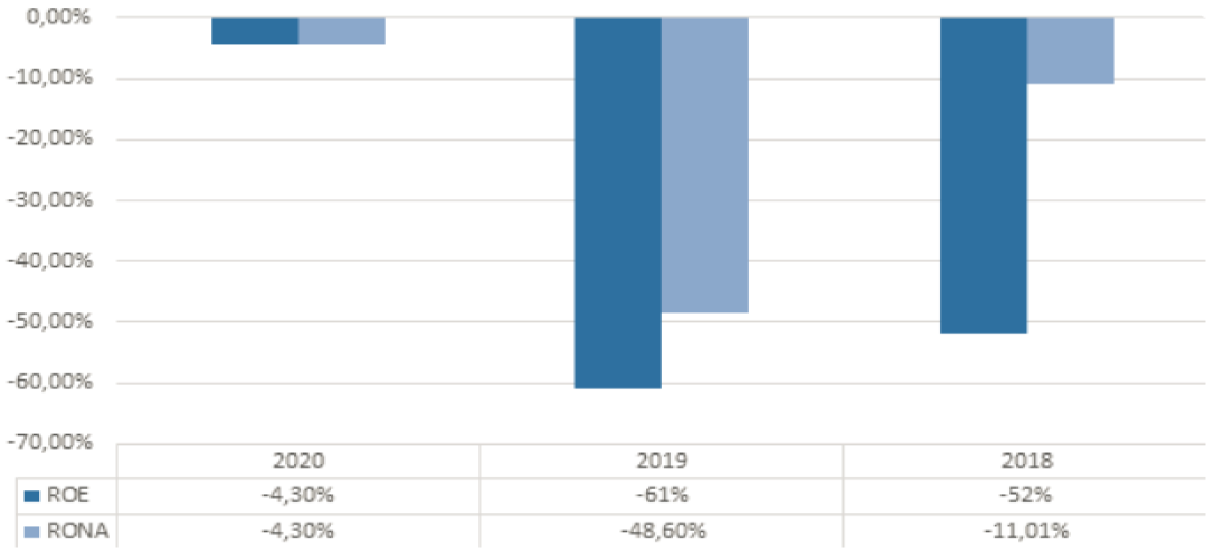
3. PROFITABILITY ANALYSIS

3.1 REASONS FOR NEGATIVE ROE

Despite the unprecedented increased in revenues over the last two years (+99,55% in 2020, +110.34% in 2019) and the increasing trend of gross profit (+118,11% in 2020, +102,32% in 2019), Peloton has still failed to become profitable over the last two years. As a result, it currently has a negative return on equity of -4.3% compared to the industry average of 14.7%. ROE has been negative over the last three years, but a significant improvement can be noted from 2019 (-61,1%) and 2018 (- 52.8%). This change can be attributed to an increase in net income of 64,32% from 2019 to 2020, thanks to a reduction in the cost of revenues. The cost of revenues grew from 2018 to 2019 up to 116,54%, while from 2019 to 2020 the growth has been only 86,13%. This intuitively lets me assume that Peloton has the potential to exploit the benefits of economies of scale. Furthermore, as ROE considers extraordinary items and expenses, in 2019 Peloton had extraordinary expenses of around 44 million, which seem to have stopped in 2020, as the Income statement indicates 0. Thus, this increase in net income can also be due to this lack of extraordinary expenses.

3.2 EFFICIENCY AND EFFECTIVENESS OF ASSET UTILIZATION

RONA showcased an improvement from –61.1% in 2019 to – 4,3% in 2020. This ratio tells how effectively and efficiently the company is using its assets to generate earnings. Higher RONA means that the company is using its assets and working capital adequately. Analysing its drivers, it can be noted that its improvement is driven by an increase in ROS from –22% in 2019 to –4% in 2020. Furthermore, they worked on their ROS ratio by focusing on the quantity of goods/services sold. In fact, they further boosted their demand during covid by decreasing the subscription price and consequently increasing the demand. Besides that, they slightly decreased their COGS that used to represent around 116,54% of their revenue in 2019 to 86,13% in 2020. This impacted the return on sales, not as much as the increase in sales which went from 915 million in 2019 up to 1,8 billion in 2020. On the contrary, net assets turnover has not impacted RONA positively as it decreased from 2.2 in 2019 to 1.08 in 2020. This means that Peloton is not fully utilizing its assets and in fact the improvement in inventory, receivable and payable turnover is lower than their increase in net assets. All the turnover ratios are slightly improving, however not nearly as much as the revenues. Particularly, the low increase in inventory turnover can be attributed to the logistic issues the company experienced in 2020 due to corona-virus, during which the delay in delivery was as long as four weeks.
In the figure below is shown a comparison between Peloton's ROE and RONA over the years, to have a clear view of the Profitability Analysis.



3.3 ASSET STRUCTURE AND FINANCIAL NEED

Over the last three years, the company has been increasing remarkably both its current and noncurrent assets. From 2018 to 2019 total assets jumped from 271,2 to 864,8 million and finally to 2981,9 in 2020. Thus, a growth of respectively 218,81% and 244,81% can be observed. Although the growth affected all the subcategories of assets, the main driver is cash which recorded a growth of 7,64% and 538% in 2019 and 2020 respectively. The other components of the current assets doubled from year to year too, but their overall impact remains marginal. Among the non-current ones, the increase has been led by fixed assets, such as PP&E, which went up by 320,03% in 2019. Even though Peloton, has been taking over several different firms and making sizeable investments in tangible and nontangible assets, Peloton's structure remains quite flexible and, most of all liquid, because of the amount of cash available.

3.4 FINANCIAL POLICY ANALYSIS

Since its foundation in 2012, Peloton has been using equity as its main means for financing its operations and expansion. Firstly, they raised cash via venture capitalists and then through its IPO in 2019. Furthermore, the recourse to debt has been minimal. No debt has been taken nor reimbursed since 2018.

Peloton's currently pursuing an aggressive strategy of expansion at the expense of profitability. This strategy is consistent with their choice of financial policy. The payment of interest expenses would have further degraded the company's economic result. Moreover, its ability to generate cash would have been significantly damaged if capital reimbursement and interest payments are also considered. Due to the absence of both long and short-term financial debt, the company is in a position of zero financial risk. All the assets are financed by equity investors and therefore there are no external claims on them. Furthermore, short term non-financial liabilities are fully covered by current assets thus the company is completely liquid, the risk of cash shortage seems to be highly unlikely. A more concrete problem appears to be how to properly use the excess cash.

Both quick margin and current ratio have been growing consistently and they are quite high, another proof of short-term financial sustainability. Moreover, from an alternative point of view, if working capital is computed and interpreted as a source of financial need, it should be noted that Peloton has been able to generate sizeable revenues by employing twelve times less working capital in 2020 than the previous year (considering inventory, receivables, payables). The performance in 2019 is similar although slightly better as the turnover in that case is around 15. Operating working capital depends on three items: receivables, inventory and payables. The worsening in turnover has mainly been caused by a sudden increase in inventory in 2019 and partially compensated by a threefold increase in accounts payables. According to these changes, the cash conversion cycles of the company considerably stretched: from 4 days in 2018 to 20 in 2019 and finally 33 in 2020. Nevertheless, company's ability to generate cash has not been hurt. In fact, thanks to Peloton's business model, the company manages to get paid with no delay for its services and products. On the other hand, Peloton pays its suppliers with some degree of extension: it is not that significant, but it allows Peloton to rely on this days outstanding difference as very small source of liquidity. Peloton's vertical integration upwards in the supply chain will likely increase internal costs, thus slightly mitigating the positive impact of their credit and trade debt policies in the future.

3.5 CASH FLOWS

As previously mentioned, Peloton is able to generate a lot of cash. In the three years considered, a huge increase in cash can be observed year by year since 2018. The company raised capital by issuing stocks twice: for around 1,195 billion in 2020 and for around 550 million in 2019. In both cases, the amount is way above their actual investing need and thus they achieved important cash surpluses. Additionally, they were able to generate cash through their operating activities, thereby increasing their ending year liquidity even more (376 million, almost half of the total cash absorbed by investing activities). It should be noted that those 740 million of cash used for investing activities were primarily related to purchases of marketable securities of around 1200 million while only 156,5 million were used for CAPEX. The cash inflows that determined the final result were generated by liquidation of securities and subsequent proceeds from maturity. This trend started in 2019, when the company began to use the excess liquidity to purchase securities. Moreover, the acquisition of PP&E accounted for 81,7 million against 246,4 million of securities.

Peloton's investing need is becoming increasingly driven by the short-term investments. It seems like they are trying to re-invest the additional capital they raise from investors in order to make a profit. It is likely that, in the future, their ability to raise huge capital from the stock market will diminish, either because they will start to maximise profits and start to pay dividends or due to a more cautious approach of investors towards Peloton itself.

The after-pandemic period will be an important watershed for the company. A drastic change of the company's business environment is a strong and concrete possibility. This is to say that, the sources of financing will inevitably change. The acquisition of marketable securities (either available-for-sale or held to-maturity) might help Peloton to serve, at least partly, as its own bank thus allowing itself to rely less on financial debt and shareholders to sustain operations and growth.

4. COMPETITORS' ANALYSIS

The competitors I have chosen for Peloton (PTON) are Nautilus Inc (NLS) and Technogym (TGYM).

The main reason why I chose Nautilus Inc. and Technogym as a competitor to Peloton is because of the close similarity in their business model.

A.1 Technogym (TGYM) Presentation

Technogym is an Italian gym and home fitness equipment manufacturer situated in Cesena (Italy). Nerio Alessandri launched the company in 1983. It was a global leader in its field and has a strong brand recognition. Cutting-edge inventions and products are the result of hard work in both the R&D and manufacturing fields. Also, in the world of design, elegant and modern shapes that are both appealing to look at and functional are always available.

Technogym caters to business-to-business clients such as sports clubs, hotels, and cruise lines, and this accounts for almost 90% of the company's sales.

With its Technogym Live service, gyms and hotels, for example, can utilize the service to stream their own live or recorded classes, which can then be purchased by people all over the world.

TECHNOGYM SWOT ANALYSIS

Source: [(PDF) A Worldwide Overview of the Wellness Economy Market: The Technogym and Peloton Case Studies (researchgate.net)]

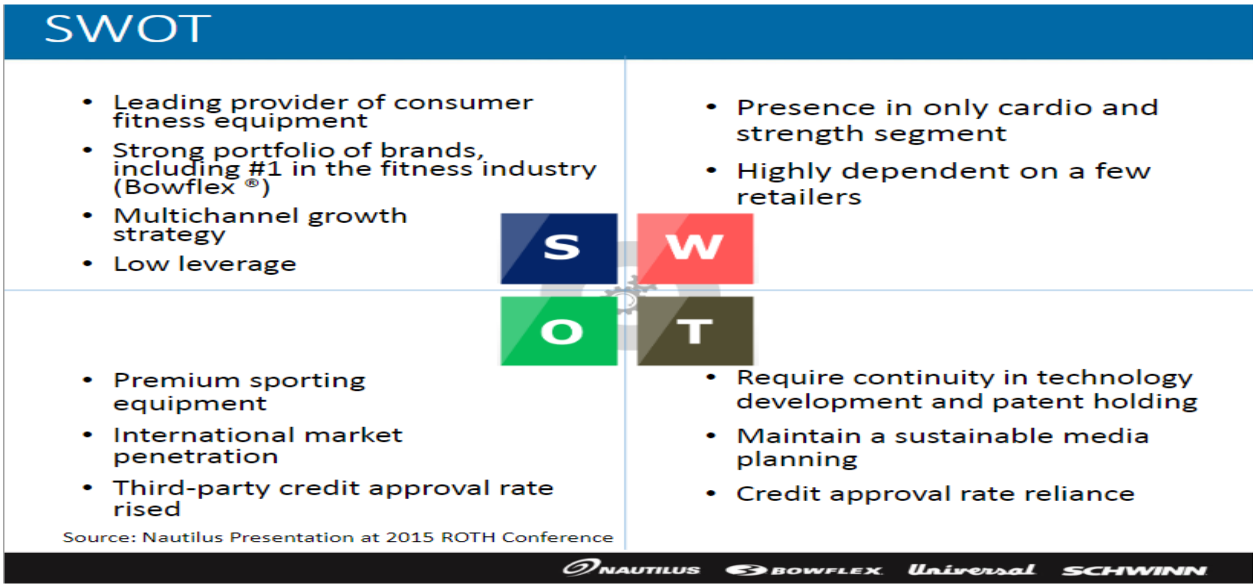
B.1 Nautilus Inc. (NLS) Presentation

Nautilus Inc. is a provider of home fitness solutions. Founded in 1986 and headquartered in Vancouver, Washington, the company's principal activities include the design, development, approval and marketing of cardio and strength training products, as well as related accessories and a digital platform for use by consumers in the United States, Canada, Europe and Asia.

The company operates in two segments: direct and retail. The direct business model sells products to customers worldwide through a combination of television commercials/infomercials, catalogues, the Internet (company's website), a contact centre and one-to-one sales, as well as e-mails and direct mail campaign.

The company specifically markets and sells a range of consumer fitness equipment under the Bowflex, Schwinn and Nautilus brands. It offers specialized cardio products, treadmills, ellipticals, bike products, home gyms, dumbbells, barbells and kettlebells primarily under the Nautilus, Bowflex, Octane Fitness, Schwinn and Universal brands, as well as the digital fitness platform under the JRNY brand.

NAUTILUS SWOT ANALYSIS



Source : [NAUTILUS Inc. (studylib.net)]

A.2 TECHNOGYM VS PELOTON: Main Financial Info

First of all, it is essential to mention the difference in Revenues between Peloton and Technogym: in 2018 Technogym's Revenues were $634 million and Peloton's ones were $435 million. It should be noted though, that where Technogym's Revenues increased by only 5% in 2019, Peloton's did so by 110,34%: while in 2018 Technogym's Revenues were almost double those of Peloton, in 2019 Peloton records almost $250 million more than Technogym.

However, the biggest difference between the two companies comes in 2020, the year of the pandemic, when Peloton exploded in terms of popularity and registered unprecedented subscriptions and sales, with a + 99,55% in Revenues compared to the previous year, while Technogym saw its Revenues decreased by almost 24% compared to 2019: in 2020, Peloton recorded more than 3 times the Revenues of Technogym.

The same applies to the change in Net Assets: while from 2018 to 2019 and from 2019 to 2020 Technogym's Net Assets increased by 24% and 12% respectively, Peloton's Net Assets recorded a frightening Net Assets Growth of 343.77% from 2018 to 2019 and 316.89% from 2019 to 2020.

In fact, analysing the main components of Net Assets, we can easily see the huge difference in Current Assets between Peloton and Technogym, which also refers to a significant difference in the Asset Structure of the two companies: while for Technogym the change over the three years in Current Assets was around 0% between 2018 and 2019 and +13% from 2019 to 2020, for Peloton the challenge was quite different. The large home fitness company recorded a + 185.42% in Current Assets from 2018 to 2019 (from $203.8 million to $581.7 million), which then became from 2019 to 2020 an increase of 271.09%, from $581.7 million in 2019 to $2.158 billion in 2020. The biggest driver of this massive increase in assets is in the Peloton Cash or Equivalent component, which increased from 2019 to 2020 by 538.8% (from $162.1 million to $1.035 billion), which compared to Technogym's Cash or Equivalent is more than 5 times as much.

B.2 NAUTILUS INC. VS PELOTON: Main Financial Info

Also in this situation, the difference in terms of Revenues and annual Revenue growth between Peloton and Nautilus Inc is remarkable: in fact, not only Nautilus' Revenues in 2019 and 2020 are 3 times lower than Peloton's, but in terms of annual growth, the company even reported a decline in Sales from 2017 to 2018 (-2.32%) and from 2018 to 2019 (-22.05%), attributing this deterioration primarily to lower media spending, reduced gross margins, and lower sales and other factors, according to the company’s Annual Reports.

In 2019, Nautilus' leaders were open about the company's difficulties. During periods when the company was refreshing its brand, it strategically lowered advertising investment, resulting in lower direct industry sales. Then, in July 2019, Bruce Cazenave was succeeded as CEO by Jim Barr. The company refinanced itself with a $70 million line of credit in February 2020.

It is worth mentioning, however, the marked improvement in Sales achieved by the company, which generated +78.66% in Sales from 2019 to 2020.

Moreover, Nautilus Inc. recorded the same trend in Revenues also for what concern the Net Assets, which decreased from 2017 to 2018 by -69%, as well as from 2018 to 2019 by -50%, but with a sharp rebound in 2020 equal to +69%.

Analysing in depth what are the main reasons for this sharp increase in Net Assets, we can in fact notice in the table "Main Annual Assets Variations" of Nautilus Inc the huge growth occurred from 2019 to 2020 (I.e., from a -20% to + 101%), due in turn to the relatively huge amount of Cash or Equivalent recorded in 2020, from -71% in 2019 to a +411% in 2020.

A.3 TGYM vs PTON: Asset Management Ratios

The difference in Account Receivables Turnover is huge between Peloton and Technogym, with the former recording a turnover, in some years more, 10 times higher than that of

Technogym in the three-year period 2018-2020. This means that Peloton, in 2 out of 3 years, collected 10 times the credits that Nautilus Inc collected in that period.

The same is true for Payable turnover, where Peloton's turnover over the three-year period is always 4 times higher than Technogym's, again demonstrating greater efficiency than Technogym in repaying its creditors within a given timeframe, although Technogym also recorded positive payables Turnover.

Finally, regarding Inventory Turnover, and so how many times a company has replaced its sold inventory in a time period range, the situation is very similar between the two companies and the ratios do not show too much difference, especially in 2019 and 2020.

On the other hand, as far as the operational efficiency goes, in terms of days, the situation is decidedly in Technogym's favour.

Although the Days sales outstanding (DSO) trend is indicates, as the ratio is decreasing year by year (the lower, the better), it was still far too high for Technogym, amounting in 2020, 2019 and 2018 to 66,78 and 95 days respectively, while the same ratio for Peloton in the same period counted for 5,6 and 8 days respectively. The reason of such a high DSO for Technogym is likely due to an aggressive consumer retention strategy implemented by the company, which is allowing its customers to delay the payments for Technogym's products, but conversely having less liquidity and cash to support costs or other investments.

The same situation applies to the Days Inventory Outstanding (DIO), which measures how quickly the company transforms inventory into goods sold, in terms of days: although with less difference than the DSO, even in this case Technogym shows greater operational inefficiency and slowness than Peloton in terms of speed of sales of its products in the years 2020-2019-2018, recording a ratio of 102, 73 and 90 days respectively compared to 70, 56 and 38 of Peloton.

Totally different is the situation for what concerns the Days Payable Outstanding (DPO), which indicates calculates how quickly invoices and obligations are paid to trade creditors (suppliers, vendors). On one hand, Peloton’s DPO in 2020,2019 and 2018 is decidedly low compared to Technogym's ratio at 42,41 and 42 days respectively, while Technogym recorded a ratio 4 times higher each year at 178,152 and 176 days respectively (and we can deduct that this offsets Technogym's high DSOs).

In contrast to the DIO or DSO, it is desirable to have a high DPO, to use the cash available from late payments for short term investments, increasing the free cash flow: therefore, in the case of Technogym which showed a high DPO, we can conclude that the company enjoyed a very good and solid relationship with suppliers, which has allowed it to pay them back many days after the service has been provided to Technogym, which is very advantageous as it can take advantage of the higher interim liquidity for short term investments of any kind.

At this point, the analysis in the field of operational efficiency leads us to draw the necessary conclusions by analysing the CCC (Cash Conversion Cycle) of the two companies. The CC (cash cycle) = DSO + DIO -DPO and it is the length of time (expressed in days) when a company makes payments and when it receives payments (the lower the better), or, in other words, how long it takes a corporation to turn inventory capital into cash.

In fact, the Italian company presented, net of the 3 days-ratios (DSO, DIO and DPO), an improving negative Cash Conversion Cycle over the years, which started as +9 days in 2018, it reached -1 day in 2019 and finally it decreased even more to –9 days in 2020, showing a very good improvement in terms of operations efficiency), while Peloton's Cash Conversion Cycle from 2018 to 2020 tends to increase and double every year, starting from 4 days in 2018, to 21 days in 2019 and finally reaching 33 days in 2020.

So, since a negative cash conversion cycle means that paying back the suppliers/bills takes longer than selling inventory and collecting the money, implying that the suppliers are financing a company's operations, we can conclude that Technogym has been enjoying a virtuous cycle in which the company doesn't require any operating capital to expand.

On the other hand, a positive cash conversion cycle suggests that Peloton requires operational cash to finance your firm and will need to keep injecting money as it expands.

B.3 NLS vs PTON: Asset Management Ratios

As far as the Asset Management field is concerned, in the same way as Technogym, Nautilus Inc.'s receivables turnover in the three-year period is 10 times lower than that of Peloton, indicating, from Peloton point of view, a very rapid conversion of the company's receivables into cash in that period, as is Nautilus Inc's Payables Turnover, again for three years 3 times lower than that of Peloton.

However, unlike Technogym, the situation turns in Nautilus Inc's favour regarding Inventory Turnover in 2020, which is almost double that of Peloton (6.33 vs. 3.96 respectively), indicating the company's high speed in selling its inventory due to the high demand for its products: this increase is also reflected in the increase in Revenues in 2020.

As far as the operational efficiency branch is concerned, also in this case the situation turns decisively in favour of Nautilus Inc.

According to the DSO of Nautilus Inc, as in the comparison with Technogym, Peloton recorded a very good and low ratio in the three-year period 2018-2020, which can also be deduced from the high Account Receivable turnover always performed in the period, while the DSO of Nautilus Inc is in the range of 47 to 65 days in the three years.

In the case of DIO, on the other hand, the ability to sell its inventory quickly is better for Nautilus Inc than for Peloton only in 2020, consequent to a remarkable improvement in its efficiency from 2018 to 2020 where days decreased by exactly 100% from 2018 to 2020 (from 116 to 58).

Finally, just as for Technogym, the situation is totally different with regard to DPO, as Nautilus Inc took a good 129 days in 2020 to pay its suppliers and other trade creditors (although this value has worsened since 2018, increasing year on year), while Peloton recorded a much lower DPO over the three-year period.

At this point, when comparing the CCCs of the two companies, Nautilus Inc demonstrated greater operational efficiency than Peloton, achieving a CCC of -4 days in 2018, 9 in 2019 and -8 in 2020, and leading almost to the same conclusion for Technogym, Nautilus too, by significantly improving its operational efficiency over the years, is enjoying a virtuous circle in which the company does not need more operating capital to grow and expand

A.4 TGYM vs PTON: Financial Policy Ratios (Asset Coverage Analysis)

Regarding the financial policy of the two firms, and thus whether the firms are mainly financed through debt or equity, it is useful to start the analysis by referring to some financial policy instruments, such as Gearing (Net Assets/Equity, or Total Assets/Equity) or Leverage (Debt/Equity). In fact, when Gearing= 1, there is no financial debt (adverse financial risk situation), but if gearing increases over time, the risk also increases.

On the other hand, if Leverage=0, the information provided is the same as for Gearing=1, and if Leverage increases, the financial risk also increases.

In fact, as we can see in the Ratio Analysis of Peloton and Technogym, both companies present a Gearing of 1 in the years 2018-2019-2020, indicating an apparent total propensity for equity rather than debt financing.

On the other hand, the situation regarding leverage is different: while Peloton maintains a leverage ratio of 0 for the three-year period, as it does not have debts with banks or long-term debt, thus preferring equity rather than debt financing, Technogym's leverage ratio fluctuates in the 2018-2020 range, falling from 47% to 31% from 2018 to 2019, but reaching 38% in 2020, indicating a degree of financial risk over this period. When a corporation, a property, or an investment is described as "highly leveraged," it means it has been financed by more debt than equity. Both investors and businesses employ the idea of leverage, for example to predict the amount of money they can make on a given investment.

Then, from the point of view of sustainability in the short term, both companies present positive Current Ratio and Quick Ratio trends over the three-year period, as in both companies these ratios are growing over time.

The current and quick ratio are both solvency signals to indicate a company's ability to instantly cover its short-term obligations with current assets, but the quick ratio is considered more accurate and informative because it expresses the same ability as the current ratio but without the need to sell inventory or seek other financing. Peloton's quick ratio has been since 2018 (equal to 1.05) always greater than 1 and has seen a huge growth in the three-year period, reaching in 2020 a value almost equal to 2.5, while Technogym has reached a balance in covering its short term obligations only in 2020, reaching a value of 1.23.

In fact, when a company's quick ratio is less than one, it means it doesn't have enough liquid assets to cover its current liabilities and the financial situation of a company, like was for Technogym in 2018 and 2019, should be treated with caution.

The same considerations apply to the current ratio, which speculatively follows the same trends for the two companies over the three-year period

Finally, as far as long-term sustainability is concerned, the fixed assets to equity ratio (NFCR) compares the contributions of stockholders and loan sources to the company's fixed assets. Technogym's NFCR, which in the three-year period has always been below 1, is perfectly reflected in the company's capital structure (portion of Total liabilities and Total Shareholder's Equity on Total Liabilities + Shareholder's Equity): Technogym has always relied on Liabilities more than Equity (65% in 2018, 59% in 2019 and 58% in 2020, which in part is the same conclusion deduced by analysing the company's Leverage ratio), totally in contrast with respect to Peloton 's financing situation, which is, in the two years 2019-2020, that has always financed itself with Equity, significantly reducing the level of exposure to the risk associated with debt financing.

B.4 NLS vs PTON: Financial Policy Ratios (Asset Coverage Analysis)

Regarding the financial policy of the two firms, looking at the Gearing, the situation for Nautilus Inc is similar to that one of Technogym, since the ratio is identical to that of Peloton, as both companies showed a Gearing = 1 in all three years.

However, with respect to the comparison between Peloton and Technogym, in the case of Nautilus Inc the leverage ratio is positive, but the fluctuation presented decreases more in the three years compared to Technogym, presenting a leverage ratio, from 2018 to 2020, equal to 18%, 41% and 23% respectively, and therefore the financial risk assumed by the company is lower.

Then, from the point of view of sustainability in the short term, similarly to the comparison between Technogym and Peloton, also between Nautilus Inc and Peloton, the trends of both Current Ratio and Quick Ratio are positive and tend to improve year by year over the three-year period, although, in relative terms, the improvement in ratios by Peloton is greater than that of Nautilus Inc.

In fact, Nautilus Inc's quick ratio, starting from 1.07 in 2018, after a decrease in 2019 to 0.84, reached as much as 1.61 in 2020, and the same fluctuation was presented by its current ratio, suggesting that the company had more short-term assets than current liabilities and the company's liquidity improved by consequence (if necessary, more assets can be swiftly transformed into cash).

Finally, as far as long-term sustainability is concerned, Nautilus Inc's NFCR, contrary to Technogym's, has undergone a great improvement over the years: in fact, despite a decrease from 2018 to 2019 (from 1.29 to 0.99 respectively), the biggest net improvement was recorded from 2019 to 2020, where from a value of 0.99 in 2019 Nautilus Inc NFCR reaches as much as 2.62 in 2020, even surpassing the same ratio of Peloton (equal to 2. 04 in 2020), simply because Technogym's Fixed Assets have always been much greater than equity and for this reason the company has had to purchase debt to finance fixed assets (in fact the proportion of Technogym's total Liabilities to total Liabilities + Equity has always been greater than equity to total Liabilities + Equity), while in the case of Nautilus Inc, despite the proportion of equity on total Equity + Liabilities, like Technogym, has always been less than 50% (18% in 2018, 41% in 2019 and 48% in 2020), it has always perfectly covered fixed assets, demonstrating the company's capital solidity on a long term perspective.

A.5 TGYM vs PTON: Profitability Analysis

As previously discussed in the Profitability Analysis about Peloton (Paragraph 3 and following), in terms of profitability, its situation over the three-year period was somewhat ambiguous, recording huge increases in Revenues but incurring equally in huge operating costs (before and during the pandemic), leading to negative Operating Income and Net Income. As a result, Peloton's main profitability ratios over the three-year period 2018-2020, ROI ROE and ROS, are all negative, hinting that despite huge performance and subscription revenues, combined in general with the jump in popularity gained during the lockdown, supply chain disruption and closures of many companies crucial to Peloton led the company to post losses due to lack of management of the huge demand, especially during the lockdown, despite profitability ratios improving tremendously: ROI went from -17.51% in 2018 to -2.71% in 2020, just as ROS went from -22.11% in 2019 to -4.43% in 2021.

On the contrary, the profitability performance of Technogym has been shown positive ratios over the time period considered, albeit all following a downward trend from 2017 to 2020, even more so in 2020 as the pandemic forced gyms and hotels to close, drastically reducing Technogym's main revenue streams.

So, despite Technogym's ROE results, the company's declining return on equity (ROE), from 45% in 2018 to 13% in 2020, indicates that it was becoming less efficient at generating profits and increasing shareholder value.

Similarly, the trend in ROI over the three-year period, from 18% in 2018 to 8% in 2020, indicates the presence of unanticipated costs and unprofitable financing decisions that were reflected in the decrease in the ratio over the three-year period.

Finally, the declining ROS of Technogym (i.e., from 17% in 2018 to 11% in 2020), on the other hand, could indicate approaching financial difficulties.

With regard to the operating margin, although the trend of the ratio for Technogym is in any case decreasing, from 17% in 2018 to 11% in 2020, is significantly better than the same ratio for Peloton, which recorded, as mentioned above, very high operating costs over the three-year period and consequently a negative Operating Income, and recorded an Operating profit margin that was always negative, albeit increasing, starting from -23.36% in 2018 to -4.43% in 2020. So, according to operating profit margin's definition, which measures from the standpoint of efficiency and profitability, measures how much profit a company makes on each dollar of sales after variable production expenses are deducted, while Technogym's net profits on each sale over the three-year period are decreasing but are still positive, as far as Peloton is concerned net profits remain strongly negative over the period.

B.5 NLS vs PTON: Profitability Analysis

Surprisingly, however, Nautilus Inc's situation in terms of profitability is totally opposite to Technogym's one. In fact, unlike the trend, albeit negative, but growing in the ratios of Peloton, all the three main profitability ratios of Nautilus Inc. (ROI, ROS and ROE) showed the same trend with a strongly increasing trend overall, despite the fact that there was a huge drop in profitability recorded in 2019.

Nautilus Inc's ROE starts from 8% in 2018, decreases drastically to -102% in 2019, but rebounded strongly to a +39% in 2020, meaning that the company is generating more profits while using less capital, successfully managing its equity; similarly, ROI starting from 6% in 2018 and decreasing to -13% in 2019, reached a +31% in 2020, indicating that the benefits of the investment have exceeded their costs; finally, ROS starting from 5% and decreasing to -9% in 2019, reached a +18% in 2020, indicating a strong improvement in efficiency.

Consequently, Nautilus Inc.'s Operating Profit Margin also followed exactly the same trend as the ROS, being one of its main drivers.

5. THE IMPACT OF COVID-19 ON PELOTON

Stay-at-home orders were implemented in response to the COVID-19 epidemic in spring 2020, causing behavioural and economic disruptions around the world. Training was marketed as an excellent form of self-care while confined at this time, resulting in an increase in the number of people exercising at home. As a result of the lockdown, this was a profitable source of revenue for in-home fitness companies as a whole, and especially for the smart equipment section of the global fitness industry, as it allowed consumers to interact with others while getting high-quality workouts from the comfort of their own homes.

Besides that, the ongoing covid-19 pandemic continues to present a challenging business landscape for Peloton. The overall effects are still ambiguous, but it is undeniable that Peloton has been enjoying an increasing popularity of at-home workouts.

• In the fourth quarter of 2020, 12-month retention rate was 92%.

• Peloton expanded its community by increasing the free trial period from 30 to 90 days. This induced a triple-digit increases in revenues, fitness subscriptions and workouts.

• Peloton membership base grew to 3.1 million.

• In 2020, subscription revenue was 363,7 million, a 100,1% increase year-over-year. Particularly, the connected fitness subscription workouts grew 333% to more than 76.8 million. Member engagement grew to an average 24.7 monthly workouts per connected fitness subscription, compared to 12.0 for the same period the previous year.

• Its stock price increased by 36% as shown in the graph below, since the end of February, online searches for "Peloton" have nearly tripled, and quarterly sales have grown by about 61 percent to $420.2 million.

Source: [Increase in Peloton's stock price as a result of Covid-19 lockdown... | Download Scientific Diagram (researchgate.net)]

Nevertheless, several risks have emerged in Peloton's business model and its sustainability. Firstly, the market is experiencing a digital transformation, so there is the risk of falling behind in technological innovations which is the base of their competitive advantage. Furthermore, in 2020, Peloton was not ready to accommodate the high demand which resulted in prolonged delivery timelines. This led many customers to choose other competitors at the expense of Peloton. Additional critical aspect of their business model is the overall accessibility of the platform and their products in terms of prices. Peloton's profitability is undermined by the assumption that the market will continue to grow and that they will keep their dominant position. Peloton's dependency towards their key suppliers has also been exposed. Furthermore, inventory shortages are a concrete risk and their consequences on customer satisfaction are remarkable.

6. PELOTON'S RESPONSE

Regarding the logistics and distribution issues faced during the pandemic, the company has decided to invest $100 million in speed shipping, including using airfreight, expedited ocean freight, moving containers to less-congested ports, thus reducing the delivery timelines and costumer's unsatisfaction.

• Peloton is handling its dependency on suppliers trough an acquisition strategy. So far, it acquired two of its main manufacturers: Precor and Tonic, which have allowed the company to strengthen its bargaining power.

• As a response to the on-going risk of losing the technological dominance, on which its competitive advantage is based on, Peloton has acquired the Gossamer Engineering in 2019, a Silicon Valley engineering firm which used to design devices for Google and Facebook. Moreover, in 2020 it acquired Atlas Wearables, Aiqudo and Otari to expand Peloton's technological potential.

7. RECOMMENDATIONS

With respect to everything said so far, I would definitely recommend buying PTON stock. First of all, despite the negative profitability ratios, the revenues have increased enormously and the financial health of the company has improved significantly and was excellent in 2020. Moreover, considering the boom of subscriptions recorded during the pandemic, Peloton has consolidated its reputation as a World Leader in the home-fitness industry, as well as since the pandemic surely the new habit of doing work-outs from home and avoiding the classic gyms has been consolidated. Last but not least, at the end of 2021, in view of a new variant of COVID-19 and hypothetical new lockdowns in the states of the world, Peloton could once again ride the wave and further improve its performance, resulting totally positive also in terms of profitability.

There are two possibilities which may endanger Peloton's dominant position in the future. First, the uncertainty about growth rate of the market. Secondly, the uncertainty whether the general interest in connected fitness and wellness home products will keep being a matter of interest in the post-pandemic period or not. Recommendations to face a potential decrease in demand:

• Since the current products are exclusive and expensive (bikes currently retail at $1,895 and $2,245 for the Bike and Bike+ respectively, while the Tread and Tread+ sell at $2,495 and $4,295 respectively), an alternative to expand the market is to work on the development of an additional and more affordable line of products. This could be implemented thanks to higher capacity utilization and subsequent economies of scale. There is a high risk of customer loss due to the reopening of gyms in post pandemic world thus reaching a larger number of customers is not only favourable but necessary.

• There is a credible risk of grey market and Peloton's used products being sold by the customers who joined their community only temporary as there was no better substitute for fitness during the pandemic. The company could avoid the downfalls in the demand by overtaking the control of the grey market and reselling the used products on its own. It could indeed develop a platform to resell used equipment. This would give a sense of security and reliability to the customers trying to enter Peloton community for a lower price thus enforcing their brand image.

• Another alternative to the above mentioned problem of resold second-hand items would be to provide a voucher based to use as a discount for future purchases. This strategy could further expand its target market to price sensitive consumers, allow its existing ones to exit without damaging their brand image and consequently the demand, and also induce revenues coming from intangible sources I.e. it would nurture customer relationships which would eventually reflect on its financials