

INTRO: Welcome to Talks at GS where leading thinkers share insights and ideas shaping the world.

DAN DEES: I'm Dan Dees, I'm the Co-Head of the Global Investment Banking Business at Goldman Sachs. And I'm thrilled to be joined here today, albeit virtually, by my good friend John Foley.

John, as I assume most people here know, is the Co-Founder and CEO of Peloton, which is global interactive fitness platform that brings the energy and benefits of studio-style workouts to the convenience and comfort of your home. So, take us back through the origin story of Peloton. How you came up with it. How you launched it. All of that. In particular, what strikes me when I've heard this before, is the number of times you heard "no" and kind of how you persevered and adapted through that.

JOHN FOLEY: Yeah. Let me quickly say, Dan, thank you for having me. We were passionate about fitness. You know? Boot camp. Cycling. Yoga. Strength training. All different types of fitness. It was just a fun, fun category. And I was deep in it. My wife's deep in it. She works out every day. Kind of a New York City. And it's become a global thing when you think about how many Orange Theories there are globally. There's close to 2,000. And there's close to 13,000 cross fit locations, although that's kind of changing a bit.

But, so I was a technologist. I worked for Barry Diller for 20 years, effectively going back to 1996 and the early days of the internet with a guy named John Pleasence [PH], who you know, Dan. So I knew technology and I knew fitness. And I was at Barnes & Noble and I knew we were seeing in the book category, a traditional media category was being disrupted by a hardware and software platform that allowed you to consume the content at home. So, you get a Nook or a Kindle, and you could hit a couple buttons and the content would come to you on this hardware and software platform in your hand.

And I said, and you'd seen it with books, you'd seen it with video with Netflix, you saw it with gaming, VM - movies, videos. Art. You haven't quite seen it with art yet. That was another business plan that I had of disintermediating the art world with a digital product.

But me and my co-founders decided that you could digitize a fitness experience. You had the music; you had the video. You could gamify it. You could bring social software, gamification

into the experience and build a hardware and software platform for consuming fitness content at home.

And so, with that we went out with a deck and we said we're going to raise a bunch of money and slap high 5s along the way and have a good time. And turns out that wasn't what happened.

DAN DEES: But how many nos did you get before you gave it a yes?

JOHN FOLEY: Yeah. So, the first round was fairly easily. It was \$400,000 at a 1.6 million pre-money valuation. So those people have done pretty well at the \$40 billion mark. They made some money as you can imagine. But so, it was a 2 million post money. And I just went around to my closest friends and family and got \$25,000 checks for a seed round. And that got us started and allowed us to open an office. And then it was the series A that really started to get hard.

And we pitched over the course of the series A, B, and C, I pitched over 400 institutions, which included venture capital, late stage growth, and private equity. And I got 400 nos from those 400 institutions. And then I pitched thousands of angels. So, the first \$10 million of Peloton came from 100 angel investors. But in order to get those 100, I had to pitch thousands.

DAN DEES: Got it, got it. So, let's not go to-- let's go to building the business and building your team. What were early days, the key hires, kind of how you sequenced that? And as you did, you know, as you advise others on how to build a team, how did you build the culture and sustain the culture? Because I will say, back in the good old days, way back when, I don't know, seven, eight months ago when you could actually go to your offices, you go in the of a Peloton office and you can feel it. Like there's something. There's enthusiasm. Obvious. But there's a culture. And so you built it. How do you do that? And how do you think about the most important way to get the initial hires?

JOHN FOLEY: To your question, Dan, later on what we've done and the reason why I love going to work in the morning is we've hired so many massive people. We believed that we are going to be one of the great companies of tomorrow. I will-- you know, when I'm recruiting somebody, I will paint the vision of where we're taking it. And we are out one of inning one. I've said this publicly. I think we will have 100 million subscribers in ten or 15 years. And we have one million today. So, we have 99

percent of the opportunity ahead of us. And in order to take advantage of that, you have to build such a killer monster team of people, the best people out of Amazon and Apple and Google and Palantir. You know, you name it, you have to find the best executives. Their most aggressive entrepreneurs and executives. And put them together on a Peloton team and challenge them. And we're doing it, largely. And we like our chances, and we like the category, and we have the capital now. The capital risk was the biggest risk for Peloton for six or seven years. That's behind us. So now it's just execution risk. And we're going to show people just how well we execute.

But I think, you know, whenever you're recruiting a big person, and all of you know this, all the people listening, you have to get them excited about where you're taking the business. You're not hiring them for your business today, you're hiring them for your business tomorrow. So, you really have got to sell where you're going and why it's worth them leaving their other good job, because hopefully you're not recruiting them out of a crappy job, you're recruiting them out of something awesome. So you have to be more awesome. So, you really have to-- and it is one of the fun things that I get to do now that I have such a strong leadership team, is I get to sell the vision a lot to new recruits. And it's fun.

DAN DEES: The culture that you built, by attracting all those talented people, you've built this great culture, what is the challenge of doing that while you grow? Because now you're, I don't know how many people you are now. I should probably know. I'm dated. And then how many far flung [UNINTEL]--

JOHN FOLEY: 7,000.

DAN DEES: Wow. Okay. Wouldn't have been my guess. I would have been 6,900. So, I was close. But over many different play-- you know, how do you maintain a culture as you get really big? And how do you maintain a culture in the era of COVID and working in a remote way?

JOHN FOLEY: Yeah. I hate the COVID dynamic. You would think I would want COVID to continue. I don't. I can't wait to get back to work. We want to win in fitness in a regular world, not a COVID world. And when I hear Peloton being a COVID story in the press, it annoys the crap out of me because what we're building is here to stay and it's going to grow. We've grown 100 percent every year since we launched the company. And this year's no exception.

But to answer your question, I went out to Amazon to Seattle about 18 months ago and hired a woman, Mariana, who was one of their senior HR professionals, one of the people professionals at Amazon and brought her in to be our Chief People Officer. Now she's even a bigger responsibility because she's so strong. But very few people have taken a company from 7,000 to, you know, 207,000. And we plan to do that in the next ten years. And hiring tens of thousands of people, scaling people up, scaling recruiting, being good at transitioning people that don't make the bar, communication, and all of the just sheer people ops of this type of massive platform, because a lot of the things we do Dan, as you know, don't scale. We need when we go into a new country, we hire field ops folks to deliver bikes. We hire retail folks. We're hiring instructors for foreign languages. We're in German now. We're going to launch new languages in the coming years. So, some of the things we just have to hire more and more people.

And then you need to service those members in those new countries. So, you know, right now we have a call center in Cork, Ireland to support the UK and Germany. And so, in order to-- my challenge [UNINTEL], Dan, was we need to go, you know, from this many thousands to this many hundreds of thousands. And at the end of that we need to be a better culture. We need to be more fun, a more fun place to work, than we are today. And to your point that's really F-ing hard. Because it's so fun to work at a small, high-growth company, how do you make it equally, if not more fun, ten years from now? And that's a real challenge.

Luckily, I care a lot about it. Luckily, Mariana is a ten out of ten and has seen this and done this. So, we want to be as well run as Amazon if it's within a stone's throw the best run company in the world. But we want a better culture than Amazon. And that's our goal. And that's what we're totally committed to.

DAN DEES: Yeah, it's a great objective. The thing you see when you go to any entrepreneur, any startup is that energy. And you feel that energy and that common sense of mission. And to be able to maintain that over thousands of people in many locations would be exactly the right objective. Hard to pull off.

And you've referenced it in what you just said, but I want to dig in further. On this whole idea that, you know, it's true, but it's probably inelegantly stated, that you are a beneficiary of COVID. That, you know, Peloton is a beneficiary. Or the industry is a beneficiary of COVID. How do you kind of reconcile

that? And are you conflicted about it, number one? But then number two, how does that lead to your sense of maybe social purpose of Peloton and the desire to do good and give back? You know? All that stuff. How are those linked together?

JOHN FOLEY: With respect to COVID, it is helping at-home fitness. There's no question. But we firmly believe that it's not a pull forward of what would be demand and we're going to have crickets next year. It is an acceleration of the inevitable. People moving into the home. Better experiences. Better instructors. Better software. Better hardware, at a better location, at a better value. It is inevitability that people move into the home on these platforms that Peloton is creating. And maybe some of the platforms that your other entrepreneurs are creating. That it's better to workout at home.

A weird thing as you think about just the opportunity when I say 100 million, there are 35 million homes in the US alone that have treadmills in them. Those are crap treadmills. No one's working out on those treadmills. They're collecting dust. They are clothes hangers. They're the cliché crap produce to yesteryear that kind of gave the fitness equipment category a bad name. But it did say that those consumers, those households want to work out at home. That's why they bought the treadmill. They just don't use it because it's not engaging, because you don't have the community and the software and the programming and the instruction and all the fun stuff, the entertainment that Peloton brings. So, it's a massive category and people want to workout at home, COVID or not. You know?

There was a study CNBC did a couple months ago, a survey that said they found-- independent third party-- 59 percent of Americans are not going back to the gym after COVID. That is an independent study. I'll send it to you afterwards. But that's just people saying, "I've found a better way, I don't need the gym. I'm realizing I'm going to save that money. I'm still going to get in shape. I'm going to get a Peloton bike; I'm going to get a Peloton treadmill. I'm going to use weights. I'm in boot camp class. And I'm going to get in better shape at a better location at a better value." So, it is not a COVID story. Of course COVID is creating some tailwind for sales, but it's accelerating the inevitable from our perspective.

DAN DEES: Yeah, I think that's well said. It accelerates the inevitable. We're seeing it across industries, across a bunch of our other clients, a bunch of people on this that are part of this conference. There were trends heading in a certain

direction that are now accelerating and becoming inevitable because of all of this.

What are the handful of, you know, three or four key decisions you made along the way in building this company that you look back now and you say, "That was a key reason why we're having this success," those kind of threshold questions and decisions?

JOHN FOLEY: Yeah. One of the questions that I'm sure some of your entrepreneurs are trying to figure out is selling through channel or going direct-to-consumer. And we were kind of commercial about it. We just wanted to build a big business and wanted to get our products in people's homes. We spend a lot of money from a CAC perspective, direct-to-consumer, you know, call it 1,000 bucks to sell a bike. We could give that thousand bucks to Best Buy through a channel relationship and they could sell it.

You know, when I started the company, when we started the company, it wasn't clear what's the better model. We didn't really have a read. John Callaghan who had been on the board of Fitbit for a long time did have a read. He said, "Try to be direct-to-consumer as long as you can. You want to control that consumer journey." And that turned out to be a good decision for us. You know, opening our own retail stores. Doing our own television spots. Doing digital ads. It's allowing us to create a very special D to C brand.

Interestingly, you know Dan, from Leaf Accels [PH] investment portfolio, he was big and Warby Parker and Harry's, which were also direct-to-consumer disruptors. So we were able to shave off of their face, a little bit, if you will. Excuse the metaphor. That works pretty well in that instance.

But yeah. Being a direct-to-consumer company was a boon and a smart call and just serendipitous. It wasn't a brilliant strategy thing. It was just let's try it. And we tried it. And it worked well.

DAN DEES: Let me ask a question about the complexity sometimes of managing a connected community. You talked a lot about the importance of community. But how do you manage the inevitable political and social aspects that creep into what's otherwise meant to be, you know, a fitness technology/entertainment platform? I know you've had to deal with some of that recently.

JOHN FOLEY: Yeah. That's a great question, Dan. We just had a team meeting yesterday. Yeah, yesterday. And I talked about it for 15 minutes in front of 6,000 people-- or 7,000 people. We want to be nonpartisan, obviously. We speak strongly for social issues. We just gave \$100 million pledge-- or created a \$100 million pledge for social justice over the next four years with a bent towards Black Lives Matter. And we're very proud of that. And we're going to speak for gay rights, for women's rights, Black Lives Matter. We'll stand for immigration policies that are pro-immigrants, like a lot of tech companies do. But, so we will stand for social issues.

We are going to try our hardest, Dan, to stay out of politics though, direct partisan politics, because it's not good for our business. And we want to welcome everybody. Inclusion is a part-- optimism and inclusion are a part of our brand. And we really need to open our arms and allow everyone to feel welcome. So, with our media mouthpiece, with our instructors, we're staying well away from this election. Elections, by definition, are obviously partisan. But they're also divisive because you have to choose sides. That's the nature of an election. You're choosing sides. And it just-- it doesn't work for our brand. So, we're really trying to be conscientious and be thoughtful and affect change and not default, you know, there are some other big media companies and tech platforms that you could name, that I believe are defaulting on their responsibility with respect to their place in the world. We're not going to default. We're not going to shy away from using our platform and our media muscle to affect change. But we're going to try to find that really fine line of not making it partisan because that's not something we want to do.

DAN DEES: Let me ask you just your vision for where you're taking this. It strikes me, and I was listening to you, and you were talking through all the nos you've gotten along the way and it never slowed you down and didn't stop your conviction. And I suspect, again, there's a common trait of the entrepreneurs on the phone that they have, even when they're starting small, they have an absolute vision and conviction about where they're going long-term. Did you always have the enormity of ambition you have for this thing and the vision that you have? What is that vision? And did you have it from the very beginning? Is that kind of what kept you afloat?

JOHN FOLEY: We did. Yeah. We see exactly where we're going. It's been clear to us from day one. And it sounds weird. I mean exactly how you get there, obviously, you know, you have to roll

with the punches. And there were different options and different inflection points. But the end goal of having, you know, four or five big platforms for fitness in the home and having them be instructor led and music driven and the community and social software and all this stuff was always in our vision.

I will tell you a funny thing that I'm guessing some of the entrepreneurs have struggled with. In the early days when I just had a deck, I was like, "We're going to build a \$10 billion company on the back of this type of thing." And every one of my friends said, "Don't say that again. You sound like an idiot when you say \$10 billion. Really. Like people laugh at you." And last year I was talking to our board and I was like, "You know, this thing, I see clear as day, it's going to be one of the few trillion-dollar companies in 15 years." And they said, "Don't say that again. That is something that makes you sound like an idiot when you say that type of ridiculousness." I'm like, I don't see any other way if we achieve our goals on the consumer front and the software front and the distribution front and the international front and the product innovation front, I don't see any other way that we're not worth some staggering valuation.

And so, yeah, we are-- you know, you could say I'm smoking my own exhaust and I'm annoying to listen to because I have these ambitions. But yeah, we are an ambitious group, and we believe in ourselves. And we're having fun. And we like the category.

DAN DEES: John, I think we have to draw it to close. You've been fantastic. Thank you for your time. Thanks for your partnership.

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