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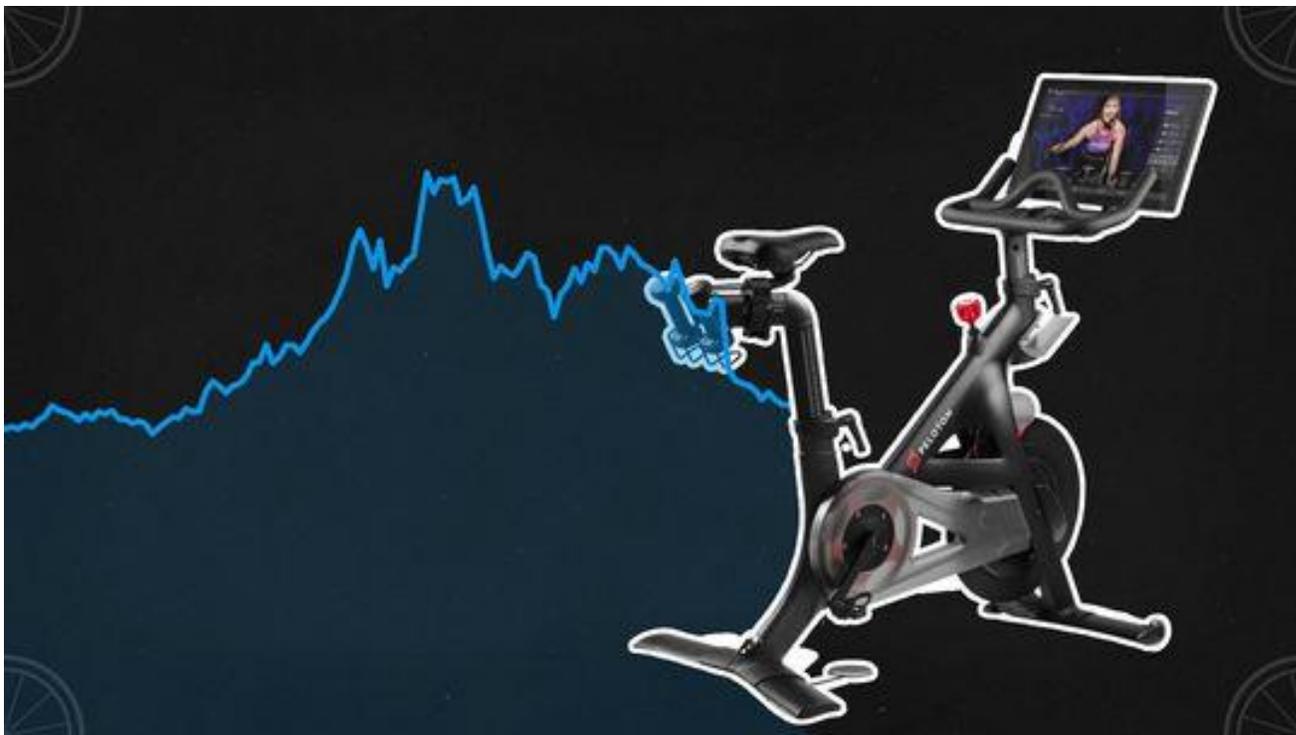
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Peloton Shares Slide as Losses Mount, Sales Slow

Fitness-equipment maker says it secured \$750 million in loans to strengthen balance sheet

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Peloton has been on a wild ride, announcing its CEO was stepping down and thousands of jobs would be cut, despite seeing a surge in sales early in the pandemic. Here's why Peloton became a viral success, and why it's spinning out now. Photo illustration: Jacob Reynolds

By Sharon Terlep

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Peloton Interactive Inc. recorded its biggest quarterly loss as a public company and said it raised \$750 million to help sustain the business amid mounting losses and weaker demand for its pandemic-popular bikes and treadmills.

Chief Executive Barry McCarthy, who took over in February, said Tuesday the cash infusion was needed because the company was thinly capitalized and loaded with costly backlogs of unsold bikes and treadmills.

The woes show the stark turn of fortunes for the once-hot maker of connected-fitness equipment, which like other pandemic winners are grappling with reduced interest in their products as Americans revert to prepandemic behavior.

Also on Tuesday, Carvana Co. said it plans to lay off 12% of its workforce and the company's chief executive said the online car seller had overshot its growth strategy.

Peloton shares on Tuesday fell 9% to \$12.90, the lowest since the company's 2019 market debut. The stock price is down 64% for the year and 92% from the pandemic high of \$171.09

Investor sentiment on the once-highflying company, like other pandemic winners such as Netflix Inc. and Wayfair Inc. has soured. At Peloton, investors' questions have shifted from how the company could transform fitness to whether it has enough cash to fund its restructuring efforts.

The company said it signed a commitment letter for \$750 million in loans payable over five years from JPMorgan Chase & Co. and Goldman Sachs Group Inc.

Mr. McCarthy, the former chief financial officer of Spotify Technology SA and Netflix, said Peloton's dwindling cash reserves were a major surprise as he took over the company. Peloton previously raised more than \$1 billion from a stock sale last year but weaker-than-expected demand for its equipment has weighed on finances.

“The nature of turnarounds is that they are full of surprises,” Mr. McCarthy said. The company warned sales would be lower and losses deeper for the fiscal year ending in June.

Mr. McCarthy said the company is in talks with outside retailers about selling Peloton equipment, which are currently available only through the company’s website or its stores.

Peloton posted a \$757.1 million loss in the quarter ended March 31, which the company attributed to lower customer demand and the cost of carrying inventory of unsold bikes and treadmills. The company’s quarterly loss a year ago was \$8.6 million.

The company also has been exploring a sale of a sizable minority stake in an effort to shore up its business, The Wall Street Journal reported last week.

Revenue fell 24% to \$964.3 million in the quarter, Peloton’s first year-over-year decline since going public.

Peloton’s subscriber count has increased fourfold since the start of the pandemic to nearly three million, but growth has slowed in recent months. The company also said it only saw a modest number of cancellations following its move to increase the subscription fee.

Peloton last month said it would cut prices of its stationary bikes and treadmills and raise monthly subscriptions for online workout classes starting June 1.

Mr. McCarthy’s predecessor, Peloton co-founder John Foley, spent hundreds of millions of dollars to expand Peloton’s manufacturing and supply, betting that demand would hold as the pandemic waned. Along with replacing Mr. Foley, the company made changes to its board and said it would cancel plans for a \$400 million factory in Ohio.

Mr. Foley, a former Barnes & Noble Inc. e-commerce president, remains executive chairman of Peloton's board. Earlier this year he sold \$50 million worth of Peloton stock to an investment firm backed by computer entrepreneur Michael Dell.

The company also announced the exit of one of its directors Tuesday. William Lynch, the former CEO of Barnes & Noble who had been Peloton's president until February, is leaving the board, Mr. McCarthy said. The company initially had said Mr. Lynch would remain on the panel.

On the earnings call Mr. McCarthy said the new pricing and cost-cutting would improve Peloton profitability in future quarters.

He reiterated plans to create a company more focused on a digital presence and less reliant on sales of exercise equipment. Subscription-based business models tend to generate higher valuations on Wall Street than manufacturers do, and Mr. McCarthy has said he thinks he can apply strategies that worked at Netflix and Spotify to Peloton.

He said Peloton also will expand testing of a new pricing system in which customers pay a single monthly fee that covers both the stationary bike and a monthly subscription to workout courses. If a customer cancels, Peloton takes back the bike with no charge.

"These are not unsolvable problems," Mr. McCarthy said on the call with analysts. "We just have to get our arms around it, fix it, then in 12 months, we'll be in a much better place than we are today."