Council of Institutional Investors®
The voice of corporate governance

September 4, 2019

Erik Blachford, Lead Independent Director
Karen Boone
Jon Callaghan
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Jay Hoag
Pamela Thomas-Graham
c/o Hisao Kushi, Chief Legal Officer and Secretary
Peloton Interactive, Inc.
125 West 25th Street, 11th Floor
New York, NY 10001

Re: Equity structure as a public company

Dear non-executive members of the board:

I am writing on behalf of the Council of Institutional Investors (CII) to request that Peloton, in connection with its initial public offering, adopt either a "one share, one vote" stock structure or change its sunset provision to ensure equal voting rights for all classes of common stock by no later than the seventh anniversary of the IPO.[1]

CII is a nonprofit, nonpartisan association of U.S. asset owners, primarily pension funds, state and local entities charged with investing public assets and endowments and foundations, with combined assets of $4 trillion. Our associate members include non-U.S. asset owners with more than $4 trillion in assets and a range of asset managers with more than $35 trillion in assets under management.[2] CII members share a commitment to healthy public capital markets and strong corporate governance.

The large majority of U.S. companies go public with one-share, one-vote structures. Of those that go public with differential voting rights, a growing number put time-based sunsets on those structures. While we applaud Peloton for including provisions in its IPO prospectus that provide for a time-based sunset to its dual-class unequal voting structure, we encourage Peloton to change its sunset provision from 10 years to seven years or less, a figure is both commonly chosen by IPO companies and supported by empirical studies of dual-class company performance.

[1] CII is committed to the principle of one-share, one-vote in public equity markets. Where a board decides to create differential voting rights, we urge a time-based sunset that would convert the structure to one-share, one-vote within seven years of IPO, absent approval by each class of shareholders, voting separately, to extend such a structure.
[2] For more information about the Council of Institutional Investors (Council or CII) and our members, please visit the Council's website at http://www.cii.org/about_us.

This past month, HYLETE, a company that creates athletic clothing filed their prospectus with a five year time-based sunset. In 2018, EVO Payments, Bloom Energy and Smartsheet held dual-class IPOs with three, five and seven year sunsets respectively. Other recognizable technology companies to take this approach include Groupon, which went public in 2011 with a five year sunset and successfully collapsed its unequal voting structure in 2016; MaxLinear, which went public in 2010 with a seven year sunset and reverted to one share, one vote accordingly in 2017; Yelp, which went public in 2012 with a seven year sunset and collapsed its dual-class structure two years; and MuleSoft, which went public in 2017 with a five year sunset and was recently acquired by Salesforce.[3]

One recent study of dual-class company performance found that even at innovative companies where unequal voting structures correlate to a value premium at the time of the IPO, that premium dissipates within six to nine years before turning negative.[4] Another study found that dual-class structures correlate with more innovation and value creation in the period shortly after an IPO, but within six to 10 years, the costs of the unequal voting structures outweigh the benefits. The study's authors conclude, "Our findings lend credence to the recent call from shareholder advocacy groups that if dual class structures should be allowed at all, they should face rigorous sunset provisions and be eliminated in a certain period post-IPO."[5]

Establishing accountability does not always maximize comfort for management. Yet as SEC Commissioner Robert Jackson said in a speech last year, "If you run a public company in America, you're supposed to be held accountable for your work—maybe not today, maybe not tomorrow, but someday."[6] We consider seven years to be the outer limit of a reasonable wait for the alignment between ownership and voting rights, and we urge the board to use its authority to reduce its sunset clause accordingly prior to the IPO. We note that modifying to a seven-year sunset schedule would result in Peloton directors being permanently excluded from CII's publicly-available "Dual Class Enablers" list, which investors use at their discretion to hold directors to account through all public company boards on which they serve.[7]

We would be pleased to have the opportunity to discuss these matters with you. I can be reached at ken@cii.org or 202-261-7098.

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[3] See CII's List of Companies with Time-Based Sunset Approaches to Dual-Class Stock.
[4] Martijn Cremers, et al., *The Life-Cycle of Dual Class Firms*, November 2017, "We find that the initial dual class valuation premium is temporary and disappears within 6 to 9 years after the IPO…The declining valuations of dual- versus single-class firms suggests that potentially increased agency problems at mature dual class firms may be mitigated by a mandatory sunset provision for dual class structures, as advocated by Bebchuk and Kastiel;" *See* Lucian Bebchuk and Kobi Kastiel, *The Untenable Case for Perpetual Dual-Class Stock*, April 2017.
[5] Lindsay Baran, et al., *Dual Class Share Structure and Innovation*, May 2018.
For more research, see CII's Summaries of Key Academic Literature on Multi-Class Structures and Firm Value.
[6] Robert Jackson, *Perpetual Dual-Class Stock: The Case Against Corporate Royalty*, February 15, 2018.
[7] See CII's List of Dual-Class enablers

Sincerely,

Kenneth A. Bertsch
Executive Director

cc: John Foley, Co-founder & CEO
cc: Tom Cortese, Co-founder, COO & Head of Product Development