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Peloton's IPO Falls Flat: Implications for the Future IPO Market

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On September 26, 2019, Peloton Interactive Inc. ("Peloton") launched its IPO – priced at $29/share and ended at $25.76/share (down 11%)*. As a result, Peloton's IPO became the second-worst performing IPO of 2019 and the third-worst debut offering since the financial crisis. Peloton offers fitness equipment integrated with a workout-streaming subscription service that can be purchased together or separately. The company raised $1.2 billion by selling 40 million shares at $29/share, and the launch of the IPO resulted in $900 million dollars of investor capital lost.

According to Peloton's filings with the SEC, the company sells stationary bikes for $2,245, treadmills for $4,295, and connected fitness subscriptions for either $19.49/month or $39.00/month. In 2019, the company generated $915 million in revenue (up 110% from 2018) but incurred net losses of $195.6 million, which are nearly quadruple the losses from 2018.

Experts attribute Peloton's disappointing IPO to an unrealistically high valuation of its stock price – ranging from $26/share to $29/share – as well as the company's decision to sell at the upper limit of that range. Unfortunately, the increasingly common divergence between VC valuations and market expectations has resulted in disappointing IPO launches (Lyft and Uber), and caused companies to abandon their planned IPOs altogether (WeWork and Endeavor).

Although some may interpret this recent trend as an indicator of diminished investor confidence in the IPO market, it is likely that the disparity between valuations in the private sector and expectations in the public market is creating unreasonably high IPO prices. Professor Aswath Damodaran from NYU Stern School of Business recently stated, "[VCs are] overestimating the value of scaling up and underestimating the value of the business model." In response, investor confidence in companies like Peloton, Uber, Lyft, and WeWork that focus solely on massive growth and scale without clearly delineating a plan to increase profitability appears limited.

Peloton launched its IPO without the typical indicators of profitability. By coming to the market at a loss, Peloton discouraged investors from having confidence in their valuation. Additionally, Peloton filed with a dual-class share structure, presumably to retain more control over the company, but this certainly deterred many investors that, as a rule, do not invest in this stock structure.

What this means for Peloton's future remains to be seen, but it may indicate that companies looking to initiate an IPO should be more conservative with their valuations, come to the market with a clear path for profitability, and align more closely with market expectations going forward.

*When this article was written, Peloton was trading at $22.33 (down 23% from IPO).