

## Planet Fitness, Inc.

## ICR Takeaways: Pricing strategy &amp; new growth model should accelerate returns

Reiterate Rating: BUY | PO: 90.00 USD | Price: 73.55 USD

## Pricing change should accelerate unit returns

We recently hosted an investor meeting with PLNT management including interim CEO Craig Benson, CFO Tom Fitzgerald, and VP of Investor Relations Stacey Caravella at the ICR Conference. PLNT highlighted its three pricing pilots taking place for classic card which include \$12.99 (\$10 during sale periods), \$15 (\$10 during sale periods), and \$14.99 (no change during sale periods) which recently began in the NY DMA on December 13<sup>th</sup>. We believe PLNT will continue to test the three pricing pilots through 1Q before rolling out a comprehensive strategy. We believe other high value low price competitors would likely follow PLNT to \$15/month pricing ([see our Crunch Franchisee takeaways note](#)).

## Expect 2024 to be transition year for unit growth

PLNT expects 2024 to be a “transition year” for unit growth given it is the first full year of the New Growth Model and before the rollout of a broader pricing strategy while real estate availability for 20K square foot units remains challenged. We believe unlevered IRRs dropped to 20% in 2023, from 30% pre-COVID, but PLNT’s New Growth Model brings returns back to ~25% without any price increases. We expect 2024 unit growth to be flat with 2023 (165 total clubs) before returning to 200 units in 2025. However, we believe long term club potential is above PLNT’s 4,000 current target as PLNT is looking at a smaller more flexible format for lower population DMAs.

## GLP-1 &amp; new club features should help drive memberships

PLNT believes long term the increased use of GLP-1 drugs will be a membership tailwind as consumers look to retain muscle mass while losing weight. We believe PLNT continues to tailor its club format to incorporate emerging GenZ / Millennial fitness trends including more strength & less cardio, more stretching areas, and the potential addition of more recovery solutions for Black Card members.

## Reiterate Buy &amp; Raise PO to \$90

We reiterate Buy, update our 2024 estimates, and raise our PO to \$90 (from \$75) based on an EV of 17-18X our 2025 EBITDA given our outlook for improving store level economics & tailwinds from a potential change in pricing.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.82	1.65	2.20	2.59	2.93
GAAP EPS	0.87	1.23	1.70	2.11	2.55
EPS Change (YoY)	NM	101.2%	33.3%	17.7%	13.1%
Consensus EPS (Bloomberg)			2.21	2.49	2.86
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	89.7x	44.6x	33.4x	28.4x	25.1x
GAAP P/E	84.5x	59.8x	43.3x	34.9x	28.8x
EV / EBITDA*	36.6x	22.3x	18.9x	16.6x	14.9x
Free Cash Flow Yield*	1.8%	-11.8%	1.4%	2.3%	3.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

10 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	75.00	90.00
2024E Rev (m)	1,151.2	1,155.5
2024E EPS	2.58	2.59

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## Stock Data

Price	73.55 USD
Price Objective	90.00 USD
Date Established	10-Jan-2024
Investment Opinion	B-1-9
52-Week Range	44.13 USD - 85.91 USD
Mrkt Val (mn) / Shares Out (mn)	6,391 USD / 86.9
Free Float	99.3%
Average Daily Value (mn)	81.55 USD
BofA Ticker / Exchange	PLNT / NYS
Bloomberg / Reuters	PLNT US / PLNT.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Medium

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DMA = Designated Market Area

IRR = Internal Rate of Return

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Timestamp: 10 January 2024 01:43AM EST

# iQprofile<sup>SM</sup> Planet Fitness, Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.6%	8.3%	8.7%	8.8%	9.0%
Return on Equity	NM	NM	NM	788.2%	110.4%
Operating Margin	29.5%	28.9%	31.0%	32.8%	33.0%
Free Cash Flow	112	(754)	87	150	197

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.4x	1.6x	1.2x	1.3x	1.3x
Asset Replacement Ratio	1.0x	15.8x	0.9x	1.3x	1.1x
Tax Rate	6.1%	31.3%	26.0%	26.1%	22.8%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	294.5%
Interest Cover	2.2x	3.3x	4.7x	4.9x	5.1x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	587	937	1,064	1,156	1,276
% Change	44.4%	59.6%	13.6%	8.6%	10.4%
Gross Profit	486	760	878	982	1,095
% Change	44.8%	56.3%	15.6%	11.8%	11.6%
EBITDA	224	368	434	496	551
% Change	86.5%	63.8%	18.1%	14.1%	11.2%
Net Interest & Other Income	(75)	(69)	(66)	(72)	(78)
<b>Net Income (Adjusted)</b>	<b>72</b>	<b>149</b>	<b>196</b>	<b>226</b>	<b>253</b>
<b>% Change</b>	<b>NM</b>	<b>107.7%</b>	<b>31.5%</b>	<b>15.3%</b>	<b>11.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	76	111	151	184	220
Depreciation & Amortization	63	63	150	111	124
Change in Working Capital	34	62	(75)	(6)	(7)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(60)	(989)	(140)	(140)	(140)
<b>Free Cash Flow</b>	<b>112</b>	<b>-754</b>	<b>87</b>	<b>150</b>	<b>197</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>72.6%</b>	<b>31.9%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(11)	241	128	178	178

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	604	472	757	1,207	1,703
Trade Receivables	27	46	53	57	63
Other Current Assets	31	37	38	38	39
Property, Plant & Equipment	174	349	390	419	435
Other Non-Current Assets	1,180	1,950	1,893	1,836	1,779
<b>Total Assets</b>	<b>2,016</b>	<b>2,855</b>	<b>3,131</b>	<b>3,557</b>	<b>4,019</b>
Short-Term Debt	93	21	21	21	21
Other Current Liabilities	159	225	160	162	164
Long-Term Debt	1,665	1,978	2,178	2,428	2,678
Other Non-Current Liabilities	742	842	834	826	818
<b>Total Liabilities</b>	<b>2,659</b>	<b>3,066</b>	<b>3,193</b>	<b>3,437</b>	<b>3,681</b>
<b>Total Equity</b>	<b>(643)</b>	<b>(212)</b>	<b>(62)</b>	<b>120</b>	<b>338</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,016</b>	<b>2,855</b>	<b>3,131</b>	<b>3,557</b>	<b>4,019</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Leisure

## Company Description

Planet Fitness is one of the largest and fastest-growing franchisors and operators of fitness clubs in the United States with over 2,000 clubs and 18MM members. Planet Fitness offers a high-quality fitness, non-intimidating experience at a compelling value that targets the underserved roughly 80% of US population that is currently not a member of a fitness club. Planet Fitness also sells fitness equipment to its franchisees.

## Investment Rationale

We rate Planet Fitness shares Buy, given (1) significant club growth opportunity and rising royalty rate, (2) differentiated business model that should continue to gain share and grow the market by targeting underserved consumers, and (3) growth in its equipment segment.

## Stock Data

Average Daily Volume 1,108,717

## Quarterly Earnings Estimates

	2022	2023
Q1	0.32A	0.41A
Q2	0.38A	0.65A
Q3	0.42A	0.59A
Q4	0.53A	0.57E

## Price objective basis & risk

### Planet Fitness, Inc. (PLNT)

Our \$90 price objective is based on an EV of 17-18x our 2025E EBITDA estimate, at the high-end of a broader group of highly franchised companies (10-20x EV/EBITDA). We believe a multiple at the high-end of the average for franchise peers is justified for Planet Fitness, given: (1) significant club growth opportunity and rising royalty rate, (2) differentiated business model that should continue to gain share and grow the market by targeting underserved consumers, and (3) growth in its equipment segment.

Downside risks to our PO are: 1) the fitness club industry is competitive, 2) execution risks related to club growth, 3) risks associated with franchise model, 4) PLNT's brand image is key to retaining and attracting new members, 5) high financial leverage, 6) a challenging macroeconomic environment could pressure membership growth, & 7) same-store sales growth is largely dependent on expanding membership base.

## Analyst Certification

I, Alexander Perry, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
<b>NEUTRAL</b>				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
<b>UNDERPERFORM</b>				
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA



## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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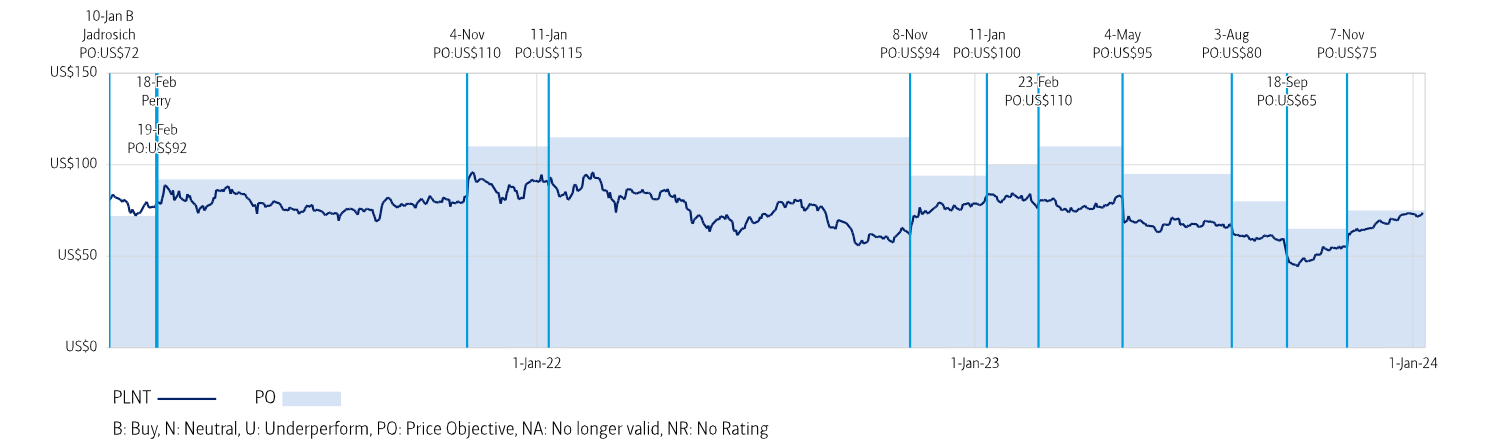
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Planet Fitness, Inc. (PLNT) Price Chart



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Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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