

Planet Fitness (PLNT)

\$79.88 (As of 01/14/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: A

Momentum: C

Summary

Shares of Planet Fitness have outperformed the industry in the past year. However, high debt and worsening global economic conditions might dent its revenues and profits. Also, earnings estimates for 2020 have witnessed downward revision over the past 60 days, reflecting analysts' pessimism regarding its growth potential. However, the company's consistent focus on strategic partnership and international expansion are likely to drive growth. Meanwhile, increase in net member and higher average royalty rate have been driving comparable sales. Additionally, increased Black Card pricing bodes well. Recently, the company reached an Area Development Agreement with Bravo Fit Holdings Pty Ltd. to open 35 Planet Fitness locations in Australia over the next few years.

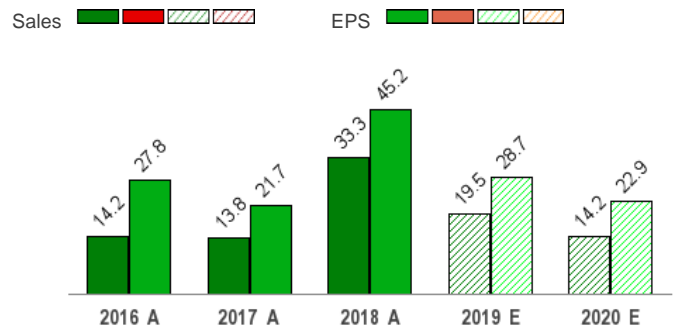
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.90 - \$56.14
20 Day Average Volume (sh)	676,383
Market Cap	\$7.2 B
YTD Price Change	7.0%
Beta	0.66
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 20% (203 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	53.3
P/E F1	41.4
PEG F1	1.9
P/S TTM	10.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	171 E	200 E	185 E	221 E	782 E
2019	149 A	182 A	167 A	188 E	685 E
2018	121 A	141 A	137 A	174 A	573 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.42 E	\$0.53 E	\$0.44 E	\$0.53 E	\$1.93 E
2019	\$0.35 A	\$0.45 A	\$0.36 A	\$0.41 E	\$1.57 E
2018	\$0.27 A	\$0.34 A	\$0.28 A	\$0.34 A	\$1.22 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

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 Sep 30, 2019, the company had more than 14.1 million members as well as 1,899 stores in 50 states, the District of Columbia, Puerto Rico, Canada, the Dominican Republic, Panama and Mexico.

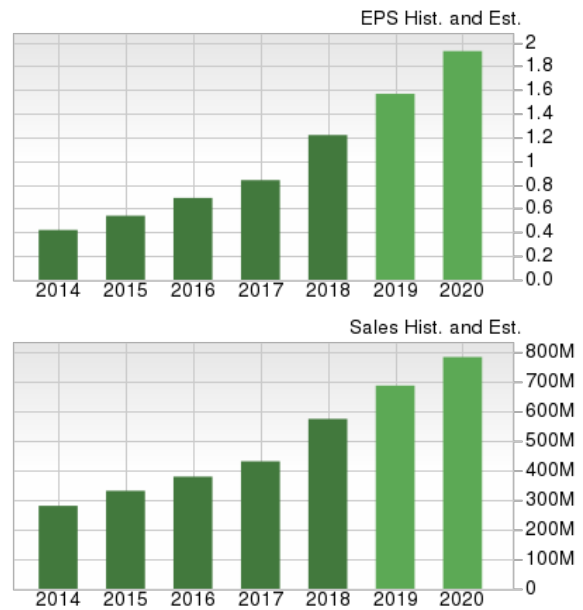
Of the 1,899 stores, 1,817 are franchised and 82 are corporate owned. Planet Fitness relies on franchising strategy to develop its business. As of Sep 30, 2019, 96% of all franchise stores were owned and operated by a franchisee group. However, while the largest franchisee owns 119 stores, only 24% of the franchisee groups own more than 10 stores.

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

Franchise Segment (39% of total 2018 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 (24% of total 2018 revenues): The segment generates revenues through monthly membership charges, enrollment, annual and prepaid fees paid members, and retail sales.

Equipment Segment (37% of total 2018 revenues): 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.



Reasons To Sell:

- ▼ **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 28.46. The stock is relatively overvalued right now compared with its peers as the industry average EV/EBTDA multiple currently stands at 9.67x.
- ▼ **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.
- ▼ **Debt Burden:** Planet Fitness' heavy reliance on debt financing remains a concern. As of Sep 30, 2019, cash and cash equivalent totaled \$330.6 million. Total long-term debt, net of current maturities, increased to \$1,155 million. The company might fail to finance its upcoming projects due to higher debt burden. Moreover, any downturn in the macroeconomic and credit market conditions would make it difficult for Planet Fitness to pay or refinance its debt, moving ahead.
- ▼ **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.

Planet Fitness' heavy reliance on debt financing remains a concern.

Risks

- **Low-cost Business Model:** Planet Fitness' low-cost gym franchise is the key to its above-average growth in customers, and, consequently share price. 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.

- **Strategic Efforts Bode Well:** In an effort to expand its presence, Planet Fitness has been focusing on strategic partnerships and international expansions. Recently, it announced partnership with Kohl's. Per the terms of the agreement, Planet Fitness can open stores adjacent to select Kohl's stores. In 2019, Planet Fitness intends to open up to 10 stores, adjacent to select Kohl's retail locations across the country. This apart, the company's existing franchisees signed agreements to open 1,000 more gyms. Planet Fitness expects almost half of these gyms to be opened in the coming three years.

Recently, the company reached an Area Development Agreement with Bravo Fit Holdings Pty Ltd. ("Bravo") to expand its footprint. Per the agreement, the company will open a minimum of 35 Planet Fitness locations in Australia over the next few years.

- **Impressive Earnings Trend Boosts Share Price:** Planet Fitness has impressed investors with earnings beat trend over the past several quarters. In the trailing four quarters, its bottom line surpassed the Zacks Consensus Estimate, the average being 5.5%. In third-quarter 2019, adjusted earnings came in at 36 cents per share that outpaced the consensus mark by a penny. The bottom line also increased 28.6% on a year-over-year basis. The company now anticipates adjusted net income and earnings per share to increase nearly 21% in the current year, up from the previous estimate of 20%. In the past year, shares of Planet Fitness have outperformed the industry.
 - **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 Sep 30, 2019, the company had more than 14.1 million members and 1,899 stores in all 50 states. These apart, Planet Fitness is committed to open more 1,000 new stores under prevailing area developments agreements. In 2018, the company opened 230 new stores (226 franchise stores and 4 corporate stores). Currently, it has stores in the United States, Puerto Rico, Canada, Dominican Republic, Panama and Mexico.
 - **Robust Same-Store Sales:** Planet Fitness' same-store sales growth is impressive. During third-quarter 2019, the company posted the 51st straight quarter of positive same-store sales. In the first, second and third quarter of 2019, the company reported system-wide same-store sales growth of 10.2%, 8.8% and 7.9%, respectively. In the first, the second, the third and the fourth quarter of 2018, same-store sales increased 11.1%, 10.2%, 9.7% and 10.1%, respectively. In the first, the second, the third and the fourth quarter of 2017, comps increased 11.1%, 9%, 9.3% and 11.6%, respectively. Increase in net member and higher average royalty rate have been driving comparable sales higher. Increased Black Card pricing too bodes well. For 2019, Planet Fitness expects revenue growth of nearly 19% year over year compared with the prior estimate of 18% rise. System-wide same-store sales are likely to increase nearly 8.6% compared with the prior estimate of 8%.
-

Last Earnings Report

Planet Fitness Q3 Earnings Beat Estimate

Planet Fitness reported third-quarter 2019 results, with earnings and revenues surpassing the Zacks Consensus Estimate. With this, earnings outpaced the consensus mark for the eighteenth straight quarter.

Notably, the top and the bottom line registered an improvement on a year-over-year basis. Quarterly results were driven by robust system-wide same-store sales growth as well as 41 store openings.

Adjusted earnings came in at 36 cents per share, which outpaced the consensus mark by a penny. The bottom line also increased 28.6% on a year-over-year basis.

Meanwhile, revenues of \$166.8 million surpassed the Zacks Consensus Estimate of \$162 million and surged 22.1% on a year-over-year basis. The top line was driven by sharp increase in the franchise, corporate-owned stores and equipment revenues. System-wide same-store sales increased 7.9% year over year in the quarter under review.

Franchise revenues increased 21.7% to \$66.7 million and the Corporate-owned Stores segment's revenues surged 15.1% year over year to \$40.7 million. In the Equipment segment, revenues rose 27.9% to \$59.4 million owing to a rise in equipment sales to new stores and sales of replacement equipment.

Moreover, EBITDA in the Franchise segment improved 19.6% to \$44.3 million owing to a rise in royalties from new franchised stores and increase in same-store sales. At the Corporate-owned stores and Equipment segments, EBITDA increased 9.9% and 42.3% to \$16.8 million and \$13.7 million, respectively.

Total adjusted EBITDA at the end of the third quarter rose to \$65.7 million from \$58.8 million in the year-ago quarter.

Other Financial Details

As of Sep 30, 2019, cash and cash equivalents totaled \$219.8 million compared with \$289.4 million as of Dec 31, 2018. Long-term debt, net of current maturities, amounted to \$1,155 million at the end of third-quarter 2019 compared with \$1,160.1 million at 2018 end.

2019 Outlook

For 2019, Planet Fitness expects revenue growth of nearly 19% year over year compared with the prior estimate of 18% rise. System-wide same-store sales are likely to increase nearly 8.6% compared with the prior estimate of 8%.

Furthermore, the company anticipates adjusted net income and earnings per share to increase nearly 21% in the current year, up from the previous estimate of 20%.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	2.66%
EPS Surprise	2.86%
Quarterly EPS	0.36
Annual EPS (TTM)	1.50

Recent News

Planet Fitness on Expansion Spree, Opens 2000th Store in CO - Jan 6, 2020

Planet Fitness, Inc., which banks on solid brand presence and continual expansion, has opened its 2000th store in Colorado Springs. Notably, the store situated in Colorado on E. Woodmen Rd. was opened on Dec 31, 2019. It has also opened its 2,001st store on the same date in the year, thereby bringing its 2019 total store count to a record 261.

Chris Rondeau, chief executive officer of Planet Fitness stated, "I am proud to announce this milestone, which demonstrates how our judgement free, affordable approach to fitness continues to resonate with consumers and the tremendous work being done every day across our system by our franchisees, their team members on the front lines, and our corporate employees."

Valuation

Planet Fitness' shares are up 38% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up by 7.7% and sector is up by 21%.

The S&P 500 index is up 24.8% in the past year.

The stock is currently trading at 28.46x trailing 12-month EV/EBITDA, which compares to 8.91x for the Zacks sub-industry, 12.71x for the Zacks sector and 12.12x for the S&P 500 index.

Over the past three years, the stock has traded as high as 33.01x and as low as 15.91x, with a 3-year median of 22.28x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$68 price target reflects 35.05x forward 12-month Price to Earnings value.

The table below shows summary valuation data for PLNT.

Valuation Multiples - PLNT					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	28.46	8.91	12.71	12.12
	3-Year High	33.01	11.38	17.76	12.86
	3-Year Low	15.91	7.62	11.07	9.33
	3-Year Median	22.28	9.67	12.47	11.16
P/E F 12M	Current	41.09	17	20.47	19
	3-Year High	48.08	22.68	21.92	19.34
	3-Year Low	23.5	15.64	16.16	15.17
	3-Year Median	33.95	18.22	19.87	17.71
P/S F 12M	Current	9.19	1.6	2.38	3.52
	3-Year High	10.85	2.18	2.83	3.52
	3-Year Low	4.34	1.43	1.94	2.76
	3-Year Median	7.49	1.84	2.47	3.15

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 254)



Top Peers

Bluegreen Vacations Corporation (BXG)	Neutral
Clarus Corporation (CLAR)	Neutral
Town Sports International Holdings, Inc. (CLUB)	Neutral
Cinemark Holdings Inc (CNK)	Neutral
Camping World Holdings Inc. (CWH)	Neutral
STUDIO CITY IH (MSC)	Neutral
Twin River Worldwide Holdings, Inc. (TRWH)	Neutral
Marcus Corporation (The) (MCS)	Underperform

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	PLNT Underperform	X Industry	S&P 500	BXG Neutral	CLAR Neutral	MSC Neutral
VGM Score	D	-	-	A	D	F
Market Cap	7.22 B	992.86 M	24.31 B	730.32 M	393.66 M	1.58 B
# of Analysts	11	4	13	2	1	1
Dividend Yield	0.00%	0.00%	1.76%	5.30%	0.76%	0.00%
Value Score	F	-	-	A	D	D
Cash/Price	0.04	0.10	0.04	0.31	0.00	0.43
EV/EBITDA	37.04	9.94	14.08	6.38	25.19	7.41
PEG Ratio	1.91	1.69	2.06	NA	NA	NA
Price/Book (P/B)	NA	1.95	3.33	1.55	2.33	1.43
Price/Cash Flow (P/CF)	46.53	8.71	13.62	7.01	15.16	9.62
P/E (F1)	41.30	18.77	18.86	11.75	15.87	NA
Price/Sales (P/S)	10.75	1.33	2.65	0.98	1.74	2.62
Earnings Yield	2.42%	5.26%	5.27%	8.46%	6.30%	-1.34%
Debt/Equity	-2.90	0.77	0.72	1.38	0.15	1.29
Cash Flow (\$/share)	1.72	1.90	6.94	1.40	0.87	2.09
Growth Score	A	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	32.41%	15.63%	10.56%	NA	56.78%	NA
Proj. EPS Growth (F1/F0)	23.03%	10.78%	7.52%	67.00%	22.06%	-143.55%
Curr. Cash Flow Growth	35.29%	10.60%	14.88%	13.74%	168.35%	53.01%
Hist. Cash Flow Growth (3-5 yrs)	23.14%	10.36%	9.00%	NA	16.19%	NA
Current Ratio	2.25	0.93	1.23	8.17	4.32	1.66
Debt/Capital	NA%	56.37%	42.99%	58.04%	12.86%	56.37%
Net Margin	16.80%	5.93%	11.14%	5.93%	4.49%	2.12%
Return on Equity	-37.57%	7.28%	17.16%	9.35%	10.58%	2.77%
Sales/Assets	0.46	0.53	0.55	0.55	1.04	0.20
Proj. Sales Growth (F1/F0)	14.06%	4.38%	4.18%	-4.06%	9.14%	-4.22%
Momentum Score	C	-	-	B	C	D
Daily Price Chg	1.06%	0.00%	0.08%	-1.01%	1.31%	1.61%
1 Week Price Chg	2.09%	0.00%	0.39%	-3.21%	-3.92%	0.51%
4 Week Price Chg	9.59%	1.97%	1.93%	-3.44%	-4.63%	1.97%
12 Week Price Chg	32.12%	2.99%	6.50%	0.93%	8.89%	8.86%
52 Week Price Chg	37.72%	-6.97%	22.56%	-27.39%	30.01%	23.79%
20 Day Average Volume	676,383	135,130	1,571,506	45,882	88,372	1,370
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.48%	-6.18%	-0.52%	-6.18%	-17.24%	73.79%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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.

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	A
Momentum Score	C
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.