

Planet Fitness (PLNT)

\$61.35 (As of 05/21/20)

Price Target (6-12 Months): **\$65.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

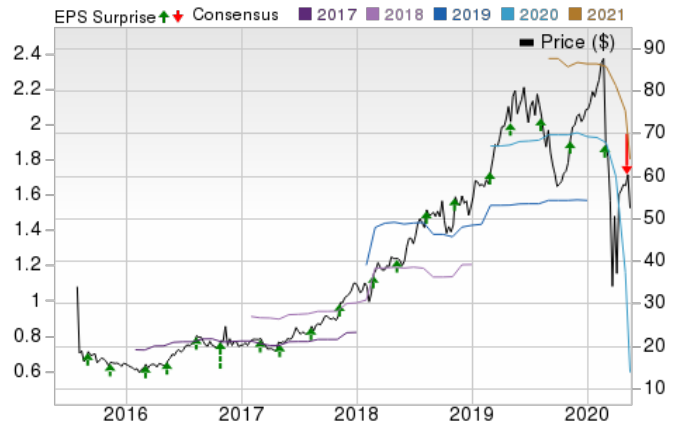
Growth: C

Momentum: F

Summary

Shares of Planet Fitness have outperformed the industry in the past year. The company reported first-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Notably, the top and the bottom lines declined 14.5% and 54.3%, respectively on a year-over-year basis. The decline was primarily due to coronavirus-induced shutdowns. Also, rise in debt levels remains a potent headwind. Notably, earning estimates for 2020 have witnessed downward revisions over the past 30 days, depicting analysts concern regarding the stock's growth potential. However, consistent focus on strategic partnership along with accelerated digital initiatives is likely to aid the company. Also, its collaboration with iFit is likely to benefit the company in the upcoming periods.

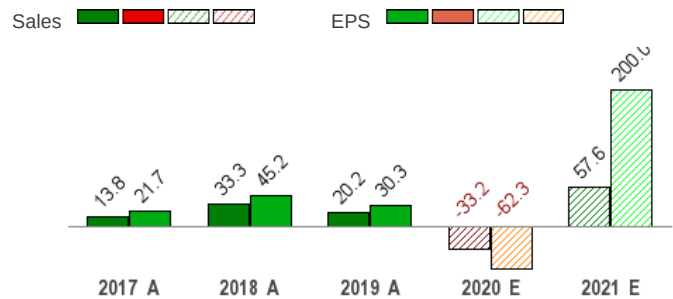
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.77 - \$23.77
20 Day Average Volume (sh)	2,812,012
Market Cap	\$5.3 B
YTD Price Change	-17.9%
Beta	1.23
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Top 48% (121 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-55.6%
Last Sales Surprise	-18.9%
EPS F1 Est- 4 week change	-54.4%
Expected Report Date	08/04/2020
Earnings ESP	-46.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	148 E	175 E	180 E	202 E	725 E
2020	127 A	45 E	122 E	166 E	460 E
2019	149 A	182 A	167 A	192 A	689 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.33 E	\$0.38 E	\$0.40 E	\$0.51 E	\$1.80 E
2020	\$0.16 A	-\$0.14 E	\$0.23 E	\$0.41 E	\$0.60 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	43.5
P/E F1	102.3
PEG F1	4.7
P/S TTM	8.0

The data in the charts and tables, except sales and EPS estimates, is as of 05/21/2020. The reports text and the analyst-provided sales and EPS estimates are as of 05/22/2020.

Overview

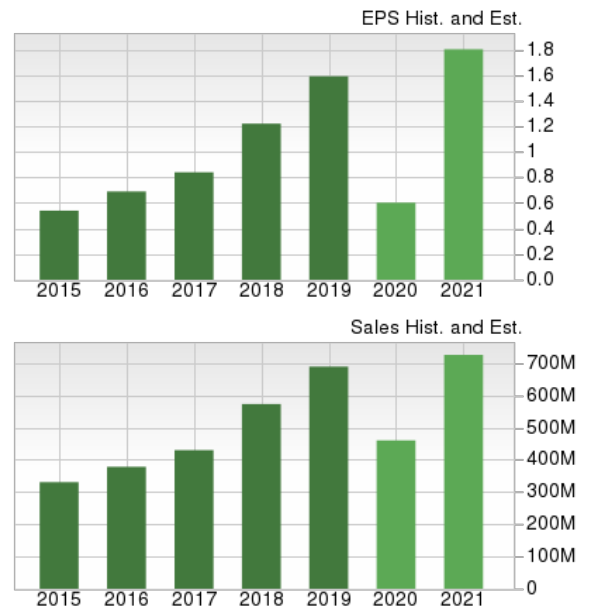
Planet Fitness, headquartered in Hampton, NH, was formed in 1992. It is one of the leading franchisors and operators of fitness centers in the United States. As of Mar 31, 2020, the company had more than 15.5 million members as well as 2,039 stores in 50 states, the District of Columbia, Puerto Rico, Canada, the Dominican Republic, Panama, Mexico and Australia. As of Mar 31, 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 (46% of first-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 through royalty fees, franchise fees, placement revenue, other fees and commission income.

Corporate-Owned Store Segment (31.8%): The segment generates revenues through monthly membership charges, enrollment, annual and prepaid fees paid members, and retail sales.

Equipment Segment (22.2%): 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 Buy:

- ▲ **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.
- ▲ **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.
- ▲ **Strategic Efforts Bode Well:** In an effort to expand its presence, Planet Fitness has been focusing on strategic partnerships and international expansions. Recently, the company collaborated with iFit, a leader in online streaming home workouts. This partnership will 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.

Planet Fitness' consistent focus on strategic partnership and international expansion to drive growth is an added positive.

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:** Thanks to the asset-light business model, the company generated approximately \$73.1 million in operating cash flow during the first quarter of 2020. This will enable the company to invest in the business, which includes the headquarter support team and technology focused initiatives.

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 15.5 million members.

Planet Fitness has accelerated its digital initiatives during the coronavirus-induced shutdowns. This includes daily workouts on Facebook Live that averaged 100,000 views per workout and subsequent postings on YouTube resulting in a 229% increase in Planet's YouTube subscriber base. This was backed by a wider audience of non-members. Notably, the company is also offering access to over 500 exercises on its app, which resulted in a 173% increase in average daily workouts on the app.

- ▲ **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 Mar 31, 2020, the company had more than 15.5 million members and 2,039 stores in all 50 states. In the first quarter of 2020, the company opened 39 new stores (38 franchise stores and 1 corporate stores). Currently, it has stores in the United States, the District of Columbia, Puerto Rico, Canada, the Dominican Republic, Panama, Mexico and Australia.
 - ▲ **Robust Same-Store Sales:** Planet Fitness' same-store sales growth is impressive. During fourth-quarter 2019, the company posted the 52nd straight quarter of positive same-store sales. In the first, the second, the third and the fourth quarter of 2019, the company reported system-wide same-store sales growth of 10.2%, 8.8%, 7.9% and 8.6%, 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. During the first quarter 2020, the company reported system-wide same-store sales growth of 9.8%.
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Reasons To Sell:

- ▼ **Coronavirus Likely to Hurt 2020 Results:** The Leisure and Recreation Services industry is currently grappling with the coronavirus outbreak in China and Planet Fitness isn't immune to the trend. Due to the coronavirus outbreak, the company has temporarily closed majority of system-wide and corporate stores. Moreover, due to the uncertainty and significant business impacts caused by COVID-19, the company has also withdrawn its previously issued guidance for 2020.

It's within the realm of possibility that our equipment placements and our replacement equipment sales could be down 50% or more from our record high in 2019. And this headwind could linger into 2021 as well.

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

- ▼ **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 23.65. The stock is relatively overvalued right now compared with its peers as the industry average EV/EBTDA multiple currently stands at 5.66x.
- ▼ **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.
- ▼ **High Leverage Concern:** The company's total debt increased to \$1,908 million (as of Mar 31, 2020) from \$1,840 million as of December end. Moreover, the company's debt-to-capitalization of 156.1% is quite high compared to 42.1% for its industry. Notably, its times-interest-earned ratio of 3.3 reflects decline from 3.8 in the prior quarter. This indicates reduced relative freedom of the company from the constraints of debt. Moreover, the company ended first-quarter 2020 with cash and cash equivalents of \$547.5 million, which is not enough to manage the high debt level.
- ▼ **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.
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Last Earnings Report

Planet Fitness Q1 Earnings & Revenues Miss Estimates

Planet Fitness reported first-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Notably, earnings missed the consensus mark after beating in the preceding 19 quarters. Moreover, both top and bottom lines declined sharply year over year owing to the coronavirus pandemic.

Quarterly Details

Adjusted earnings came in at 16 cents per share, which missed the Zacks Consensus Estimate of 36 cents. The bottom line also declined 54.3% on a year-over-year basis.

Meanwhile, revenues of \$127.2 million lagged the Zacks Consensus Estimate of \$157 million and declined 14.5% on a year-over-year basis. The top line was impacted by dismal franchise and equipment sales. However, system-wide same-store sales improved 9.8% year over year in the quarter under review.

Franchise revenues decreased 11% to \$58.5 million. The Corporate-owned Stores segment's revenues improved 6.5% year over year to \$40.5 million. In the Equipment segment, revenues declined 37.4% to \$28.2 million owing to decreasing lower equipment sales to new and existing franchisee-owned stores.

Moreover, EBITDA in the Franchise segment declined 22.4% to \$36.7 million. The segment EBITDA for the first quarter does not reflect \$18.7 million of deferred royalty and national advertising fund revenue, which was collected but not recognized due to coronavirus-induced store closure. At the Corporate-owned stores segment, EBITDA fell 22.9% to \$12 million. Moreover, the same declined 38.8% to \$6.4 million at Equipment segment.

Total adjusted EBITDA at the end of the first quarter fell to \$46.5 million from \$63.5 million in the year-ago quarter.

Other Financial Details

As of Mar 31, 2020, cash and cash equivalents totaled \$547.5 million compared with \$436.3 million as of Dec 31, 2019. Long-term debt, net of current maturities, amounted to \$1,684.7 million at the end of first-quarter 2020 compared with \$1,687.5 million at 2019 end.

Coronavirus Update

Due to the coronavirus pandemic, the company's CEO, president, chief financial and chief digital and information officers have taken a significant pay cut. The company has furloughed all employees except the store manager at each corporate-owned store location. In an effort to provide liquidity, the company has withdrawn \$75.0 million variable funding notes.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	-18.91%
EPS Surprise	-55.56%
Quarterly EPS	0.16
Annual EPS (TTM)	1.41

Recent News

Planet Fitness Partners With iFit, Boosts In-Home Workouts – Apr 13, 2020

In a bid to strengthen and enhance its digital offerings, Planet Fitness collaborated with iFit — a leader in streaming home workouts and a pioneer in interactive connected fitness technology.

Notably, this partnership announcement is an expansion of the recently launched 'United We Move' campaign.

Under the collaboration, Planet Fitness will be providing a series of new streaming in-home workouts for people of all fitness levels and interests. The workouts that include a broad range of fitness and wellness categories — including at home cardio, at home strength-training, stretching and more — will be made available exclusively on the Planet Fitness app for free. It also offers workouts with a beginner and intermediate levels to help people progress through their fitness journeys.

Planet Fitness Shuts Down Stores Due to Coronavirus Outbreak – Mar 18, 2020

The coronavirus outbreak has rattled most of the industries and Planet Fitness, isn't immune to the trend. Due to the coronavirus outbreak, the company has temporarily closed majority of system-wide and corporate stores. The company has also suspended its share repurchase program for the time being. The company will utilize its strong levels of liquidity to fund ongoing operating expenses due to the outbreak.

Valuation

Planet Fitness' shares are down by 17.8% in the year-to-date period and 17.6% over the trailing 12-month period. Stocks in the Zacks sub-industry is down by 50.5% and the Zacks Consumer Discretionary sector is down by 16.2% in the year-to-date period. Over the past year, the Zacks sub-industry and sector were down by 50.6% and 8.3%, respectively.

The S&P 500 index is down by 8.3% in the year-to-date period but up 4.4% in the past year.

The stock is currently trading at 9.42x forward 12-month sales, which compares to 1.07x for the Zacks sub-industry, 2.08x for the Zacks sector and 3.33x for the S&P 500 index.

Over the past three years, the stock has traded as high as 10.85x and as low as 2.99x, with a 3-year median of 7.79x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$65 price target reflects 9.9x 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	9.42	1.07	2.08	3.33
	3-Year High	10.85	2.18	2.84	3.44
	3-Year Low	2.99	0.71	1.67	2.76
	3-Year Median	7.79	1.69	2.29	3.16
P/CF	Current	22.28	3.9	13.12	15.13
	3-Year High	35.64	10.88	14.96	22.71
	3-Year Low	10.83	2.71	9.11	11.68
	3-Year Median	25.94	8.48	12.93	18.1
EV/EBITDA TTM	Current	23.65	5.66	9.75	10.9
	3-Year High	33.06	11.38	17.62	12.86
	3-Year Low	12.82	4.74	8.26	8.28
	3-Year Median	23.03	9.31	12.35	11.21

As of 05/21/2020

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Bluegreen Vacations Corporation (BXG)	Neutral	3
Clarus Corporation (CLAR)	Neutral	3
Town Sports International Holdings, Inc. (CLUB)	Neutral	2
Cinemark Holdings Inc (CNK)	Neutral	3
Camping World Holdings Inc. (CWH)	Neutral	3
Marcus Corporation The (MCS)	Neutral	3
STUDIO CITY IH (MSC)	Neutral	3
Twin River Worldwide Holdings, Inc. (TRWH)	Neutral	3

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	PLNT	X Industry	S&P 500	BXG	CLAR	MSC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	D	D	F
Market Cap	5.30 B	639.78 M	20.19 B	285.59 M	301.86 M	1.21 B
# of Analysts	9	3.5	14	1	2	1
Dividend Yield	0.00%	0.00%	2.11%	13.20%	0.99%	0.00%
Value Score	F	-	-	B	C	F
Cash/Price	0.14	0.20	0.07	1.00	0.05	0.25
EV/EBITDA	23.24	6.42	12.15	6.42	16.28	6.60
PEG Ratio	4.75	1.29	2.71	NA	NA	NA
Price/Book (P/B)	NA	0.90	2.74	0.64	1.66	1.12
Price/Cash Flow (P/CF)	27.16	4.65	10.98	4.64	11.09	5.40
P/E (F1)	102.55	39.40	20.17	39.40	28.11	NA
Price/Sales (P/S)	7.95	0.69	2.07	0.38	1.36	2.36
Earnings Yield	0.98%	-8.85%	4.73%	2.54%	3.56%	-17.65%
Debt/Equity	-2.76	0.65	0.76	1.66	0.18	1.33
Cash Flow (\$/share)	2.26	2.40	6.96	0.85	0.91	2.85
Growth Score	C	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	30.95%	16.78%	10.87%	NA	130.48%	NA
Proj. EPS Growth (F1/F0)	-62.12%	-171.83%	-10.31%	-83.33%	-47.71%	-462.67%
Curr. Cash Flow Growth	23.15%	3.70%	5.46%	-39.52%	5.40%	36.41%
Hist. Cash Flow Growth (3-5 yrs)	20.84%	9.86%	8.55%	NA	27.48%	NA
Current Ratio	3.69	0.93	1.29	11.93	6.38	3.17
Debt/Capital	NA%	56.77%	44.54%	62.42%	15.01%	57.05%
Net Margin	14.82%	1.85%	10.54%	2.68%	6.86%	-8.11%
Return on Equity	-23.53%	4.25%	16.27%	9.88%	8.41%	-2.72%
Sales/Assets	0.41	0.54	0.54	0.54	0.98	0.18
Proj. Sales Growth (F1/F0)	-33.21%	-32.85%	-2.49%	-30.74%	-14.53%	-45.40%
Momentum Score	F	-	-	F	B	B
Daily Price Chg	0.71%	0.00%	-0.76%	6.49%	1.50%	0.00%
1 Week Price Chg	-13.12%	-7.09%	-4.56%	-6.16%	-9.91%	-6.03%
4 Week Price Chg	7.56%	5.03%	5.52%	-30.63%	10.49%	-3.66%
12 Week Price Chg	-14.87%	-31.47%	-8.54%	-49.03%	-14.62%	-11.92%
52 Week Price Chg	-17.55%	-58.40%	-6.30%	-61.90%	-23.68%	-16.72%
20 Day Average Volume	2,812,012	307,663	2,645,192	157,568	135,580	693
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-54.39%	-27.98%	-3.80%	-41.88%	23.01%	0.00%
(F1) EPS Est 12 week change	-69.20%	-154.26%	-16.57%	-59.28%	-62.41%	-5.43%
(Q1) EPS Est Mthly Chg	-173.21%	-41.82%	-7.64%	-226.67%	14.80%	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	C
Momentum Score	F
VGM Score	F

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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