

Planet Fitness (PLNT)

\$48.60 (As of 03/30/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: A

Momentum: F

Summary

Shares of Planet Fitness have outperformed the industry in the past year. The outperformance is primarily attributed to consistent focus on strategic partnership and international expansion. Moreover, the company's increased focus on digitalization also bodes well. During fourth-quarter 2019, the company posted the 52nd straight quarter of positive same-store sales. However, high debt and worsening global economic conditions might dent revenues and profits. Also, the coronavirus outbreak in china pose concerns. In case of an economic slowdown, wherein demand fluctuates, Planet Fitness will be exposed to reduced royalty fees and lesser sales from equipment. Notably, earning estimates for 2020 have declined over the past 30 days, depicting analyst's concern regarding the stock growth potential.

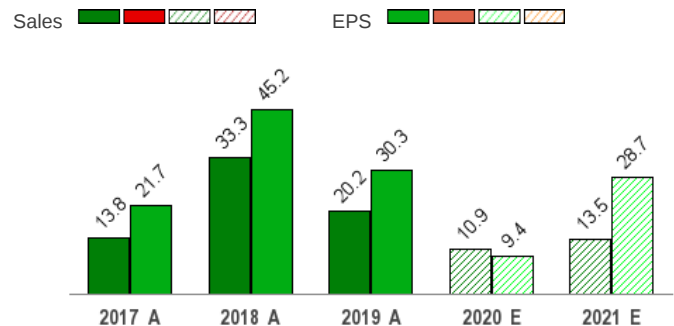
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.77 - \$23.77
20 Day Average Volume (sh)	4,156,129
Market Cap	\$4.2 B
YTD Price Change	-34.9%
Beta	0.84
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 31% (174 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.3%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-7.8%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	30.4
P/E F1	27.9
PEG F1	1.3
P/S TTM	6.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	185 E	230 E	220 E	235 E	867 E
2020	162 E	198 E	189 E	215 E	764 E
2019	149 A	182 A	167 A	192 A	689 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.50 E	\$0.50 E	\$0.66 E	\$0.55 E	\$2.24 E
2020	\$0.41 E	\$0.38 E	\$0.50 E	\$0.44 E	\$1.74 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.

The data in the charts and tables, except sales and EPS estimates, is as of 03/30/2020. The reports text and the analyst-provided sales and EPS estimates are as of 03/31/2020.

Overview

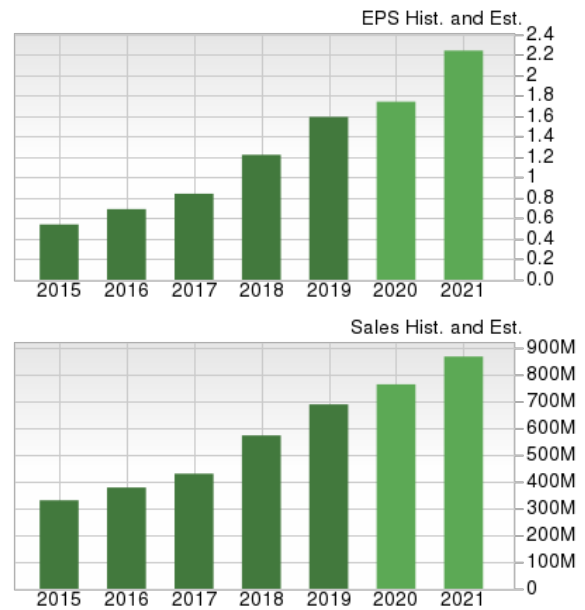
Planet Fitness, headquartered in Hampton, NH, was formed in 1992. It is one of the leading franchisors and operators of fitness centers in the United States. As of Dec 31, 2019, the company had more than 14.4 million members as well as 2,001 stores in 50 states, the District of Columbia, Puerto Rico, Canada, the Dominican Republic, Panama, Mexico and Australia. As of Dec 31, 2019, 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 (40% of total 2019 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 2019 revenues): The segment generates revenues through monthly membership charges, enrollment, annual and prepaid fees paid members, and retail sales.

Equipment Segment (36% of total 2019 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 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.

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

▲ **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. 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.

The company's international presence consists of modest 55 stores, mostly in Canada. Also, it has stores in Dominican Republic, Panama, Mexico and Australia. In the past five years, store count has increased 118%. 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.

▲ **Increased Focus on Digitalization Bodes Well:** Thanks to the asset-light business model, the company generated approximately \$204 million in operating cash flow during the fourth quarter 2019. 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 14 million members.

▲ **Impressive Earnings Trend Boosts Share Price:** Planet Fitness has impressed investors with earnings beat trend over the past several quarters. The company has trailing four-quarter positive earnings surprise of 5.7%, on average. In fourth-quarter 2019, adjusted earnings came in at 44 cents per share that outpaced the consensus mark by 7.3%. The bottom line also increased 29.4% on a year-over-year basis. The company now anticipates adjusted net income and earnings per share to increase 10% and 16%, respectively, year over year. 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 Dec 31, 2019, the company had more than 14.4 million members and 2,001 stores in all 50 states. In 2019, the company opened 261 new stores (255 franchise stores and 6 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. For 2020, Planet Fitness expects revenue growth of nearly 12% year over year. System-wide same-store sales are likely to increase approximately 8%.

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.
- ▼ **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 19.04. The stock is relatively overvalued right now compared with its peers as the industry average EV/EBTDA multiple currently stands at 5.36x.
- ▼ **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 Dec 31, 2019, cash and cash equivalent totaled \$436.3 million. Total long-term debt, net of current maturities, increased to \$1,687.5 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.

Last Earnings Report

Planet Fitness Q4 Earnings and Revenue Beat Estimates

Planet Fitness, reported fourth-quarter 2019 results, wherein both earnings and revenues beat the respective Zacks Consensus Estimate. Following this result, the bottom line has surpassed the consensus mark for 19th straight quarter, while the top line has outpaced the same for the third consecutive quarter.

Notably, both earnings and revenues also improved on a year-over-year basis. Quarterly results were driven by robust system-wide same-store sales growth and 102 store openings.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	1.46%
EPS Surprise	7.32%
Quarterly EPS	0.44
Annual EPS (TTM)	1.60

Quarterly Discussion in Details

Adjusted earnings came in at 44 cents per share, which outpaced the consensus mark of 41 cents. The bottom line also improved 29.4% on a year-over-year basis.

Meanwhile, revenues of \$191.5 million surpassed the Zacks Consensus Estimate of \$189 million and surged 9.8% on a year-over-year basis. The top line was driven by sharp increase in the franchise and corporate-owned stores. System-wide same-store sales improved 8.6% year over year in the quarter under review.

Franchise revenues increased 27.9% to \$58.5 million and the Corporate-owned Stores segment's revenues climbed 13.7% year over year to \$41.2 million. In the Equipment segment, revenues declined 5.6% to \$77 million owing to decreasing sales of replacement equipment, which offset increase in equipment sales to new stores.

Moreover, EBITDA in the Franchise segment improved 30.8% to \$50.7 million owing to rise in royalties from new franchised stores and increase in same-store sales. At the Corporate-owned stores segment, EBITDA increased 3.6% to \$51.1 million. However, the same declined 1.7% to \$18.7 million at Equipment segment.

Total adjusted EBITDA at the end of the fourth quarter rose to \$76.6 million from \$62.3 million in the year-ago quarter.

Other Financial Details

As of Dec 31, 2019, cash and cash equivalents totaled \$436.3 million compared with \$289.4 million as of Dec 31, 2018. Long-term debt, net of current maturities, amounted to \$1,687.5 million at the end of fourth-quarter 2019 compared with \$1,160.1 million at 2018 end.

2020 Outlook

For 2020, Planet Fitness expects revenue growth of nearly 12% year over year. The Zacks Consensus Estimate for revenue growth is currently pegged at 14.4%.

System-wide same-store sales are likely to increase nearly 8%. Furthermore, the company anticipates adjusted net income and earnings per share to increase 10% and 16%, year over year, respectively.

Recent News

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.

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 down by 34.9% in the year-to-date period and 30.3% over the trailing 12-month period. Stocks in the Zacks sub-industry is down by 58.8% and the Zacks Consumer Discretionary sector is down by 27.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector were down by 60% and 20%, respectively.

The S&P 500 index is down by 21.1% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 24.36x trailing 12-month forward earnings, which compares to 14.33x for the Zacks sub-industry, 16.63x for the Zacks sector and 15.48x for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.08x and as low as 13.91x, with a 5-year median of 35.19x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$51 price target reflects 25.62x forward 12-month earnings.

The table below shows summary valuation data for PLNT.

Valuation Multiples - PLNT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.36	14.33	16.63	15.48
	3-Year High	48.08	22.68	21.91	19.34
	3-Year Low	13.91	14.22	16.15	15.18
	3-Year Median	35.19	18.1	19.66	17.44
P/S F12M	Current	5.3	0.7	1.7	2.75
	3-Year High	10.85	2.18	2.83	3.43
	3-Year Low	3.02	0.7	1.7	2.75
	3-Year Median	7.77	1.84	2.39	3.15
EV/EBITDA TTM	Current	19.04	5.36	9.03	9.4
	3-Year High	33.06	11.38	17.6	12.88
	3-Year Low	12.82	4.78	8.26	8.27
	3-Year Median	22.95	9.43	12.24	11.21

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (174 out of 254)



Top Peers

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

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	PLNT Neutral	X Industry	S&P 500	BXG Neutral	CLAR Neutral	MSC Neutral
VGM Score	D	-	-	A	B	F
Market Cap	4.23 B	522.38 M	18.21 B	406.76 M	285.69 M	1.59 B
# of Analysts	9	2.5	13	2	1	1
Dividend Yield	0.00%	0.00%	2.3%	9.51%	1.04%	0.00%
Value Score	D	-	-	A	C	F
Cash/Price	0.11	0.20	0.06	0.64	0.01	0.22
EV/EBITDA	19.69	6.06	11.22	7.11	15.55	8.52
PEG Ratio	1.33	1.07	1.74	NA	NA	NA
Price/Book (P/B)	NA	0.82	2.41	0.87	1.58	1.37
Price/Cash Flow (P/CF)	21.52	3.21	9.70	6.44	10.50	7.32
P/E (F1)	28.75	9.68	15.12	7.06	12.80	NA
Price/Sales (P/S)	6.15	0.56	1.96	0.54	1.25	2.53
Earnings Yield	3.58%	5.15%	6.55%	14.08%	7.81%	-6.24%
Debt/Equity	-2.60	0.74	0.70	1.42	0.13	1.24
Cash Flow (\$/share)	2.26	2.40	7.01	0.85	0.91	2.76
Growth Score	A	-	-	B	A	F
Hist. EPS Growth (3-5 yrs)	32.51%	17.66%	10.89%	NA	53.94%	NA
Proj. EPS Growth (F1/F0)	9.36%	-37.68%	1.80%	29.17%	8.70%	-268.00%
Curr. Cash Flow Growth	23.15%	3.07%	5.93%	-39.52%	5.40%	31.81%
Hist. Cash Flow Growth (3-5 yrs)	20.84%	9.86%	8.55%	NA	27.48%	NA
Current Ratio	3.71	0.91	1.23	9.11	4.92	4.14
Debt/Capital	NA%	55.33%	42.57%	58.75%	11.12%	55.33%
Net Margin	17.09%	5.14%	11.64%	4.62%	8.27%	5.14%
Return on Equity	-32.33%	5.38%	16.74%	9.09%	10.84%	4.02%
Sales/Assets	0.45	0.53	0.54	0.56	1.04	0.21
Proj. Sales Growth (F1/F0)	10.88%	-2.47%	2.08%	2.65%	5.87%	-29.10%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	-3.61%	-3.03%	2.63%	8.75%	5.38%	6.82%
1 Week Price Chg	48.60%	17.35%	12.32%	20.62%	3.17%	14.61%
4 Week Price Chg	-29.03%	-42.53%	-18.22%	-28.59%	-19.40%	8.46%
12 Week Price Chg	-35.24%	-51.03%	-23.36%	-46.32%	-28.49%	2.28%
52 Week Price Chg	-30.30%	-63.92%	-17.22%	-63.92%	-24.94%	23.77%
20 Day Average Volume	4,156,129	328,584	4,211,236	62,151	198,373	438
(F1) EPS Est 1 week change	-5.21%	0.00%	-0.19%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.78%	-23.70%	-3.07%	-14.84%	-11.11%	0.00%
(F1) EPS Est 12 week change	-9.82%	-50.31%	-4.15%	-7.19%	-11.11%	-366.67%
(Q1) EPS Est Mthly Chg	-6.82%	-32.00%	-2.28%	-2.78%	-11.11%	0.00%

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	D
Growth Score	A
Momentum Score	F
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.