

# Planet Fitness (PLNT: \$56.89 In-Line; \$55 PT)

*Another Strong Quarter; Forward Estimates Move Higher—Maintaining Our In-Line Rating and \$55 Price Target*

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**Key Data**

Symbol: PLNT  
Price (2/26/19): \$56.89  
Rating: In-Line  
Price Target: \$55

**Estimates:**

2019E EBITDA: \$267  
2020E EBITDA: \$304  
2019E EV/EBITDA: 23.6x  
2020E EV/EBITDA: 20.7x

**Company Description**

Planet Fitness is an operator and franchisor of fitness centers. It is one of the largest fitness companies in the world, with over 1,600 locations and 12mn members.

**Figure 1. Planet Fitness—Key Company Data, Prices as of Market Close on 2/26/19**

Key Data	FY: Dec	2018		2019E		2020E		
		Old	Actual	Old	New	Old	New	
Price:	\$56.89	EPS:						
Price Target:	<b>\$55.00</b>	Q1	0.27A	0.27	0.27	0.33	--	--
52-Week Range:	\$35.92-\$61.51	Q2	0.34A	0.34	0.33	0.42	--	--
Market Cap (\$mn):	5,448	Q3	0.28A	0.28	0.27	0.34	--	--
Shares Out. (mn):	95.8	Q4	0.30	0.34	0.42	0.45	--	--
Avg. Daily Vol.:	1,272,834	Year	<b>1.18</b>	<b>1.22</b>	1.29	1.53	1.54	1.68
		P/E		<b>46.6x</b>		<b>37.2x</b>		<b>33.9x</b>
Total Debt (\$mn)*:	1,172	EBITDA (\$mn)	220	223	257	267	293	304
Net Debt (\$mn)*:	852	EV/EBITDA		<b>28.2x</b>		<b>23.6x</b>		<b>20.7x</b>
EV (\$mn):	6,300	Revenue (\$mn)						
Annual Dividend:	0	Q1	121A	121	138	147	--	--
Dividend yield:	0.0%	Q2	141A	141	158	169	--	--
		Q3	137A	137	143	149	--	--
		Q4	172	174	204	195	--	--
		Year	570	573	643	661	709	730

\*vs S&P 500

Sources: Company data and Imperial Capital, LLC.

## Financial Summary

Planet Fitness (PLNT) generated sales of \$573mn and EBITDA of \$223mn in the latest 12 month (LTM) period ended 12/31/18. The company has approximately \$1.2bn in debt and \$320mn in cash as of that date.

## View and Valuation

**We are maintaining our In-Line rating on PLNT shares and our one-year price target of \$55.** Our price target is based on 20x our 2020E EBITDA of \$304mn.

## Rationale

Planet reported another strong quarter and we are raising our estimates; see Figure 1. We remain on the sidelines given PLNT's elevated valuation and we see other more compelling opportunities under coverage.

**Quarterly overview:** PLNT reported 4Q18 results on 2/26/19 that exceeded our estimates and consensus. Revenue of \$174mn and EBITDA of \$62mn compared to our estimates of \$172mn and \$59mn, respectively. Franchise revenue grew 22% in the quarter, strong but below the trend YTD. Corporate owned gyms and equipment grew 28% and 24%, respectively.

**Key metrics:** Consolidated same store sales grew 10.1% year-over-year (yoy) and total membership grew to 12.5mn. Owned gym same store sales growth of 9% exceeded the recent trends of MSD, benefitted by stores entering the comp that opened in 4Q17.

**Guidance and estimate changes:** Management initiated 2019 guidance that is above our estimates. Management guided for growth in revenue, adjusted EPS, and EBITDA of 15%, 25%, and 20%, respectively. Our updated estimates are shown in Figure 1.

**Share repurchases:** The company bought over \$340mn in stock in 2018 and has \$158mn remaining under authorization.

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Additional information is available upon request.

## Capitalization

**Figure 2. Planet Fitness—Capitalization as of 12/31/18, Prices as of Market Close on 2/26/19**

			Debt Face		Net Debt Face		Net Debt Market		Price / YTM Analysis			Interest Exp. Analysis		
LTM Revenue	(12/31/18)	573												
LTM ADJ EBITDA	(12/31/18)	223												
LTM EBITDA %	(12/31/18)	39.0%												
LTM FCF	(12/31/18)	144												
Settlement Date	NA													
	M/S&P Rating	Balance	Cum. Debt Face	LTM EBITDA Mult.	Net Debt Face	LTM EBITDA Mult.	Debt Mkt	Net Debt Mkt	LTM EBITDA Mult.	Price	YTM	Mat.	Rate/Coup.	Est. Int. Exp.
Cash		320												
<b>Senior Secured Credit Facility</b>														
4 Year Notes		575	575		575		575				9/22		4.26%	24.5
7 Year Notes		625	625	NA	625	NA	625		NA		9/25		4.66%	29.1
<b>Total</b>		<b>1,200</b>	<b>1,200</b>	<b>5.4x</b>	<b>880</b>	<b>3.9x</b>	<b>1,200</b>	<b>880</b>	<b>3.9x</b>					<b>53.6</b>
<b>Common Equity</b>														
Common Stock (PLNT)		5,448												
<b>Total Equity</b>		<b>5,448</b>			<b>6,023</b>	<b>27.0x</b>	<b>56.89</b>	<b>95.8</b>						<b>Interest 53.6</b>

Sources: Company data and Imperial Capital, LLC.

## Recent Financial Results

**Figure 3. Planet Fitness—Quarterly Overview**

	Q4'18A	IC Est	Growth
Revenue	174,360	171,887	30.1%
Cost of Revenue	62,532	57,582	
Gross Profit	111,828	114,305	34.5%
Gross Margin	64.1%	66.5%	
Store Operations	19,851	18,908	
S, G, A	20,380	23,205	
Dep and Amort	9,313	9,000	
Other	9,542	13,438	
Operating Income	52,742	49,755	24.8%
Intererst, Other	(12,820)	(14,671)	
Pretax Income	34,085	35,083	
Taxes	5,307	9,122	
Net Income	28,778	25,962	
Adj EPS	\$0.34	\$0.30	
EBITDA	62,260	59,355	

2019 FY Guidance - New

Revenue	approx	15%
SSS		HSD
Adj EPS	approx	25%

2019 estimates - Previous

Revenue	approx	13%
SSS		na
Adj EPS	approx	10%

Sources: Company data and Imperial Capital, LLC.

**Figure 4. Planet Fitness—Income Statement, 2016-2020E**

<b>Planet Fitness (PLNT)</b>	<b>2016</b>	<b>2017</b>	<b>1Q18 March</b>	<b>2Q18 June</b>	<b>3Q18 Sept</b>	<b>4Q18 Dec</b>	<b>2018</b>	<b>1Q19E March</b>	<b>2Q19E June</b>	<b>3Q19E Sept</b>	<b>4Q19E Dec</b>	<b>2019E</b>	<b>2020E</b>
Total Revenue	\$378,241	\$429,942	\$121,333	\$140,550	\$136,656	\$174,360	\$572,899	\$146,853	\$169,376	\$149,304	\$195,167	\$660,701	\$730,368
<i>Growth</i>	14.4%	13.7%	33.2%	31.0%	40.2%	30.1%	33.3%	21.0%	20.5%	9.3%	11.9%	15.3%	10.5%
Cost of Revenue	122,317	129,266	26,500	36,744	36,871	62,532	162,647	32,308	42,344	38,073	60,502	173,226	183,301
Gross Profit	255,924	300,676	94,833	103,806	99,785	111,828	410,252	114,546	127,032	111,232	134,665	487,475	547,067
Store Operations	60,121	60,657	18,356	18,047	18,751	19,851	75,005	20,559	22,019	20,156	21,468	84,203	91,259
Selling, General, and Administrative	50,009	60,369	17,623	17,210	17,233	20,380	72,446	20,559	20,325	17,917	26,348	85,149	93,894
Depreciation and Amortization	31,501	31,761	8,465	8,619	8,863	9,313	35,260	9,250	9,250	9,750	9,750	38,000	40,000
Other (NAF)	(1,369)	353	11,471	11,119	11,365	9,542	43,497	13,431	14,755	13,420	13,948	55,555	62,666
Operating Income	115,662	147,536	38,918	48,811	43,573	52,742	184,044	50,745	60,683	49,989	63,151	224,568	259,247
Interest Expense	(27,125)	(35,283)	(8,734)	(8,628)	(15,884)	(12,820)	(46,066)	(14,652)	(14,652)	(14,652)	(14,652)	(58,606)	(58,606)
Other Income	1,372	316,928	192	(502)	(27)	(5,837)	(6,174)	0	0	0	0	0	0
Pretax Income	89,909	429,181	30,376	39,681	27,662	34,085	131,804	36,094	46,032	35,337	48,500	165,962	200,641
Taxes	18,662	373,580	6,883	9,263	7,190	5,307	28,643	9,023	11,508	8,834	12,125	41,491	50,160
GAAP Net Income	71,247	55,601	23,493	30,418	20,472	28,778	103,161	27,070	34,524	26,503	36,375	124,472	150,481
Non-Controlling Interests	49,747	22,455	3,613	4,544	3,001	3,983	15,141	4,061	5,179	3,975	5,456	18,671	22,572
Net Income to PLNT	21,500	33,146	19,880	25,874	17,471	24,795	88,020	23,010	29,345	22,527	30,918	105,801	127,909
Adj EPS	\$0.68	\$0.84	\$0.27	\$0.34	\$0.28	\$0.34	\$1.22	\$0.33	\$0.42	\$0.34	\$0.45	\$1.53	\$1.68
Proforma Shares Outstanding	98,612	98,479	98,651	98,810	98,462	95,758	97,950	94,458	93,158	91,858	90,558	92,508	90,558
EBITDA	150,617	184,733	48,772	58,381	53,787	62,260	223,200	61,045	70,983	60,789	73,951	266,768	303,847
<i>Growth</i>	21.9%	22.7%	15.4%	21.8%	24.0%	21.6%	20.8%	25.2%	21.6%	13.0%	18.8%	19.5%	13.9%
FCF	93,440	93,299	46,098	24,260	54,927	18,254	143,538	30,320	36,274	35,253	42,625	144,472	173,481
Gross Margin	67.7%	69.9%	78.2%	73.9%	73.0%	64.1%	71.6%	78.0%	75.0%	74.5%	69.0%	73.8%	74.9%
Store Operations	15.9%	14.1%	15.1%	12.8%	13.7%	11.4%	13.1%	14.0%	13.0%	13.5%	11.0%	12.7%	12.5%
S, G, & A	13.2%	14.0%	14.5%	12.2%	12.6%	11.7%	12.6%	14.0%	12.0%	12.0%	13.5%	12.9%	12.9%
Depreciation and Amortization	8.3%	7.4%	7.0%	6.1%	6.5%	5.3%	6.2%	6.3%	5.5%	6.5%	5.0%	5.8%	5.5%
Taxes	20.8%	87.0%	22.7%	23.3%	26.0%	15.6%	21.7%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Non-controlling Interest	69.8%	40.4%	15.4%	14.9%	14.7%	13.8%	14.7%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Operating Income	30.6%	34.3%	32.1%	34.7%	31.9%	30.2%	32.1%	34.6%	35.8%	33.5%	32.4%	34.0%	35.5%
EBITDA	39.8%	43.0%	40.2%	41.5%	39.4%	35.7%	39.0%	41.6%	41.9%	40.7%	37.9%	40.4%	41.6%
Incremental EBITDA Margin	56.7%	66.0%	21.6%	31.5%	26.6%	27.4%	26.9%	48.1%	43.7%	55.4%	56.2%	49.6%	53.2%

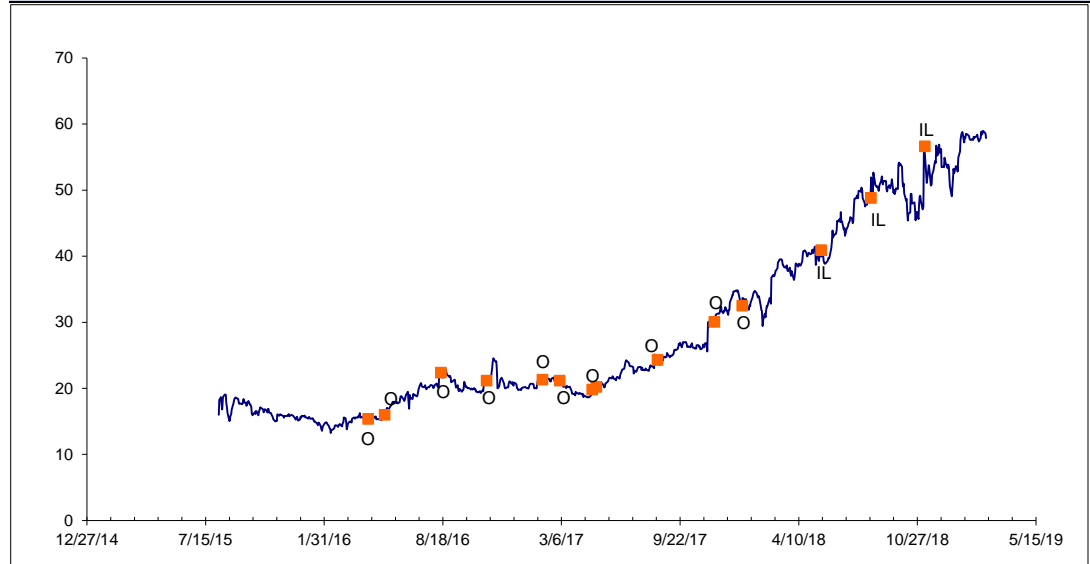
Sources: Company data and Imperial Capital, LLC.

### Risk Factors

- **Unit economics:** Many of PLNT's locations are new and untested in a recession.
- **Unique tax structure:** PLNT operates under a unique tax structure that reduces federal taxes, but obligates the company to make ongoing tax settlement payments to its previous private equity owners.
- **Balance sheet:** PLNT carries significant debt.

### Price Chart and Ratings History

**Figure 5. Planet Fitness—Price Chart and Ratings History**



Description	Price	IC Rating	Report Date
Common Stock	\$56.61	In-Line	11/9/18
Common Stock	\$48.79	In-Line	8/10/18
Common Stock	\$40.90	In-Line	5/18/18
Common Stock	\$32.51	Outperform	1/5/18
Common Stock	\$30.03	Outperform	11/19/17
Common Stock	\$24.28	Outperform	8/15/17
Common Stock	\$20.21	Outperform	5/4/17
Common Stock	\$19.78	Outperform	4/27/17
Common Stock	\$21.17	Outperform	3/3/17
Common Stock	\$21.30	Outperform	2/2/17
Common Stock	\$21.16	Outperform	10/31/16
Common Stock	\$22.36	Outperform	8/15/16
Common Stock	\$15.97	Outperform	5/12/16
Common Stock	\$15.34	Outperform	4/14/16

Sources: Bloomberg and Imperial Capital, LLC.

**Companies under coverage: George Kelly, CFA:** Acushnet Holdings (GOLF), Brunswick Corporation (BC), Callaway Golf Company (ELY), Drive Shack (DS), Freshpet (FRPT), Haymaker Acquisition Corp (HYAC), Johnson Outdoors (JOUT), Lindblad Expeditions (LIND), MINDBODY (MB), Nautlius (NLS), National Beverage (FIZZ), Planet Fitness (PLNT), Primo Water (PRMW), Town Sports International Holdings (CLUB), YogaWorks (YOGA).

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### Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	65.29%	<b>Outperform:</b> TRR expected to exceed basket by at least 10%
In-Line	29.75%	<b>In-Line:</b> TRR expected to be in-line with basket
Underperform	4.96%	<b>Underperform:</b> TRR expected to underperform basket by at least 10%
This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 1/1/18 through 12/31/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 12/31/18, IC has provided investment banking services to 12.66% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 11.11% of companies with equity rated an In-Line. As of 12/31/18.		
Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)		
<b>Buy:</b> TRR expected to exceed basket by at least 10%		
<b>Hold:</b> TRR expected to be in-line with basket		
<b>Sell:</b> TRR expected to underperform basket by at least 10%		
Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.		

**For a discussion of the valuation methods used to determine our price target, if any, please see page(s) 1. See page 4 for the risks that may impede achievement of such price target, and page 4 for our ratings history and price chart.**

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