

## Planet Fitness (PLNT)

**\$50.94** (As of 08/07/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 08/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: D

### Summary

Shares of Planet Fitness have declined significantly so far this year. The company reported dismal second-quarter 2020 results, wherein earnings and revenues missed the Zacks Consensus Estimate. Moreover, the top and the bottom lines declined sharply year over year owing to the coronavirus pandemic. Although the company has implemented enhanced sanitation measures and social-distancing protocols upon reopening, traffic has been declining consistently owing to the rising number of COVID-19 cases. Also, memberships have declined due to the same. Owing to the uncertainty and significant business impacts caused by COVID-19, the company has withdrawn its guidance for 2020. Notably, earnings estimates for 2020 have declined over the past 30 days, indicating analyst concern regarding the stock's growth potential.

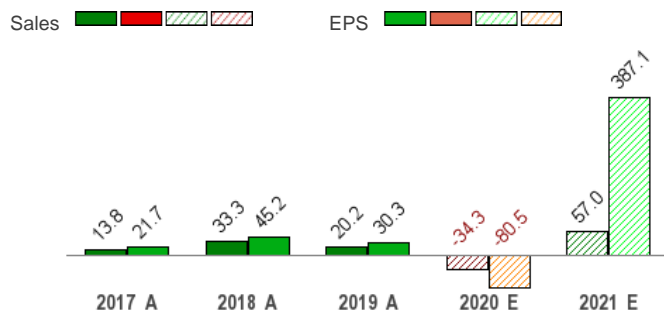
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$88.77 - \$23.77
20 Day Average Volume (sh)	2,096,049
Market Cap	\$4.4 B
YTD Price Change	-31.8%
Beta	1.12
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Leisure and Recreation Services</a>
Zacks Industry Rank	Bottom 5% (240 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-88.2%
Last Sales Surprise	-7.0%
EPS F1 Est- 4 week change	-20.7%
Expected Report Date	NA
Earnings ESP	-3.6%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	145 E	179 E	180 E	203 E	711 E
2020	127 A	40 A	120 E	167 E	453 E
2019	149 A	182 A	167 A	192 A	689 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.28 E	\$0.42 E	\$0.40 E	\$0.49 E	\$1.51 E
2020	\$0.16 A	-\$0.32 A	\$0.12 E	\$0.31 E	\$0.31 E
2019	\$0.35 A	\$0.45 A	\$0.36 A	\$0.44 A	\$1.59 A

\*Quarterly figures may not add up to annual.

P/E TTM	79.6
P/E F1	164.3
PEG F1	7.6
P/S TTM	8.4

The data in the charts and tables, except sales and EPS estimates, is as of 08/07/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/10/2020.

## Overview

Planet Fitness, headquartered in Hampton, NH, was formed in 1992. It is one of the leading franchisors and operators of fitness centers in the United States. As of Jun 30, 2020, the company had more than 15.2 million members as well as 2,059 stores in 50 states, the District of Columbia, Puerto Rico, Canada, the Dominican Republic, Panama, Mexico and Australia. As of Jun 30, 2020, more than 95% of all franchise stores were owned and operated by a franchisee group.

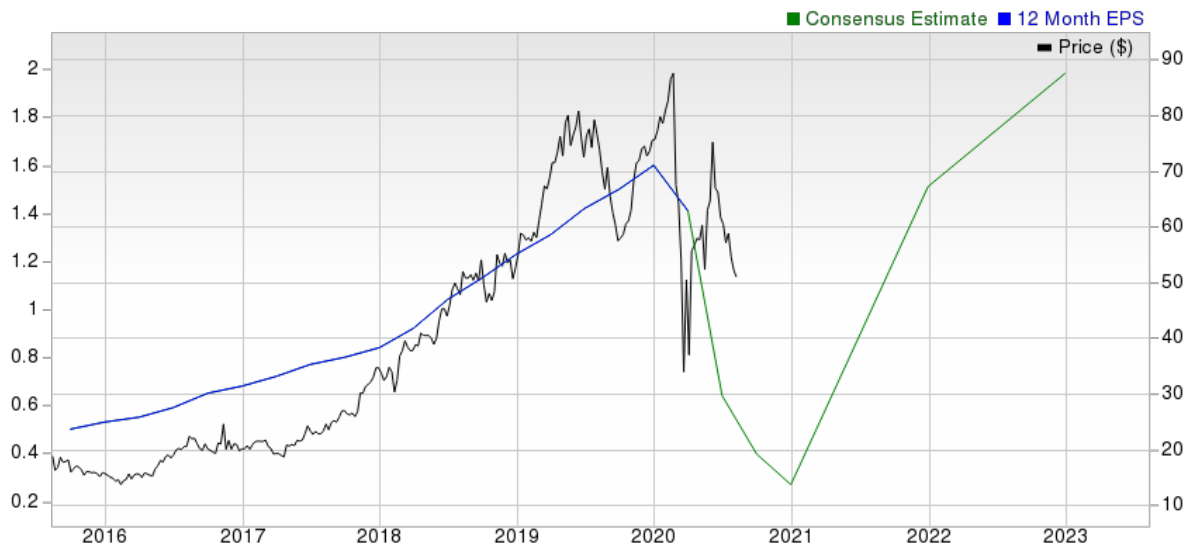
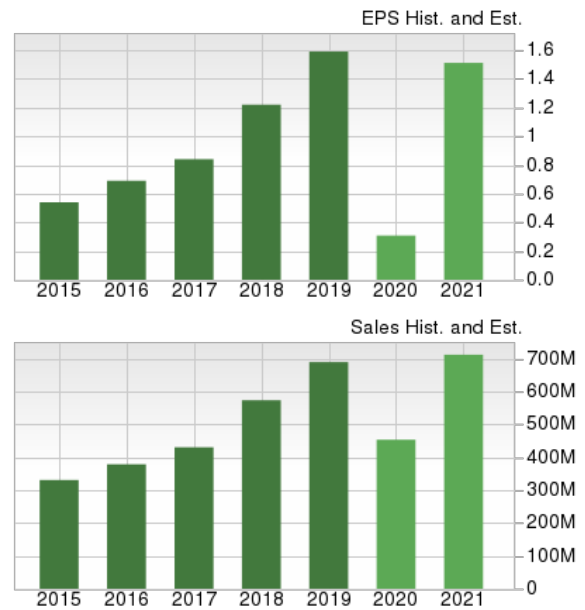
Planet Fitness reports its financial numbers under three segments — Franchise, Corporate-Owned Stores, and Equipment.

**Franchise Segment** (52.2% of second-quarter 2020 revenues): The segment is involved in franchising business in the United States, Puerto Rico, Canada, the Dominican Republic, and Panama. The segment generates revenues thorough royalty fees, franchise fees, placement revenue, other fees and commission income.

**Corporate-Owned Store Segment** (23.4%): The segment generates revenues through monthly membership charges, enrollment, annual and prepaid fees paid members, and retail sales.

**Equipment Segment** (24.4%): Revenues at this segment are realized through sales of fitness equipment to franchisee-owned stores in the United States. Notably, franchisee-owned stores replace its equipment after five to seven years based on the life of a specific equipment.

In March 2020, the Company proactively closed all of its stores system wide in response to the novel coronavirus pandemic in order to promote the health and safety of its members, team members and their communities. As of June 30, 2020, 1,490 stores had reopened, of which 1,451 were franchisee-owned stores and 39 were corporate-owned stores.



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## Reasons To Sell:

- ▼ **Coronavirus Likely to Hurt 2020 Results:** The coronavirus pandemic has affected the company's business on a large scale. Owing to the rising number of cases, several of its stores had to be closed again to comply with the local guidelines. Its membership base also contracted significantly due to the same. Although the company has implemented enhanced sanitation measures and social-distancing protocols upon reopening, traffic has been declining persistently owing to the rising number of COVID-19 cases. Also, memberships have been declining. Owing to the uncertainty and significant business impacts of COVID-19, the company has withdrawn its guidance for 2020.
- ▼ **Q2 Top & Bottom Lines Decline Sharply:** Planet Fitness reported dismal second-quarter 2020 results, wherein earnings and revenues missed the Zacks Consensus Estimate. Moreover, the top and the bottom lines declined sharply year over year owing to the coronavirus pandemic. The company reported adjusted loss per share of 32 cents, compared with adjusted earnings per share of 45 cents reported in the prior year quarter. Q The top line also declined 77.9% from the year-ago quarter primarily due to the dismal performance in the Franchise, Corporate-owned Stores and Equipment segments.
- ▼ **Valuation Looks Stretched:** As Planet Fitness significantly outperformed the industry in the last year, its valuation looks a bit stretched compared with its own range as well as the industry average. Looking at the company's EV/EBITDA ratio (Enterprise Value/ Earnings before Interest Tax Depreciation and Amortization), which is the best multiple for valuing leisure companies as they are highly capital-intensive, investors might not want to pay any premium further. Currently, it has a trailing 12-month EV/EBITDA ratio of 26.9x. The stock is relatively overvalued right now compared with its peers as the industry average EV/EBTDA multiple currently stands at 5.92x.
- ▼ **Cyclical Nature of the Industry is Concerning:** The leisure industry is cyclical as worsening global economic conditions might dent Planet Fitness' revenues and profits. Markedly, consumer demand for services is closely linked to the performance of the general economy and also sensitive to business and personal discretionary spending levels.
- ▼ **Economic Slowdown & Other Risks:** Planet Fitness relies heavily on franchisees rather than corporate-owned stores. While this franchise business helps in reducing the company's costs, it bears a number of risks that can lead to a crack in the business model. First, only a small portion of revenues comes from equipment sales and corporate-owned stores. In case of an economic slowdown, wherein demand fluctuates, Planet Fitness will be exposed to the threat of reduced royalty fees and lesser sales from equipment. Second, Planet Fitness' business rests on its brand image. Increasing reliance on franchisee exposes the company to the risk of blemishing its own brand name, in case any third-party franchisee action increases. Also, the company's business could be damaged in the event of any third-party misappropriation, dilution, infringement or other violation of intellectual property.

Coronavirus outbreak and heavy reliance on debt financing remains a concern.

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## Risks

- **Low-cost Business Model:** Although the nature of the business is traditional/generic, the company's strategy to attract customers with a \$10-a-month membership fee and a no-frills atmosphere has helped it gain a significant share in existing market and expand market size. The low-cost model has also helped Planet Fitness to tap into the market that is enthusiastic enough to join a cheaper second gym. Despite a lower-than-peer membership fee, higher demand and lower costs have helped the company generate above-average profits.
- **Reopening of Stores To Drive Growth:** Following the closure of the company's stores in March, the company implemented a reopening approach on May 1. Notably, it reopened two stores in Georgia and one in Utah, in accordance with local official guidelines. Keeping in mind the safety of its team and members, the company plans to make additional store re openings in the coming periods as well. As of Jun 30, 2020, 1,490 stores reopened, of which 1,451 were franchisee-owned stores and 39 were corporate-owned stores.
- **Strategic Efforts Bode Well:** In an effort to expand its presence, Planet Fitness has been focusing on strategic partnerships and international expansions. The company collaborated with iFit, a leader in online streaming home workouts. To this end, the company partnered with iFit to initiate a series of new workouts with minimal or no equipment, available to everyone exclusively on the Planet Fitness App. It will be available for both members and non-members free of cost. In Jan 2020, the company also joined forces with Biggest Loser, thus expanding its reach to viewers interested in health and fitness.

Despite the coronavirus crisis, management indicated that several private-equity backed franchise groups have expressed interest in further investments in the Planet Fitness brand. Currently, 13 of Planet's 130 franchise groups are majority-owned by private equity, while Planet's franchisee owns approximately 15 stores with the largest owning 169 stores (about 8% of the store base).

- **Increased Focus on Digitalization Bodes Well:** Apart from attracting new members to its brand, engaging existing members via its mobile app is a priority. The company intends to achieve this by focusing on driving downloads, app usage and enhanced functionality such as referral incentives, in-app messaging, notifications and enhanced account management tools. Moreover, features such as upgrades from classic white card membership to black card are an opportunity to drive rate. Word of mouth marketing, driven by vast membership base through the referral feature in the app, extends the reach of its marketing machine. Nonetheless, the company intends to capitalize its size and scale to further expand its brand awareness through its 15.2 million members. During the second quarter of 2020, the company rolled out additional features like in-app messaging and crowd meter detector to enhance customer convenience for better workouts. Planet Fitness has accelerated its digital initiatives during the coronavirus-induced shutdowns.

Notably, the company is witnessing solid traffic in its digital platform from both existing and non-existing members, particularly for iFit content. During the second quarter, the company witnessed solid in-app joins, paving path for new sources of revenues. Also, the company's "United We Move" workouts have been witnessing positive response on Facebook across the globe.

- **Solid Brand Presence:** Planet Fitness is one of the largest and fastest growing franchisors as well as operators of fitness centers in the United States. As of Jun 30, 2020, the company had more than 15.2 million members and 2,059 stores in all 50 states. In the second quarter of 2020, the company opened 21 new stores. Currently, it has stores in the United States, the District of Columbia, Puerto Rico, Canada, the Dominican Republic, Panama, Mexico and Australia.
  - **Enough Liquidity to Tide Over Coronavirus Crisis:** Planet Fitness stated it has enough liquidity to survive the coronavirus pandemic for some time. As of Jun 30, 2020, the company's cash balance totaled nearly \$423.6 million. Owing to this along with access to fully-drawn variable funding notes, the company stated that it has enough liquidity to meet its operating cash requirements, planned capital expenditures and interest and principal payments for at least the next 12 months. As of Jun 30, 2020, long-term debt, net of current maturities, amounted to \$1,682 million at the end of second-quarter 2020 compared with \$1,687.5 million at 2019-end.
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## Last Earnings Report

### Planet Fitness Q2 Earnings Miss Estimates, Fall Y/Y

Planet Fitness reported dismal second-quarter 2020 results, wherein earnings and revenues missed the Zacks Consensus Estimate. Moreover, the top and the bottom lines declined sharply year over year owing to the coronavirus pandemic.

Owing to the uncertainty tied to the crisis, the company has withdrawn its 2020 guidance.

Quarter Ending **06/2020**

Report Date	<b>Aug 04, 2020</b>
Sales Surprise	<b>-7.04%</b>
EPS Surprise	<b>-88.24%</b>
Quarterly EPS	<b>-0.32</b>
Annual EPS (TTM)	<b>0.64</b>

### Quarterly Details

The company reported adjusted loss per share of 32 cents, wider than the Zacks Consensus Estimate of a loss of 17 cents. In the prior-year quarter, the company had reported adjusted earnings per share of 45 cents.

Quarterly revenues of \$40.2 million missed the consensus mark of \$43.3 million by 2.5%. The top line also declined 77.9% from the year-ago quarter primarily due to the dismal performance across Franchise, Corporate-owned Stores and Equipment segments.

Franchise revenues fell 70.8% year over year to \$21 million. The Corporate-owned Stores segment's revenues declined 76.3% year over year to \$9.4 million. In the Equipment segment, revenues declined 86% year over year to \$9.8 million owing to lower equipment sales to new and existing franchisee-owned stores.

Moreover, EBITDA in the Franchise segment declined 92.9% year over year to \$3.5 million. The decline was primarily attributed to temporary shutdowns owing to COVID-19. At the Corporate-owned stores segment, EBITDA fell 135% year over year to (\$6.3) million. EBITDA in the Equipment segment declined 92.2% year over year to \$1.3 million.

Total adjusted EBITDA at the end of the second quarter deteriorated to (\$9.3) million from \$76.5 million in the year-ago quarter.

### Other Financial Details

As of Jun 30, 2020, cash and cash equivalents totaled \$423.6 million compared with \$436.3 million as of Dec 31, 2019. Long-term debt, net of current maturities, amounted to \$1,682 million at the end of second-quarter 2020 compared with \$1,687.5 million at 2019-end.

## Valuation

Planet Fitness' shares are down by 31.8% in the year-to-date period and 29% over the trailing 12-month period. Stocks in the Zacks sub-industry is down by 48.6% and the Zacks Consumer Discretionary sector is down by 4.4% in the year-to-date period. Over the past year, the Zacks sub-industry were down by 44.2% while sector was up by 6.1%.

The S&P 500 index is up 4.1% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 7.44x forward 12-month sales, which compares to 1.51x for the Zacks sub-industry, 2.39x for the Zacks sector and 3.67x for the S&P 500 index.

Over the past three years, the stock has traded as high as 11.67x and as low as 2.99x, with a 3-year median of 8.08x. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$43 price target reflects 6.28x forward 12-month sales.

The table below shows summary valuation data for PLNT.

Valuation Multiples - PLNT					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	7.44	1.51	2.39	3.67
	3-Year High	11.67	2.15	2.87	3.67
	3-Year Low	2.99	0.69	1.68	2.76
	3-Year Median	8.08	1.65	2.27	3.18
P/CF	Current	18.56	4.63	14.39	19.61
	3-Year High	35.64	10.73	15.02	22.73
	3-Year Low	10.98	2.73	9.22	11.7
	3-Year Median	26.3	8.31	12.9	17.29
EV/EBITDA TTM	Current	26.9	5.92	10.74	12.99
	3-Year High	33.06	10.97	17.81	12.99
	3-Year Low	12.82	4.7	8.34	8.3
	3-Year Median	23.72	9.03	12.28	11.3

As of 08/07/2020

## Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Camping World Holdings Inc. (CWH)	Outperform	2
Bluegreen Vacations Corporation (BXG)	Neutral	3
Clarus Corporation (CLAR)	Neutral	3
Marcus Corporation The (MCS)	Neutral	4
STUDIO CITY IH (MSC)	Neutral	4
SeaWorld Entertainment, Inc. (SEAS)	Neutral	3
Twin River Worldwide Holdings, Inc. (TRWH)	Neutral	3
Cinemark Holdings Inc (CNK)	Underperform	4

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	PLNT	X Industry	S&P 500	BXG	CLAR	MSC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	D	-	-	C	C	F
Market Cap	4.40 B	731.34 M	23.30 B	394.31 M	391.27 M	1.26 B
# of Analysts	10	4	14	1	2	1
Dividend Yield	0.00%	0.00%	1.76%	7.90%	0.76%	0.00%
Value Score	F	-	-	B	C	F
Cash/Price	0.14	0.28	0.07	0.53	0.04	0.26
EV/EBITDA	20.07	6.60	13.32	7.35	20.81	6.73
PEG Ratio	7.61	2.21	2.94	NA	NA	NA
Price/Book (P/B)	NA	1.14	3.19	0.89	2.16	1.16
Price/Cash Flow (P/CF)	22.55	4.77	12.51	6.40	14.38	5.61
P/E (F1)	164.32	36.27	22.02	36.27	33.21	NA
Price/Sales (P/S)	8.38	0.77	2.53	0.53	1.76	2.46
Earnings Yield	0.61%	-15.97%	4.37%	2.76%	2.98%	-45.44%
Debt/Equity	-2.76	0.92	0.77	1.66	0.18	1.33
Cash Flow (\$/share)	2.26	2.54	6.94	0.85	0.91	2.85
Growth Score	C	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	30.95%	12.66%	10.46%	NA	130.48%	NA
Proj. EPS Growth (F1/F0)	-80.63%	-253.14%	-6.80%	-75.00%	112.02%	-318.62%
Curr. Cash Flow Growth	23.15%	4.33%	5.39%	-39.52%	5.40%	36.41%
Hist. Cash Flow Growth (3-5 yrs)	20.84%	10.16%	8.55%	NA	27.48%	NA
Current Ratio	3.69	0.96	1.33	11.93	6.38	3.17
Debt/Capital	NA%	61.23%	44.50%	62.42%	15.01%	57.05%
Net Margin	6.63%	-5.78%	10.13%	2.68%	6.86%	-8.11%
Return on Equity	-9.72%	-2.87%	14.39%	9.88%	8.41%	-2.72%
Sales/Assets	0.31	0.42	0.51	0.54	0.98	0.18
Proj. Sales Growth (F1/F0)	-34.25%	-40.28%	-1.51%	-30.74%	-13.64%	-80.49%
Momentum Score	D	-	-	A	A	C
Daily Price Chg	-0.60%	0.38%	0.90%	-7.80%	4.11%	8.83%
1 Week Price Chg	-4.34%	-2.32%	0.14%	10.77%	1.96%	3.85%
4 Week Price Chg	-9.25%	2.06%	8.95%	4.21%	25.65%	3.15%
12 Week Price Chg	-0.14%	15.89%	18.90%	34.99%	45.91%	3.32%
52 Week Price Chg	-32.40%	-50.98%	1.18%	-43.27%	16.97%	-17.85%
20 Day Average Volume	2,096,049	273,596	2,057,775	154,676	152,763	1,838
(F1) EPS Est 1 week change	-22.36%	0.00%	0.00%	-4.88%	0.00%	0.00%
(F1) EPS Est 4 week change	-20.68%	-1.01%	1.36%	14.71%	12.96%	-32.12%
(F1) EPS Est 12 week change	-13.32%	-60.75%	1.57%	8.33%	38.96%	-167.65%
(Q1) EPS Est Mthly Chg	-15.71%	-8.59%	0.54%	-12.50%	13.04%	-90.82%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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