

October, 27, 2017

Company Name: PLNT

Joshua Weiss

Sector: Consumer Discretionary

Industry: Hotels, Restaurants and Leisure

Current Price: \$26.83

Target Price: \$29.88

Company Description: Planet Fitness is a company that looks to provide the best “Judgement Free” environment to work out in. They provide a safe, energetic and comforting place for people to feel good about working out while still being pushed to get healthier.

BUY

Current Price:	\$26.83
Target Price:	\$29.88
Market Cap:	2.58B
Avg Volume:	.861M
LTM EBITDA Margin:	42%
ROIC:	159.12%
WACC:	7.6%



- Planet Fitness vs. Hotels, Restaurants and Leisure Index

Thesis: Through the analysis of Planet Fitness, I believe that the stock is underpriced. They are the main sponsor for the New Year’s Eve celebration and are planning on coming out with new technology to make treadmills more interactive. I believe that since the new year is coming around and the openings of new franchises their stock price will go up a few dollars, however I believe that it should only be a short term buy. After the first few months of the year and especially before the third quarter where the price goes and earnings go down, I suggest we sell it because their long term debt will catch up to them.

Catalysts: Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Short Term: Main sponsorship with New Year’s Eve celebration (175M views in US and 1B worldwide)
- Mid Term: New technology for treadmills
- Long Term: Goal to have 4000 stores worldwide

Background

In 1992, Michael and Marc Grondahl founded Planet Fitness in Dover, New Hampshire by acquiring a financially struggling gym. In '93 the current CEO Chris Rondeau was hired to work front desk and then worked his way up the company. Their goal was to make a comfortable environment that people would not be intimidated to work out in. They came up in 1998 after opening their 3rd store a slogan of having a “Judgement-Free Zone” to follow their goal. They also started the use of a “Lunk Alarm” go off which activates when anyone grunts or drops weights. This is to discourage members from doing that so they do not put any other members in an uncomfortable setting. They also wanted to make the gym accessible for almost all demographics. They set their goal to make a low-cost while still providing a high quality fitness experience. In 2003 it opened its first franchised store in Florida. By 2006 they hit the 500,000 member mark as well as opening their 100th store. By 2014 they had opened their 900th store along with their 1st international store in Canada, having a total across all stores of 6.1M members. Now they have 1,367 locations with plans to keep expanding until they reach 4,000 stores. They predict within the next 3 years of opening another 500 stores and continue to grow until they reach their goal. In 2015 they became the primary sponsor for the New Year’s Eve celebration. Finally, in 2017, they won JD Power 2017 Health and Fitness Center Satisfaction Report for highest in customer satisfaction.

Earnings Performance:

Since Planet Fitness is a very new company that went public in 2015, it has done very well in the past couple of years. Their EBITDA Margin growth of 42.05% is substantially higher than the median of their market. This shows us that a very high percentage of their revenue

Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth	EBITDA Margin	Operating Income Margin	Net Income Growth	Net Profit/Exp./Sales Margin	Return on (%)	Return on Invested Capital	Return on Assets	Return on
Median	10.88%	18.73%	26.12%	12.79%	44.81%	8.61%	7.57%	9.12%	4.42%	13.25%
100) PLANET FITNESS INC - C...	14.98%	29.15%	42.05%	34.09%	255.94%	9.36%	4.07%	159.12%	3.53%	--
101) MEDIFAST INC	2.46%	3.99%	14.42%	12.79%	9.38%	8.61%	1.05%	23.90%	19.29%	24.43%
102) TOSHO CO LTD	11.60%	6.97%	34.59%	27.16%	14.54%	16.88%	22.39%	9.12%	7.78%	17.45%
103) KOSHIDAKA HOLDINGS C...	8.04%	17.77%	18.37%	11.12%	92.13%	6.60%	9.01%	14.49%	9.46%	20.73%
104) HUAYI TENCENT ENTERTA...	10.05%	50.06%	-57.81%	-76.92%	73.34%	-111.30%	6.41%	-11.06%	-14.11%	-15.44%
105) ARDENT LEISURE GROUP	4.40%	-59.25%	9.14%	-1.89%	--	-9.21%	42.60%	-6.23%	-4.30%	-7.96%
106) ROUND ONE CORP	4.58%	3.28%	21.60%	7.90%	318.10%	5.02%	5.97%	7.77%	4.42%	9.06%
107) XI'AN QUJIANG CULTURA...	10.88%	--	--	7.28%	-2.84%	5.84%	3.96%	4.70%	3.57%	6.79%
108) SKISTAR AB	15.85%	19.69%	30.86%	20.63%	43.68%	16.92%	16.19%	9.97%	9.06%	20.32%

is operating profitability. They had a 4.4% increase in adjusted EBITDA margins from 2016 second quarter to 2017 second quarter. They also have an operating income margin of 34.09% which shows us that before interest and taxes, for every dollar in sale, Planet Fitness makes .34 cents on that dollar. This is almost 3x higher than the average for the industry and is highest among competitors. With a net income growth of 255.94% from the past 12 months, Planet Fitness’ net income has increased massively. Having a net income growth this large shows us that from the past year their profits are growing at an exponential rate. Along-side having a NI growth of that size, Planet Fitness also has an ROIC of 159.12%. I presume this to be so high due to having a little over 700M in long term debt. The long term debt was taken out over the past 3 years. This debt is mostly in their senior term loan which they just repriced and took advantage of the lower interest rates. This saved them .05% which they predict to reduce their projected interest expense by \$2,000,000. Alongside all this information, comps increased by 9% making it Planet Fitness’ 42nd straight positive quarter of comparable sales growths. New member growth was the driver of comps consisting of 90%. This has been around the same percentage for the past couple of years and this shows that as long as members keep joining which by their marketing strategies it looks like people will continue to join and comps will continue to be positive and increasing. Along

with all of this, Planet Fitness has increased their royalty fees. Although not all new openings will open at 7% and most will open at 5%, having a handful at 7% they predict will see an increase in the average by .41% which is why we saw an increase to 3.93% avg royalty rate from 3.43% which was Q2 of last year. Planet Fitness had a very strong quarter two for growth among sectors.

Margins					
	Gross Margin	61.45	64.15	65.66	67.66
	EBITDA Margin	30.73	33.56	31.54	38.91
	Operating Margin	17.08	22.00	21.81	30.58
	Incremental Operating Margin	—	37.08	20.81	91.31
	Pretax Margin	12.53	13.75	14.30	23.77
	Income before XO Margin	12.23	13.33	11.54	18.84
	Net Income Margin	12.06	13.16	5.60	5.68
	Net Income to Common Margin	12.06	13.16	5.60	5.68

Industry

It is projected that over the next 5 years that U.S health club revenues as a whole will grow at an annualized rate of approximately 3%. This will have to do with growing consumer awareness and an increase in people concerned with their health. CDC reported that 70% of Americans that are over the age of 20 are overweight and that includes the 35% that are considered obese. Although it's not as easy as just having people overweight and getting them to the gym, it shows that there are a lot of potential customers that could chose to join at any time. In the second quarter of 2017, nearly 25% of all people that went to the gym at least stepped into Planet Fitness. A statistic that shows differentiation for them is that out of all the members that have joined in the past year, 40% of them have said they never belonged to a gym before. This shows us that they are reaching out through their strong marketing campaigns to get new customers to join the gym.

Comparing Planet Fitness earnings performance is quite difficult due to the fact that there are not many publically traded gyms. One of the very few publically traded gyms besides Planet Fitness is Town Sports International Holdings and it's a micro-cap so it is difficult to compare with. The closest company to compare it with is Nautilus Inc which is a small cap company that produces and sells cardio and strength machines to be used at home. Although it is different trying to sell a membership versus a treadmill, they still have similar ratios. Last recorded data on 12/31/2016 Planet Fitness has down better in almost all margins. Compared to Planet Fitness' gross margin being 67.66, Nautilus Inc has a gross margin of 52.09. This shows that compared to their main competitor, Planet Fitness retains a higher percentage on each dollar of sale.

Marketing

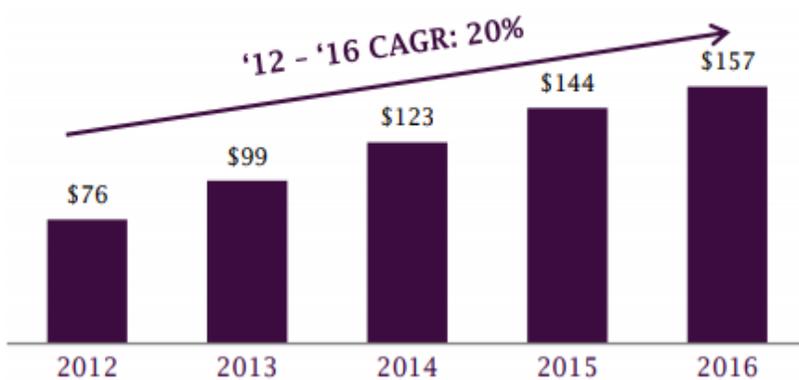
The main focus that Planet Fitness continues to focus on is rapid growth through their marketing campaigns. In 2016 alone, Planet Fitness spent \$100M on marketing their brand and getting their concept across of being an accepting and comforting gym for all ranges of people. In 2015, they became the number 1 sponsor of the Times Square New Year's Eve celebration. They are expecting approximately 1M new members that want to join the Judgement Free group and become a member of Planet Fitness after the New

Year. Not only will it be on television but also on the life streamed webcast. With a very well-capitalized franchisee stores, they are very eager to grow as well. Planet Fitness is looking to open 200 new stores per year. The main marketing for their company however is on the difference between being a regular member at the rate of \$10/month or a black card member which is \$19.99/month. The perks of being a black card member is you are allowed to use the massage beds/chairs and also the tanning places. Also on top of a few other things, they get cheaper foods and drinks at the gyms. With the Black Card Membership being better advertised and shown off more to the new customers, it could be beneficial for them since 40% of their new member's claim they have never belonged to a gym before. They also do not have a set demographic group that they aim to target. They say their target is the 80% of America which is everyone including the very top and very bottom. Many different members have salary differences with having 1/3rd of their population making over \$100k while another 1/3rd makes under \$50k.

New Tech/Equipment

This section of their company is the one that is not talked about enough but why I believe they are slightly undervalued and that their stock price will increase. Planet fitness does every 5 to 7 years a replacement of equipment which is where the increase in revenue to \$41.2M came from this past year. From 2012-2015 Planet Fitness had a Compound Annual Growth Rate on Equipment Revenues although has been decreasing has still been over 17% for all three years. 2016' CAGR grew by 9% and with planning on opening 500 stores within the next 3 years, I believe that CAGR will steady out to about 10% for the long term on Equipment Revenue. On top of the replacement of equipment, they are planning on adding new equipment to a few of their stores such as rowers and fit ergometers which is a fancy way of saying arm bikes. Although they are making new equipment and force their franchises to use them, they are more focused on the enhancements of their technology. They have plans to create new treadmills that replaces the red LED light that goes around the track. The new technology will replace this with images of you walking through the

Equipment Revenues (\$mm)

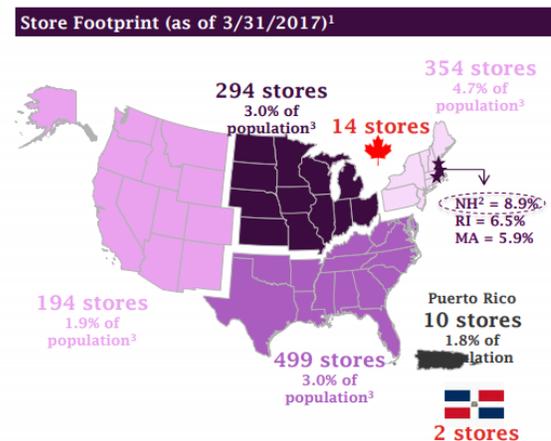


Grand Canyon or walking through the streets of Paris for example. On top of this they also are planning on creating treadmills that only Black Card Members will have access to. With these treadmills you will be able to search the internet and also link to your Netflix/Hulu account to watch episodes or movies. These treadmills will also allow you to shop on amazon or even stream music that you do not have on your phone to listen to you. These new technologies benefits not only

the experience for the customer but also Planet Fitness as well. For the customer it is all about having a Judgement Free Zone and having them be comfortable. With these new technologies it will enhance their experience and also entice people with normal memberships to join the Black Card Memberships. However for Planet Fitness, they will be able to take in data and keep track of what type of music people are streaming or what shows people are watching at certain times of the day. This will allow them to have a competitive advantage over their competitors by knowing what their members want.

Real Estate

In order for them to expand they need property. Since they have done very well with their marketing and getting a great reputation on their brand, whenever there is a 20,000 sq ft box they are one of the first companies to get called. In order to start up a franchisee location you need 600k in liquid assets and \$1.5M in net worth of all the partners. Then you have to go through another selection process but as long as you have those two you are off to a good start. As a franchisee you have to pay royalty which is a rate that you have to pay on a monthly bases or annual membership fees. This rate has just grown from 5% to 7% as of April, 2017. More recently a lot of the time a small gym going under will call Planet Fitness in hope of becoming a franchisee. With this there is are 3 different outcomes that can happen. 1st they can convert you to a Planet Fitness franchisee. Second they can move over to your location since it's a better spot and bring members. Lastly they could close your club and just inherit your members at their current location which is what happens 50% of the time. For corporate owned stores however, they are all leased on a 10-year team, with two 5-year renewal options to see how they are performing. An increase in \$1.9M in corporate owned segment revenue, only 4.3% came from same-store sales.



Planet Fitness is also expanding globally. They just opened a store in Panama that is still currently in the presale process before it is the first Planet Fitness store to open in Panama. It plans on opening for use at towards the end of this year. Panama is a very easy country to open stores in compared to other Latin America countries and Mexico because its unit of currency is American Dollars. As the presale looks great in Panama they are looking to not only expand in Panama but also across other countries in the area. The main issue they see with this is the software and banking processing because it's in a different currency is done differently than the United States.

Conclusion

Overall Planet Fitness' strides to become a low cost and Judgement Free Zone will continue to lead them in the right direction. With the increase in members from the start of the new year from the New Year's Eve Sponsorship there is a high chance their stock price goes up. In the midterm and long term with the new technology of the treadmills it will force more people into being black card members alongside with the continuous openings of 200-300 new stores a year just seems like a great and very profitable future for Planet Fitness.

Planet Fitness, Inc. (PLNT)

CENTER FOR GLOBAL FINANCIAL STUDIES

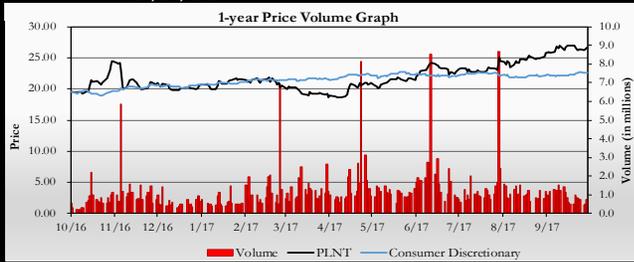
BULLISH

Analysis by Joshua Weiss
10/27/2017

Current Price: **\$26.83**
Dividend Yield: **3.8%**

Intrinsic Value **\$29.88**
Target Price **\$38.79**

Target 1 year Return: 48.4%
Probability of Price Increase: 100%

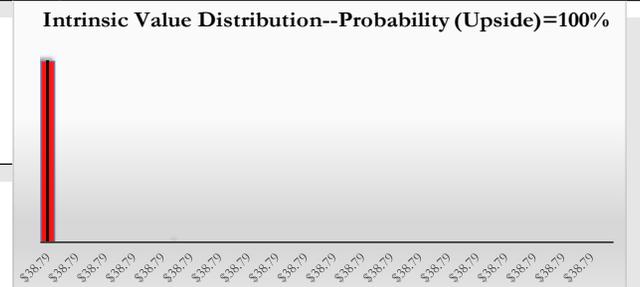


Description	
Planet Fitness, Inc., through its subsidiaries, franchises and operates fitness centers.	
General Information	
Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	November 3, 2015
Next earnings date	October 26, 2017
Estimated Country Risk Premium	5.73%
Effective Tax rate	24%
Effective Operating Tax rate	24%

Market Data	
Market Capitalization	\$2,298.03
Daily volume (mil)	0.79
Shares outstanding (mil)	85.65
Diluted shares outstanding (mil)	60.82
% shares held by institutions	123%
% shares held by investments Managers	93%
% shares held by hedge funds	24%
% shares held by insiders	0.63%
Short interest	17.48%
Days to cover short interest	12.94
52 week high	\$27.22
52-week low	\$18.32
Volatility	0.00%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
6/30/2016	3.95%	0.31%
9/30/2016	1.61%	0.16%
12/31/2016	-0.53%	-2.33%
3/31/2017	-4.10%	-2.14%
6/30/2017	-0.17%	3.62%
Mean	0.15%	-0.08%
Standard error	1.3%	1.1%

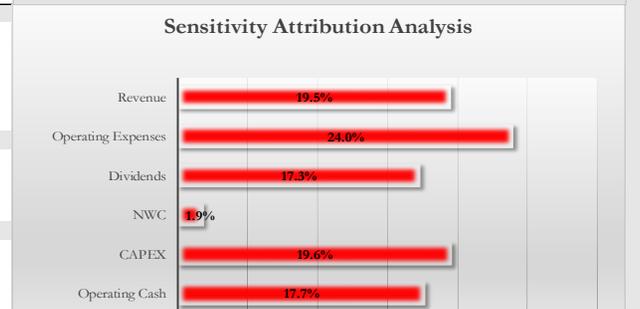
Peers	
Town Sports International Holdings, Inc.	
YogaWorks, Inc.	
Vera Bradley, Inc.	
Callaway Golf Company	
Dunkin' Brands Group, Inc.	



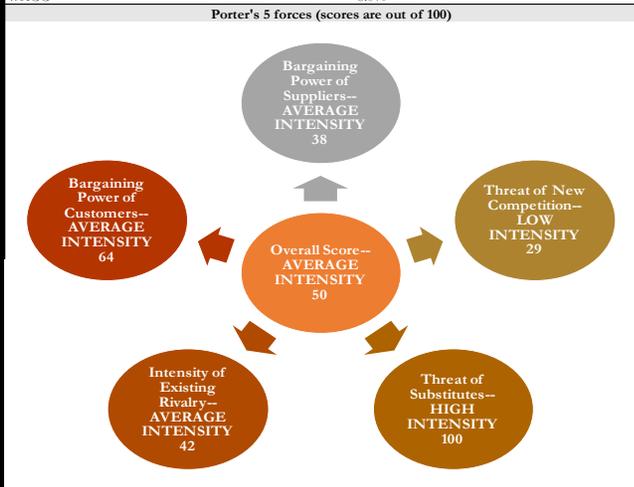
Management	Position	Total compensations growth	Total return to shareholders
Rondeau, Christopher	Chief Executive Officer and President and Chief Financia	51.5% per annum over 2y	N/M
Lively, Dorvin	Chief Administrative Officer	3.46% per annum over 2y	N/M
Moore, Richard	Senior Vice President of Mar	7.06% per annum over 2y	N/M
Correa, Jessica	Senior Vice President of Cor	N/M	N/M
Esposito, Jim	Senior Vice President of Fra	N/M	N/M
Bode, William		N/M	N/M

Profitability	PLNT (LTM)	PLNT (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	25.5%	17.05%	12.29%
Operating Margin	29%	22.76%	10.81%
Revenue/Capital (GAAP)	0.89	0.75	1.14
ROE (GAAP)	-16.4%	-655.7%	-23.1%
Net margin	8.8%	10.3%	13.4%
Revenac/Book Value (GAAP)	-1.87	-63.35	-1.73

Invested Funds	PLNT (LTM)	PLNT (5 years historical average)	Peers' Median (LTM)
Cash/Capital	14.3%	7.3%	21.4%
NWC/Capital	-8.2%	-4.4%	-22.8%
Operating Assets/Capital	61.7%	62.2%	85.9%
Goodwill/Capital	32.2%	34.5%	15.6%



Capital Structure	PLNT (LTM)	PLNT (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	1.29	0.86	0.84
Cost of Existing Debt	5.3%	4.7%	9.7%
CGFS Rating (F-score, Z-score, and default Probability)	BB	BB	BBB
WACC	8.0%	7.8%	12.7%



Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	15%	32.1%	0.48
6/30/2018	8%	21.8%	0.50
6/30/2019	10%	24.5%	0.64
6/30/2020	10%	27.6%	0.75
6/30/2021	9%	30.7%	0.88
6/30/2022	8%	30.3%	1.01
6/30/2023	7%	29.9%	1.15
6/30/2024	6%	35.4%	1.29
6/30/2025	5%	34.2%	1.30
6/30/2026	4%	33.0%	1.30
6/30/2027	3%	31.8%	1.30
Continuing Period	2%	30.6%	1.30

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	15.3%	8.0%	\$30.40
6/30/2018	11.0%	6.7%	\$38.69
6/30/2019	15.5%	5.5%	\$39.00
6/30/2020	20.8%	6.1%	\$39.18
6/30/2021	26.9%	7.0%	\$39.35
6/30/2022	30.6%	7.5%	\$39.53
6/30/2023	34.3%	7.4%	\$39.53
6/30/2024	45.7%	8.3%	\$39.93
6/30/2025	44.5%	8.7%	\$40.36
6/30/2026	43.0%	9.0%	\$40.87
6/30/2027	41.3%	9.9%	\$41.70
Continuing Period	39.7%	10.2%	