Presale:

Planet Fitness Master Issuer LLC (Series 2022-1)

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Preliminary Ratings

Class	Preliminary rating	Balance (mil. $)	Anticipated maturity	Legal maturity (years)
A-1	BBB- (sf)	75.00	December 2026(i)	30
A-2-I(ii)	BBB- (sf)	450.00	December 2026	30
A-2-II(ii)	BBB- (sf)	450.00	December 2031	30

Note: This presale report is based on information as of Jan. 19, 2021. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i)Plus two one-year extensions. (ii)The split between the two class A-2 tranches, which total $900 million, is to be determined.

Executive Summary

Planet Fitness Master Issuer LLC's series 2022-1 issuance is a $975.00 million corporate securitization of Planet Fitness Holdings LLC's (Planet Fitness) business. The proceeds will be used to cover transaction closing costs; pay off the series 2018-1 drawn class A-1 variable funding notes ($75.00 million) and the series 2018-1 class A-2-I notes (approximately $556.31 million); make a deposit into the senior notes interest reserve account; and partially fund--with up to $325 million of remaining funds--the $800 million acquisition of Sunshine Fitness Group Holdings LLC (Sunshine Fitness) and TSG7 A AIV Holdings VII L.P. (Sunshine Fitness).

The series 2018-1 class A-2-II and series 2019-1 class A-2 notes will remain outstanding with total securitization debt of $2.1 billion, including the new issuance. Following the series 2022-1 issuance, leverage is expected to decrease to 7.7x from its current level of 8.4x on a total debt to adjusted EBITDA basis due to the inclusion of the EBITDA from the 114 acquired Sunshine Fitness stores. Although we view Planet Fitness' leverage as high relative to its corporate securitization peers, the company's performance has been improving from COVID-related stress, and the results of strong membership and systemwide sales indicate that the business may return to 2019 levels, which could cause leverage to fall below 7.0x (see the Key Credit Considerations section below for more detail).

Debt repayment is mainly supported by:

- Domestic franchise royalty payments;
- U.S. corporate-owned stores (including the 114 Sunshine Fitness stores) royalties and profits;

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- Profits from the equipment distributor's sale of equipment to Planet Fitness franchisees in the U.S.; and
- Other collections relating to the franchised stores, including commission income, web join fees, payment processor rebates, and initial and renewal franchise and area development agreement (ADA) fees.

Key credit features of the transaction include:

- The transaction's structure, which segregates substantially all of Planet Fitness' existing and future revenue-generating assets into the securitization issuer's asset-owning entities and minimizes the likelihood of cash flow disruption in the event of the bankruptcy filing of the manager, Planet Fitness;
- Planet Fitness' highly franchised business model (90% franchised, including the Sunshine Fitness stores as corporate stores), of which we believe its core streamlined selling, general, and administration functions could be transitioned to a replacement manager in the event of Planet Fitness' bankruptcy;
- The backup manager's ability to maintain cash flow continuity in the event of a manager bankruptcy;
- The 30-year legal final maturity, which allows sufficient time for the assets to generate enough cash flow to support the expected 7.7x total debt to adjusted EBITDA post-issuance leverage level;
- Planet Fitness' growing brand recognition, supported by its over $63 million annual national advertising fund, which is funded by franchisees in the U.S. and Canada (using 2% royalties) as well as corporate stores;
- Planet Fitness' system size, which allows economies of scale in equipment purchases and network benefits for its Black Card members;
- Planet Fitness' 30-year operating history (including 19 years as a franchised brand); and
- A modest cash flow cushion observed in S&P Global Ratings' cash flow stress scenarios.

The class A-1 notes contain stated interest at one-month LIBOR plus a fixed margin. While the original deadline for LIBOR cessation was December 2021, the phase out date is now expected after June 2023 for most U.S. dollar LIBOR maturities, such as the one- and three-month maturities. In 2019, the Federal Reserve's Alternative Reference Rates Committee published recommended guidelines for fallback language in new securitizations, and the language in this transaction is generally consistent with its key principles: trigger events, a list of alternative rates, and a spread adjustment. We will continue to monitor reference rate reform and take into account changes specific to this transaction when appropriate.

Transaction Timeline/Participants

Transaction Timeline

Expected closing date	Feb. 8, 2022.
First interest payment date	June 6, 2022.
Class A-1 ARD	Dec. 5,2026 (i)
Class A-2-I ARD	Dec. 7, 2026.
Class A-2-II ARD	Dec. 5, 2031.
Legal maturity date	Dec. 5, 2051.
Note payment frequency	Quarterly, beginning in June 2022.

(i)Plus two one-year extensions. ARD--Anticipated repayment date.

Participants

Sole structuring adviser	Guggenheim Securities LLC.
Guarantors	Planet Fitness SPV Guarantor LLC, Planet Fitness Franchising LLC, Planet Fitness Assetco LLC, and Planet Fitness Distributor LLC.
Trustee	Citibank N.A.
Servicer	Midland Loan Services (a division of PNC Bank N.A.).
Manager	Planet Fitness Holdings, LLC.
Backup manager	FTI Consulting Inc.

Rationale

The preliminary ratings assigned to Planet Fitness Master Issuer LLC's senior secured notes series 2022-1 reflect our assessment of:

- Planet Fitness' brand strength and the capacity to continue generating sufficient cash flows from business operations.
- The business is 90% franchised (including Sunshine Fitness stores as corporate stores).
- The projected cash flows supporting the notes have a debt service coverage ratio (DSCR) of 2.04x in the base-case scenario and 1.35x in the downside scenario.
- A reserve account is in place to cover three months of interest expenses.
- The transaction's backup manager, FTI Consulting Inc. (FTI) is able to replace the current manager in the event of a manager termination event to assume sales, general, and administrative (SG&A) functions. We believe the business' cost structure relative to the management fee size is adequate should FTI need to step in.
- The control structure, in which the servicer bears the responsibility as the control party.
- The transaction structure and the isolation of the assets.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considered the transaction's potential exposure to ESG credit factors, which, in our view, is in line with that of other corporate securitizations. We have generally accounted for these ESG factors, along with other factors, in our business volatility score and cash flow assumptions.

Under environmental credit factors, we consider the energy and greenhouse emissions, waste and recycling, and water usage produced by the Planet Fitness' current 2,193 locations. Planet Fitness has implemented a plan to address all three factors, including by sharing information with franchisees about energy-efficient lighting vendors, water management solutions, and sustainably sourced eco-friendly materials.

Under the social credit factors, we consider the fitness sector's exposure to public health risks and changes in demographic trends. The COVID-19 pandemic is a poignant example of how health and safety fears can cause widespread temporary disruptions to businesses, which in turn could affect the collateral backing the securitization.

Under the governance credit factors, we consider how Planet Fitness executes and monitors its overall strategy, as well as internal controls and risk management, which are within our operational risk assessment framework.

Strengths And Weaknesses

Strengths

We believe the transaction strengths include the following:

- The highly franchised nature of Planet Fitness' business (90% of stores with the inclusion of the Sunshine Fitness stores as corporate stores), which can generate stable royalty cash flows.
- The growing system with 1,000 additional stores currently committed under signed ADAs. The compounded annual growth rate for stores has been 11.4% since 2016.
- Strong unit economics, with an average four-wall EBITDA margin (an assessment of store-level profitability, which includes local and national advertising expenses), post-royalties, of approximately 40% for company-owned stores.
- The strong historic performance metrics, with membership growing at an average annual rate of 11.4% since 2016.
- The relatively stable average unit volume (AUV), which, along with the opening of new stores, has led to steady increases in royalty payments.
- The low dependency on the manager to develop new promotions and fitness programs.
- The simple operating model, which focuses on providing the basics (cardio and strength) to customers at a low price point and avoiding the latest fitness fads.
- Planet Fitness' nationally recognized brand.
- The direct supply chain that primarily supports the franchisee's required replacement of cardio equipment every five years and strength equipment every seven years. Despite having limited suppliers, Planet Fitness has more latitude with timing compared to other corporate securitizations because the equipment is nonperishable and can most likely be used for a period of time after the replacement date.
- The simple and efficient collection of recurring revenue, with most membership dues transferred directly from members' bank accounts via electronic fund transfer.
- The securitization structure, with Midland Loan Services (the servicer) acting as the control party, and the servicer's obligation to make interest and collateral protection advances to the extent deemed recoverable.
- The moderate level of principal amortization before the anticipated repayment date if leverage is above 5.0x.
- The transaction's performance tests, such as rapid amortization and cash trap tests.

Weaknesses

We believe the transaction weaknesses include the following:

- Planet Fitness' limited performance history through multiple economic downturns at its current scale, given its rapid growth over the past decade. Although Planet Fitness demonstrated stable performance through the Great Recession, it had a significantly smaller system at the time.
- The limited historical precedent for a large-scale chain of low-cost fitness clubs, and the brand's long-term customer value in the event of a manager bankruptcy.
- The highly competitive industry in which Planet Fitness operates, with relatively low barriers to entry other than high capital requirements for equipment.
- The transaction's reliance on Planet Fitness' systems and management team to manage the assets.
- The business' vulnerability to changes in social distancing comfort levels and municipal mandates.
- The sizeable portion of the securitization's gross collections derived from equipment margins and company-owned store EBITDA, which may be more volatile than franchise royalties.
- The high franchisee concentration, with the top 10 franchisees accounting for approximately 48% of stores.

Mitigant factors

We believe the transaction's weaknesses are partly mitigated by the following factors:

- Planet Fitness differentiates itself from its competitors by promoting an all-inclusive, non-intimidating brand and offering memberships priced significantly below the industry median. This allows it to pursue a sizable consumer base that has not traditionally been attracted to other fitness clubs.
- Planet Fitness' scale and brand strength provide economies of scale in equipment purchases, advantageous access to prime real estate, and network benefits to its Black Card members.
- While nearly all fitness operators were significantly affected by the COVID-19 pandemic, low-cost gym memberships are recovering from the pandemic at a notably faster pace than high-cost gym memberships.
- Planet Fitness' demonstrated resiliency during the height (so far) of the pandemic: membership increased year over year to 15.0 million as of September 2021, a slight decrease from the 15.5 million peak reached in March 2020 before the pandemic restrictions were enacted. Also, the membership quality has improved with 63% Black Card members (compared with 60% in 2018), driving average monthly dues to $17.58 (from $16.41 in 2018). The advent of the Delta and Omicron variants has shown little impact so far. Management believes this is due to COVID-19 fatigue and is optimistic that future variants will not have substantive impacts either.
- Although not a direct financial metric, we consider utilization an indicator of system health. In-person visits are still recovering and were only slightly down as of third-quarter 2021 from a year earlier. And while there are still concerns about further disruptions due to new COVID strains, the evidence suggests that consumers will return to the gym.

- The transaction documents allow the servicer to appoint a successor manager to replace Planet Fitness as manager if certain events occur, with the backup manager acting as manager in the interim.
- The company is well-diversified geographically and has started pursuing opportunities for international growth.
- The cash flow runs supporting our preliminary ratings assumed 25% and 45% declines for royalties and all other cash flows, respectively; these are our standard assumptions for businesses in the fitness and leisure sectors.
- Under our stress scenario, the notes would receive timely interest and ultimate principal payments by maturity.

Key Credit Metrics And Peer Comparisons

Table 1

Key Credit Metrics And Peer Comparisons

Brands	Series	S&P Global Ratings' credit rating (i)	Store count (no.)	AUV (mil. $)	Franchised (%)(ii)	Interna-tional (%)(iii)	Operating history (from founding)	Concept type	Leverage (total debt/adj. EBITDA)(iv)	Min. base-case DSCR(v)	Min. downside DSCR(v)
Planet Fitness (ii)	2022-1	BBB- (sf)	2,193	1.7	90	2.9	Over 30 years	Fitness	7.7	2.0	1.3
Jersey Mike's	2021-1	BBB (sf)	2,027	1.1	99	0.1	Over 30 years	QSR	5.4	2.0	1.5
Dunkin' Brands	2021-1	BBB (sf)	20,552	1.0	100	43.0	Over 30 years	QSR	6.7	1.7	1.4
Driven Brands	2021-1	BBB- (sf)	3,331	1.1	84	19.0	Over 30 years	Auto services	5.5	1.8	1.4
Taco Bell	2021-1	BBB (sf)	6,895	1.8	93	8.9	Over 30 years	QSR	4.9	1.8	1.6
Sonic	2021-1	BBB (sf)	3,524	1.7	92	0.0	Over 30 years	QSR	6.5	1.8	1.6
ServiceMaster Brands	2021-1	BBB- (sf)	2,624	1.2	99	31.0	Over 30 years	Restoration services	8.0	1.8	1.4
Five Guys	2021-1	BBB- (sf)	1,684	1.3	73	18.0	Over 30 years	QSR	7.8	1.7	1.5
Hardee's/Carl's Jr.	2021-1	BBB (sf)	3,834	1.3	94	26.0	Over 30 years	QSR	7.2	1.8	1.4
Wendy's	2021-1	BBB (sf)	6,838	1.8	95	14.0	Over 30 years	QSR	6.9	1.8	1.5
Domino's	2021-1	BBB+ (sf)	17,644	0.9	98	64.0	Over 30 years	QSR	6.4	1.8	1.4
SERVPRO	2021-1	BBB- (sf)	1,860	1.5	100	0.0	Over 30 years	Restoration services	8.1	1.7	1.4
Arby's	2020-1	BBB- (sf)	3,520	1.2	66	0.2	Over 30 years	QSR	5.9	1.5	1.3

Table 1

Key Credit Metrics And Peer Comparisons (cont.)

Brands	Series	S&P Global Ratings' credit rating (i)	Store count (no.)	AUV (mil. $)	Franchised (%)(ii)	Interna-tional (%)(iii)	Operating history (from founding)	Concept type	Leverage (total debt/adj. EBITDA)(iv)	Min. base-case DSCR(v)	Min. downside DSCR(v)
Planet Fitness	2019-1	BBB- (sf) (vi)	1,899	2.1	96	2.7	29 years	Fitness	6.5	1.7	1.3
Jack in the Box	2019-1	BBB (sf)	2,240	1.5	94	0.0	Over 30 years	QSR	4.9	1.9	1.6
Applebee's/IHOP	2019-1	BBB (sf)	3,652	2.2	98	7.0	Over 30 years	CDR	6.0	1.7	1.4
Jimmy John's	2017-1	BBB+ (sf) (vii)	2,690	0.8	98	0.0	Over 30 years	QSR	5.2	1.8	1.7
Cajun Global	2017-1	BBB- (sf)	1,588	0.7	85	32.0	Over 30 years	QSR	5.2	1.8	1.4
TGIF	2017-1	B (sf)	903	2.7	94	48.0	Over 30 years	CDR	5.6	1.3	1.0

(i)Rating is for the senior-most securitization note issued. (ii)Preliminary. (iii)Percent of total store count. (iv)As reported. (v)As of each series' closing date unless otherwise noted. Jersey Mike's--Jersey Mike's Funding LLC Planet Fitness--Planet Fitness Master Issuer LLC. Domino's--Domino's Pizza Master Issuer LLC. ServPro--ServPro Master Issuer LLC. Wendy's--Wendy's Funding LLC. Driven Brands--Driven Brands Funding LLC (Maaco, Meineke, and others). Jack in the Box Funding LLC (Jack in the Box). Applebee's/IHOP--Applebee's Funding LLC/IHOP Funding LLC (Dine Brands Global). Dunkin' Brands--DB Master Finance LLC (AUV represents domestic for both brands, leverage assumes no VFN). Taco Bell--Taco Bell Funding LLC. Focus Brands--Focus Brands Funding LLC (Carvel, Cinnabon, Auntie Anne's, and others). Hardee's/Carl's Jr.--Hardee's Funding LLC/Carl's Jr. Funding LLC. Sonic--Sonic Capital LLC. Jimmy John's--Jimmy John's Funding LLC. Cajun Global--Cajun Global LLC (Church's Chicken). Five Guys--Five Guys Funding LLC. TGIF--TGIF Funding LLC. Arby's—Arby's Funding LLC. AUV--Average unit volume. DSCR--Debt service coverage ratio. QSR--Quick-service restaurants. VFN--Variable funding note.

Industry Outlook

The U.S. fitness sector is highly competitive in price and product offerings because of its high fragmentation and low barriers to entry compared to other leisure sectors. High competition levels also typically result in high annual customer attrition rates.

Similar to our outlook in 2019, our current base-case economic forecast for U.S. consumer spending growth will likely support same-store revenue growth for rated fitness issuers. However, we expect low-cost fitness club operators to generate superior same-store revenue growth relative to those in the mid- and high-tier segments. In addition, we expect revenue to grow as fitness club operators continue increasing club counts, expanding their geographic footprint, and capturing new members. Overall, we believe U.S. fitness sector growth will likely reflect the continued expansion of low-cost, no-frills fitness operators. The industry's mid-tier segment has been squeezed over the past several years as new low-cost operators and boutique studio offerings provide alternative ways for consumers to exercise.

Although COVID-19 variants could dramatically affect our sector outlook, our high volatility assessment for the sector partially addresses this risk. In addition, we believe the large-scale mandates we saw in 2020 and 2021 are unlikely to recur due to social and political pressures. However, if they do return, the severity of the impact could be high.

Planet Fitness also believes that its gyms provide a relatively lower transmission risk than other full-scale gym concepts. In April 2021, the Centers for Disease Control and Prevention (CDC) stated that the risk of contracting COVID-19 from contaminated surfaces or objects in non-hospital indoor settings is considered very low. In addition, Planet Fitness reported that although there were 80 million workouts in 2021, there were little to no reported cases of someone contracting COVID-19 in any of its locations because it doesn't not offer group classes, which management believes could promote transmission.

S&P Global Ratings believes the Omicron variant is a stark reminder that the COVID-19 pandemic is far from over. Uncertainty still surrounds its transmissibility, severity, and the effectiveness of existing vaccines against it. Early evidence points toward faster transmissibility, which has led many countries to reimpose social distancing measures and international travel restrictions. Over coming weeks, we expect additional evidence and testing will show the extent of the danger it poses to enable us to make a more informed assessment of the risks to credit. In our view, the emergence of the omicron variant shows once again that more coordinated and decisive efforts are needed to vaccinate the world's population to prevent the emergence of new, more dangerous variants.

Planet Fitness

Planet Fitness is one of the largest and fastest-growing franchisors and operators of fitness centers in the U.S. by number of members and locations. As of Sept. 30, 2021, the system had 15 million members and 2,193 locations (each typically about 20,000 sq. ft. in size) across all 50 states and the District of Columbia, as well as in Puerto Rico, Canada, Australia, Panama, and Mexico (see charts 1 and 2). Of the 2,129 U.S. locations, 1,915 are franchised stores and 214 are corporate-owned stores (which included the Sunshine Fitness locations).

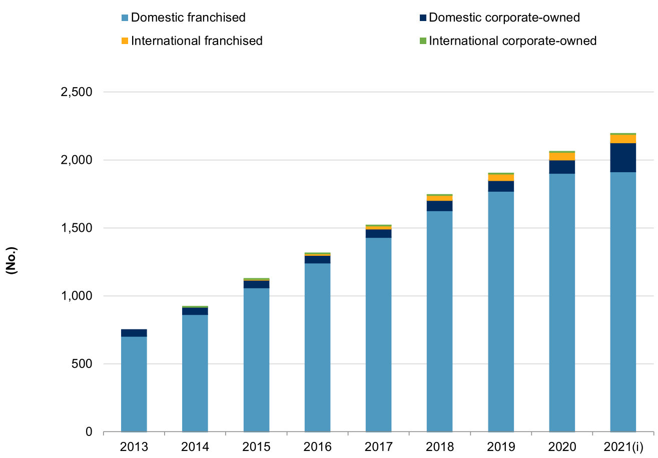
In 2021, Planet Fitness' corporate-owned stores had a segment EBITDA margin of 41% and AUVs of approximately $1.7 million. Its average four-wall EBITDA margin was approximately 47% (or approximately 40% after deducting the current 7% royalty rate) (see chart 3). The royalty rate has continued to grow as more stores open or renew at the 7% rate (see chart 4).

The stores showcase the company's purple and yellow branding, along with unlimited free fitness instruction for small groups. Franchisees are mandated to replace their cardio equipment every five years and their strength equipment every seven years. The gyms utilize the "Judgement-Free Zone" approach to engage with potential first-time or casual gym users. Planet Fitness charges a low-cost $10-per-month fee for its basic package, which we consider a differentiating attribute within the fitness sector. Its $22.99 per-month "Black Card" fee provides members access to premium perks, including the ability to use any other Planet Fitness gym and the use of massage beds and tanning booths. These fees are primarily collected via Automated Clearing House (ACH) direct debit, which reduces the exposure to subjective chargebacks, claims, or fees.

Geographically, based on store count Planet Fitness' domestic locations are concentrated in California, Texas, and Florida, which represent 10.7%, 7.0%, and 6.5% of total domestic annualized royalties, respectively (see chart 5).

Chart 1

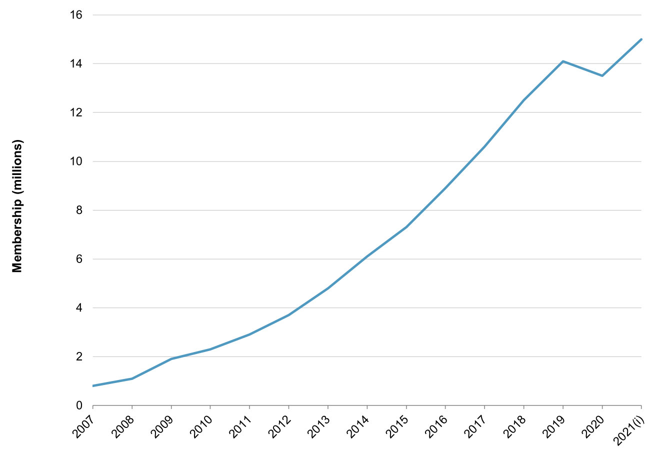
Historical Store Count



(i)As of Sept. 30. Source: Planet Fitness Holdings LLC.

Chart 2

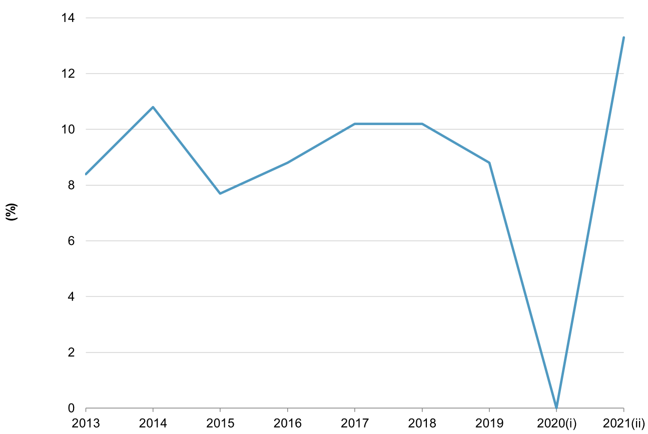
System Membership Count



(i)As of Sept. 30. Source: Planet Fitness Holdings LLC.

Chart 3

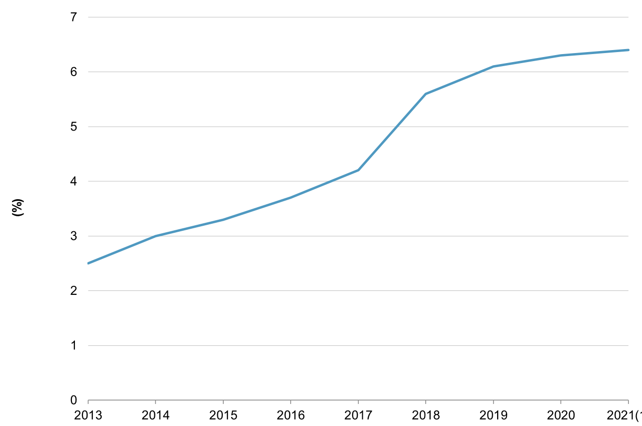
Historical Systemwide Same-Store Sales Growth



(i)The 2020 data was not disclosed. (ii)As of Sept. 30. N.A.--Not available. Source: Planet Fitness Holdings LLC.

Chart 4

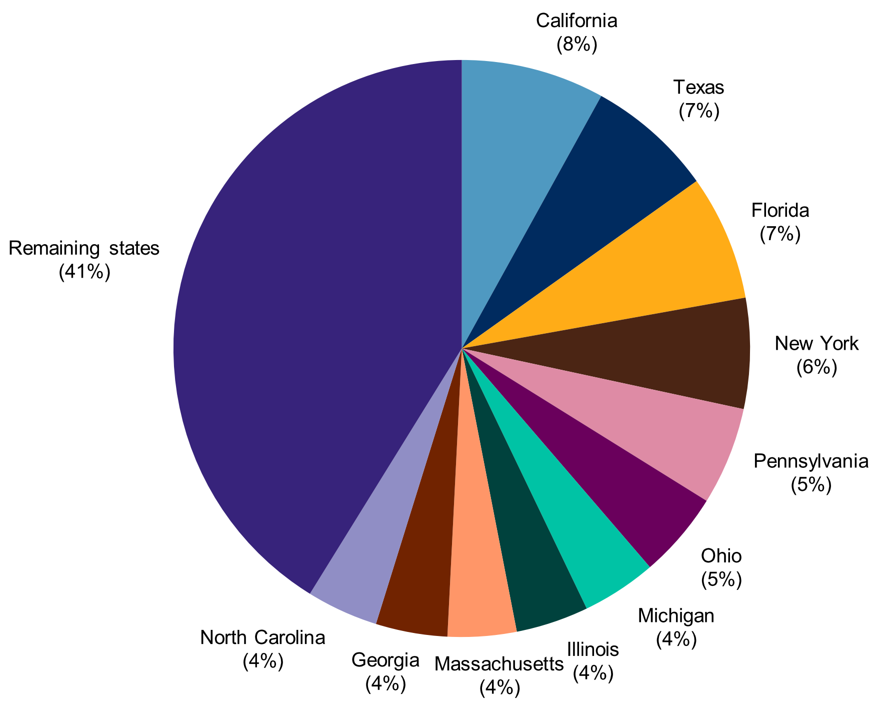
Average Royalty Rate
For domestic franchisee-owned stores



(i)As of Sept. 30. Source: Planet Fitness Holdings LLC.

Chart 5

State Concentrations
Top 10 states by total domestic store count



Sunshine Fitness Acquisition

In January 2022, Planet Fitness entered into an acquisition agreement to purchase all equity of Sunshine Fitness, which owns and operates 114 stores in Florida, Georgia, North Carolina, South Carolina, and Alabama. Sunshine Fitness' regional density in the southeast provides operational benefits leading to stronger club economics. On average, Sunshine Fitness stores have higher revenue and EBITDA than the Planet Fitness' company-owned stores. Planet Fitness' has stated its intent to continue operating the acquired stores. Sunshine Fitness' CEO and co-founder will be retained to oversee Planet Fitness' operations of the combined company stores.

Collateral

The notes will be secured by a security interest in substantially all of the issuer's and guarantors' assets, and will include:

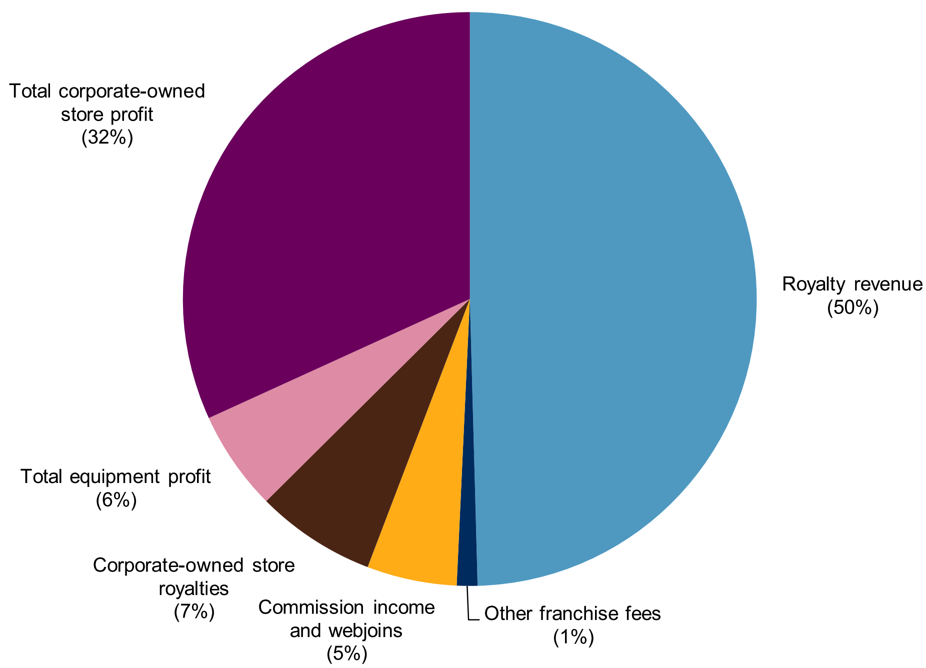
- New and existing domestic franchise and development agreements,
- Company-owned gyms,
- Planet Fitness' U.S. and registered Canadian intellectual property (IP) and IP license agreements,
- Securitized leases,
- Contributed material contracts and new contracts,
- Transaction accounts,

- Any interest reserve letter of credit, and
- Equity interest in the securitization entities.

Chart 6 illustrates the relative initial contributions of the various cash flow streams to the transaction.

Chart 6

Securitized Cash Flow Source
Twelve months ended Oct. 13, 2021



Source: Planet Fitness Holdings LLC.

For more details on each category of securitization collections, including the new management fee calculation, see the Cash Flow Assumptions table (table 4) below.

Credit Analysis And Assumptions

Key credit considerations

Table 2 shows our key credit considerations for the transaction

Table 2

Key Credit Considerations

Moderately long operating history	The first Planet Fitness location opened in 1992, and Planet Fitness began franchising in 2003. Since its founding, the brand has built a loyal customer base. Although the Planet Fitness system was much smaller at the time of the most recent economic downturn (the Great Recession), it continued to grow and demonstrate positive same-store sales, which are positive indicators. Economic resilience and brand loyalty support the likelihood that the brand could maintain value and cash flows could continue if Planet Fitness is replaced as the manager.
High franchised percentage	As of Sept. 30, 2021, franchisees operated 90% (including Sunshine Fitness stores as corporate stores) of Planet Fitness' 2,193 systemwide stores. We believe a high percentage of franchised stores provides the transaction with better cash flow stability and independence from the manager than transactions with lower percentages of franchised stores.
System size	Planet Fitness' 2,193 systemwide stores as of Sept. 30, 2021, provide network benefits to its Black Card members and allow for substantial economies of scale in equipment purchasing.
Strong unit economics	Strong unit economics, with average corporate-owned store four-wall EBITDA estimated at approximately 47% (or 40% after deducting the 7% royalty) as of Sept. 30, 2021.
Low operating risk	Individual Planet Fitness locations require minimal staffing and have minimal operational requirements beyond facility and equipment maintenance.
Large domestic geographic concentrations	Geographic concentration in the three largest states accounts for more than 24% of the company's U.S. store count.
Stable performance metrics	As of Sept. 30, 2021, Planet Fitness had sustained 53 quarters of positive systemwide same-stores sales growth prior to the outbreak of COVID-19 pandemic, which resulted in temporary store closures in March 2020, and it reported total systemwide sales of $3.25 billion in past 12 months.
Resilient after large scale 2020 COVID-19 temporary closures	As of Sept. 30, 2021, membership was 15 million--only slightly less than the all-time peak of 15.5 million members in March 2020 before the pandemic restrictions were enacted.

Planet Fitness--Planet Fitness Holdings LLC.

Rating methodology

Table 3 shows our specific conclusions for each of the five analytical steps in our ratings process.

Table 3

Credit Rating Step

Step	Result	Comment
Step 1		
Eligibility analysis	Pass	We believe a system of franchised fitness clubs can continue to generate cash flows following the bankruptcy of the franchisor (manager) because individual franchisees generally operate independently from the manager (notwithstanding their reliance on centralized general and administrative functions, which are transferable to a backup manager). We believe that if a brand has sufficient customer loyalty, royalty revenues can remain available to service securitization debt, assuming the assets have been isolated via a true sale to a bankruptcy-remote special-purpose entity. Given that we do not believe all cash flows from the system will be at risk following the manager's bankruptcy, the following analysis quantifies the impact of the correlated cash flow decline from the Planet Fitness system and compares that to ongoing required interest and principal payments to the rated debt.

Table 3

Credit Rating Step (cont.)

Step	Result	Comment
Step 2		
Business volatility score (BVS)	3(i)	Planet Fitness' business risk profile (BRP) is currently fair, which maps to a BVS of '4'(i). We adjusted that BVS by one notch to '3' to reflect the system's stability over the past 20 years.
Cash flow assumptions	See table 4 below	
Min. base DSCR	2.04x	Principal and interest are fully paid in this scenario.
Anchor	bbb-	Determined according to table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations," published June 22, 2017.
Min. downside run DSCR	1.35x	Principal and interest are fully paid in this scenario.
Step 3		
Resiliency score	Satisfactory	Determined according to table 3 of our corporate securitization criteria.
Resiliency adjusted anchor	bbb	Determined according to table 4 of our corporate securitization criteria.
Step 4		
Modifier analysis	No adjustment	Although this structure is currently on the higher end for leverage compared with other corporate securitizations, the trends in utilization and membership continue to recover from the height of the pandemic and we believe that leverage will improve. The anticipated repayment date and the transaction structure are all comparable to similarly rated deals.
Step 5		
Comparable rating analysis	One notch adjustment	Planet Fitness' overall profile, including its system size, AUV, royalty rates, franchised percentage, and recent performance, is similar to that of its peer group. However, while we believe that further quarantine mandates are unlikely, the severity of an impact on this transaction, compared to the other whole business transactions, is far greater; and we believe one downward notch is necessary. Therefore, our preliminary rating is 'BBB-(sf)'.

(i)The mappings from BRP to BVS are: excellent=1; strong=2; satisfactory=3; fair=4; weak=5; and vulnerable=6. DSCR--Debt service coverage ratio. AUV--Average unit volume.

Cash flow assumptions

Table 4 shows our cash flow assumptions for the transaction.

Table 4

Cash Flow Assumptions

	Cumulative decline (%)		
Asset cash flow category	**Base case**	**Downside case**	**Description**
Royalty revenue and fees	0	25	Franchise and company-owned store royalties, which constitute most of the overall projected cash flow, are a function of store count, AUV, and royalty rates.

Table 4

Cash Flow Assumptions (cont.)

	Cumulative decline (%)		
Asset cash flow category	Base case	Downside case	Description
All other securitization collections	0	45	All other securitization collections, including corporate-owned store profit, equipment profit, initial and renewal franchise and ADA fees, commission income, and other franchise fees.

AUV--Average unit volume. ADA--Area development agreements

Sensitivity Analysis

Sensitivity run 1: management fee stress

Using the base-case assumptions in table 4, we determined that the management fee increase by as much as 290% (an approximately 41% reduction in net securitized cash flow relative to the base case) without any impact on the transaction's ability to pay timely interest and full principal payments by its legal final maturity date. We believe the additional management fee stresses reflect what could occur if Planet Fitness experienced a bankruptcy. While the management fee is outlined in the transaction documents, we believe those fees could be renegotiated in a potential bankruptcy scenario.

Sensitivity run 2: event-driven stress

Starting with the base-case scenario assumptions, we determined the maximum haircut to cash flow that would allow timely interest and full principal payments by the transaction's legal final maturity date. This haircut to cash flow after fees is approximately 55%. We examined several event risks associated with cash flow losses, including royalty losses from the top three geographic locations by store count (Texas, California, and Florida) and the top 10 domestic franchisees. Under these scenarios, our analysis showed that the transaction could pay timely interest and full principal by its legal final maturity date.

Structural Protection Summary

The transaction's structural features and credit enhancements (see table 5) are generally consistent with those of other recently rated corporate securitizations. The management fee definition has been revised since the series 2019-1 transaction. The base fee increased to $20 million from $15 million, while the fee per franchised store decreased to $18,000 from $20,000 and the company-owned store fee remained the same. We reviewed the updated terms and the itemized core expenses contemplated in the management fee formulation, and incorporated the updated definition into our cash flow analysis. In addition, the backup manager, who is obligated to develop and implement a transition plan and serve as successor manager upon a manager termination event, also reviewed the updated terms.

Table 5

Structural Features

Test	
Rapid amortization DSCR trigger (P&I)	1.2x
Cash flow sweep DSCR trigger (P&I)	1.75x (50% trap) and 1.5x (100% trap)
ARD range(i)	10 years
Scheduled amortization through ARD (%)	1
Manager termination DSCR trigger (IO)	1.2x
Event-of-default DSCR trigger (IO)	1.1x
Management fee	The management fee, which includes both fixed and variable components, is a function of retained collections. According to the transaction documents, the fixed component is assumed to be $20 million annually; and the variable component is assumed to be $18,000 for each U.S. franchised store and retained U.S. corporate store, $18,000 for each international franchise store where the franchise agreement is held by the franchisor or another securitization entity, and $40,000 for each corporate-owned store held by Planet Fitness Assetco LLC or another securitization entity. The management fee is also subject to a 2% annual increase of the variable and fixed components if the increased amount does not exceed 35% of the retained collections in the preceding four quarterly collection periods.

(i)Failure to pay the notes in full by their applicable ARDs constitutes a rapid amortization event, but not an event of default. Given a rapid amortization event, pro rata rapid amortization will begin for all classes. DSCR--Debt service coverage ratio. P&I--Principal and interest. ARD--Anticipated repayment date. IO--Interest only.

Payment Priority

The series 2022-1 class A-2 notes, and outstanding notes issued by Planet Fitness Master Issuer LLC (including the series 2018-1 class A-2-II notes and series 2019-1 notes) will pay interest and principal quarterly from semimonthly distributions in the priority shown in table 6.

The transaction currently does not include senior subordinated or subordinated notes, but it may issue these notes if certain conditions are met.

Table 6

Payment Priority(i)

Priority	Payment
1	With respect to indemnification, asset disposition, and insurance/condemnation payment amounts: to the trustee and then the servicer for unreimbursed advances; then to the manager for any unreimbursed advances; then to pay the class A-1 notes in full if a class A-1 note amortization event has occurred and is continuing; then if a class A-1 note amortization event has occurred and is continuing to pay down all senior notes other than the class A-1 notes; then if not during a class A-1 amortization event, to reduce commitments under all class A-1 notes, pro rata, based on commitment amounts; then prepay in full the outstanding principal amount of all senior subordinated notes; and then prepay in full the outstanding principal amount of all subordinated notes.

Table 6

Payment Priority(i) (cont.)

Priority	Payment
1	With respect to indemnification, asset disposition, and insurance/condemnation payment amounts: to the trustee and then the servicer for unreimbursed advances; then to the manager for any unreimbursed advances; then to pay the class A-1 notes in full if a class A-1 note amortization event has occurred and is continuing; then if a class A-1 note amortization event has occurred and is continuing to pay down all senior notes other than the class A-1 notes; then if not during a class A-1 amortization event, to reduce commitments under all class A-1 notes, pro rata, based on commitment amounts; and then prepay in full the outstanding principal amount of all senior subordinated notes.
2	To the trustee, then the servicer, and then the manager for unreimbursed advances; and then to the servicer for servicer fees, liquidation fees, and workout fees.
3	The successor manager transition expenses, if any.
4	Management fee.
5	Pro rata, the capped securitization operating expense amount and, if no event of default is continuing, the post-default capped trustee expenses amount. In the case of an event of default, the caps are no longer applicable.
6	Interest payments on the senior notes, pro rata, by amounts due within each series; the class A-1 note commitment fee amounts; and hedge payments, if any, excluding any termination payable to a hedge counterparty, if any.
7	The capped class A-1 note administrative expense amount.
8	Senior subordinated notes accrued quarterly interest amount to the senior subordinated notes.
9	The senior note interest reserve account deficit amount and then the senior subordinated note interest reserve account deficit amount, if any.
10	The senior notes accrued scheduled principal payment amount, the senior notes quarterly scheduled principal deficiency amount, if any, and amounts due under the variable funding note purchase agreement related to cash-collateralization of letters of credit.
11	The supplemental management fee, if any.
12	If no rapid amortization has occurred and a class A-1 note amortization event is continuing, to the class A-1 notes' principal.
13	If no rapid amortization has occurred and during a cash trapping period, deposit the cash trapping amount.
14	If a rapid amortization event has occurred, all remaining amounts to pay down the class A notes and then all remaining amounts to pay down the senior subordinated notes.
15	If no rapid amortization event has occurred, the senior subordinated notes' accrued quarterly scheduled principal amount and then the senior subordinated notes' quarterly scheduled principal payment deficiency amount, if any.
16	Securitization operating expenses.
17	The excess class A-1 notes administrative expenses amounts, pro rata.
18	The class A-1 notes' other amounts.
19	Accrued quarterly interest amount on the subordinated notes.
20	Accrued quarterly scheduled principal amount and quarterly scheduled principal deficiency amount on the subordinated notes.
21	Outstanding principal amount of the subordinated notes.
22	Senior notes accrued quarterly post-ARD contingent interest amount.
23	Senior subordinated notes accrued quarterly post-ARD contingent interest amount.
24	Accrued quarterly post-ARD contingent interest amount on the subordinated notes.
25	Hedge termination payments and other unpaid hedge payments.

Table 6

Payment Priority(i) (cont.)

Priority	Payment
26	Any unpaid premiums and make-whole prepayment premiums on the senior notes.
27	Any unpaid premiums and make-whole prepayment premiums on the senior subordinated notes.
28	Any unpaid premiums and make-whole prepayment premiums on the subordinated notes.
29	Other payments to any series of notes.
30	Any remaining funds to or at the direction of the master issuer.

(i)Ratings do not address the likelihood of receiving post-ARD interest. ARD--Anticipated repayment date.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired. The purpose of surveillance is to assess whether the notes are performing within the initial parameters and assumptions applied to each rating category. The transaction terms require the issuer to supply periodic reports and notices to S&P Global Ratings for maintaining continuous surveillance on the rated notes.

We view Planet Fitness' performance as an important part of analyzing and monitoring the performance and risks associated with the transaction. While company performance will likely have an effect on the transaction, factors such as cash flow, debt reduction, and legal framework, are main components to our analysis.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Corporate Securitizations, June 22, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off, Sept. 23, 2021
- U.S. Lodging, Leisure, And Gaming Sectors Face Rocky Road To Recovery, June 30, 2020
- Credit FAQ: The Key Ingredients For Whole Business Securitization Ratings, Feb. 22, 2019
- Restaurant Securitizations Are Structured To Survive A Big Bite, Sept. 7, 2017
- Why Social Media Should Be A #trendingtopic In Corporate Securitization Analysis, June 9, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016