

WESTPEAK RESEARCH ASSOCIATION

Planet Fitness, Inc. (NYSE: PLNT)

Consumer Cyclical – Gym, Health, and Fitness Clubs

Planet Fitness to Produce Galactic Gains

March 21, 2023

Planet Fitness, PLNT, or the company, was founded in 1992 and is one of the largest and fastest growing franchisors and operators of fitness centers in the U.S. The company is a highly recognized brand that offers a welcoming, non-intimidating environment, a distinct store experience, and significant value for members. PLNT operates over 2,000 stores in 6 countries.

Thesis

Despite the threat of a recession, Planet Fitness has made a strong recovery following COVID-19 and is poised for significant growth in the future. Their management team's strategy of targeting teenagers over 14, a relatively untapped market segment, in combination with their ambitious plan to open 1,000 new stores nationwide, positions the company for success. In addition to a robust growth strategy, Planet Fitness has strong liquidity compared to industry competitors, making it less vulnerable to adverse market conditions. Therefore, we anticipate significant growth for PLNT in the years ahead.

Drivers

With consumers becoming more health conscious, we expect to see significant growth in the industry. Adolescents are taking their physical health more seriously and as Baby Boomers grow older, it is reasonable to assume that they will aim to preserve their health. All in all, these factors are expected to broaden the market for the industry. As the economy recovers from this high inflationary period and consumer discretionary spending rebounds, we believe there is strong growth potential for the fitness industry.

Valuation

The target price of \$87 is based on an EV/EBITDA exit multiple and perpetuity growth method gathered from our DCF and comparable analysis. Both methods were weighed at 80% and 20% respectively. We initiate a **buy** rating on PLNT with an implied upside of 13.7%

Analyst: Justin Houlberg, BCom. '24
contact@westpeakresearch.com

Equity Research US

Price Target	USD\$ 87.00
Rating	Buy
Share Price (Mar 21. Close)	USD\$ 76.66
Total Return	14.3%

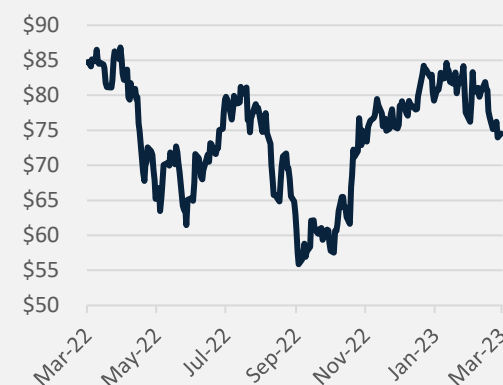
Key Statistics

52 Week H/L	\$54.15/\$88.31
Market Capitalization	\$6.42B
Average Daily Trading Volume	0.92M
Net Debt	\$1.49B
Enterprise Value	\$7.87B
Net Debt/EBITDA	4.8x
Diluted Shares Outstanding	83.42M
Free Float	91.4%
Dividend Yield	N/A

WestPeak's Forecast

	<u>2022E</u>	<u>2023E</u>	<u>2024E</u>
Revenue	\$855M	\$1.15B	\$1.32B
EBITDA	\$336M	\$486M	\$559M
Net Income	\$96.4M	\$259M	\$311M
EPS	\$1.14	\$3.06	\$3.67
P/E	66.6x	25.0x	20.9x
EV/EBITDA	23.4x	15.8x	13.2x

1-Year Price Performance



Business Overview/Fundamentals

Company Overview

Founded in 1992, Planet Fitness aims to improve peoples lives by offering a clean, safe, high-quality fitness experience and welcoming environment for its customers which the company calls the Judgement Free Zone. The company offers a unique gym experience at an exceptional value, with the standard membership starting at \$10 USD/month. This attractive value proposition is designed to appeal to a broad demographic, including occasional gym goers as well as nearly 80% of the U.S. and Canadian market over the age of 14. Beyond their standard membership, Planet Fitness also offers the more expensive PF Black Card Membership which gives members access to additional amenities such as a hydromassage, tanning bed, and the ability to use any Planet Fitness location worldwide. PLNT has over 16.6 million members and operates 2,353 fitness centers across the U.S., Puerto Rico, Canada, Panama, Mexico, and Australia. 2,142 of the stores are franchisee-owned and the remaining are corporate-owned.

Revenue Analysis

Franchise Revenue

Franchise revenues come from a variety of sources, including royalties, initial and successor franchise fees, and upfront fees from area development agreements. Franchisees are required to pay 7% of their monthly dues and annual membership fees as royalties. Initial and successor franchise fees are payed once a franchisee signs a new franchise agreement and tranfer fees are paid when one franchisee transfers a franchise agreemnent to a different franchisee. Planet Fitness also generates revenue from transfer fees, placement of equipment, commission income and other fees such as memberhip fees and annual fees.

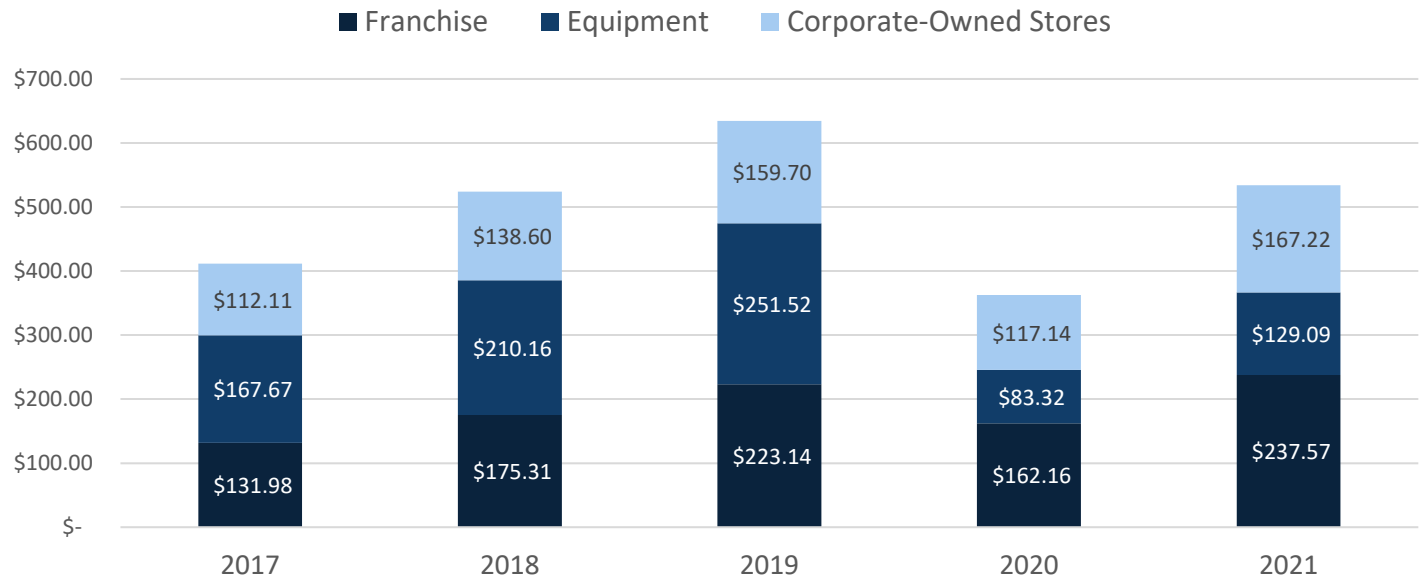
Equipment Revenue

Approximately 24% of Planet Fitness's revenue is generated by selling equipment to franchisee partners. This equipment is sold and delivered from third-party manufacturers to U.S. and Canada based franchisee-owned stores. Because the equipment must be replaced every 5-7 years, this creates predictable and growing cash flows.

Corporate-Owned Stores Revenue

Through their corporate-ownder stores, the company generates revenue from their standard membership which starts at \$10 USD/month and the Planet Fitness Black Card membership which starts at \$21.99 USD/month. Members are also charged a \$39 USD annual charge and an enrollment fee ranging from \$0 to \$99 USD. Additionally, the company sells Planet Fitness branded apparel, food, beverages, and other accessories.

Segmented Revenue (\$M)
FY17 – FY21



Growth Strategies

Grow Store Base

Over the last 5 years, Planet Fitness has grown its store count from 1,518 stores as of December 31, 2017, to 2,254 stores as of December 31, 2021, and the company aims to continue growing in a similar fashion. We believe that PLNT has the potential to operate over 4,000 stores across the U.S. alone due in part to the fact that the company has been successful across a broad range of markets. Current franchisees have committed to opening 1,000 additional stores including more than 500 over the next 3 years. As a result, Planet Fitness has the potential to experience significant growth in the international fitness market.

Drive Revenue Growth and Store Sales

Prior to the COVID-19 pandemic, Planet Fitness saw system-wide sales growth for 53 consecutive quarters, and this growth continued in the third and fourth quarter of 2021. Due to company's affordability and appeal to new and occasional gym goers, Planet Fitness is well-positioned to capture a large portion of the population as the focus on health and wellness continues to rise. To drive revenue growth and store sales, Planet Fitness continues to improve and expand the offerings of their membership program by hosting small group training sessions and providing over 500 workouts through the free Planet Fitness app.

In addition to improving and expanding the offerings of their standard membership, Planet Fitness plans to grow sales by attracting new members to their PF Black Card membership while converting standard members to this more premium membership. As of December 31, 2017, PF Black Card members as a percentage of total membership has increased by 59.6% to 62.6% as of December 31, 2021, and over the same period, average monthly dues have increased by \$1.53.

Increase Brand Investment

Planet Fitness requires franchisees to spend 7% of their monthly membership dues on local advertising. The company currently requires franchise partners to contribute 2% of their membership dues to support the National Advertising Fund (NAF) and Canadian advertising fund. This is expected to increase memberships and attract more high-quality franchise partners. Over time, PLNT expects to continue growing both the NAF and local advertising spending as memberships grow.

Continue Expanding Royalties

As mentioned previously, franchisees are required to pay 7% of their monthly dues and annual membership fees as royalties but only 39% of franchisees are paying these royalties due to lower rates negotiated in past agreements. As new franchisees join the company, we can expect the average royalty rate to increase from its current rate of 6.38%.

Grow Fitness Equipment Sales and Related Services

As store base increases, fitness equipment sales will increase since franchisees are required to buy fitness equipment from Planet Fitness directly. Additionally, equipment must be replaced every 5-7 years which creates a more consistent and high-quality fitness experience; a significant factor that drives new member growth. All in all, it is fair to expect incremental growth in revenues due to the sale of equipment to franchisees.

Competitive Analysis

Market Leader

As mentioned previously, Planet Fitness is one of the largest and fastest growing franchisors and operators of fitness centers in the United States. In 2021 alone, the company gained 1.7 million new members and 132 new locations. PLNT offers a differentiated member experience through features like their Judgement Free Zone. Here, members of all fitness levels can feel comfortable working out at their own pace without feeling intimidated by staff or other members. Additionally, the company is a nationally recognized brand in the U.S. with the highest aided and unaided brand awareness in the fitness industry. This was achieved through fun and creative marketing campaigns. Finally, PLNT has an immense scaling opportunity due to strong purchasing power, extended warranties on equipment, and the company's ability to attract high-quality franchise partners. Furthermore, due to the mandatory contribution to the National Advertising Fund, Planet Fitness and franchisees were able to spend over \$225 million on advertising in 2021.

Exceptional Value Proposition

Through low membership dues, fostering a great environment, and broad appeal, Planet Fitness has a unique value proposition that captures a broad demographic of people. The member base is over 50% female and members come from both high and low-income households. Due to PLNT's broad appeal, the company can target a large segment of the population in a variety of markets and geographies.

Attractive Franchise System

Due to most stores being franchisee-owned, Planet Fitness can scale much quicker than predominately corporate-owned businesses. The company's business model means allows for fixed labor costs, minimal inventory, automatic billing, and limited cash transactions which makes becoming a Planet Fitness franchisee an alluring business opportunity. The effectiveness of this model is further proven by the fact that over 90% of new stores in 2021 were opened by the existing franchisee base.

Environmental, Social, and Governance (ESG)

Environmental

Planet Fitness's approach to reducing its environmental impact is to ensure sustainable operations by monitoring water use, waste, and recycling, while also mitigating waste from materials and equipment and addressing energy use and greenhouse gas (GHG) emissions. To reduce waste and increase resource efficiency, all newly constructed clubs will have low flow shower heads, high efficiency hand dryers, 100% recycled paper towels, water refill stations, and a micro-fiber cleaning system.

Since 2016, Planet Fitness has managed to save an average of 20,000 gallons of water per year per store. This was achieved by installing low-flow, high pressure shower heads and flush-o-meters in addition to incorporating high-efficiency washing machines to 85% of corporate clubs.

Planet Fitness has replaced paper towels with efficient hand dryers and installed water refill stations to decrease the sale of single-use plastic water bottles. In addition, old equipment is disposed of through donation, recycling, or resale, allowing the company to maintain a high-quality experience for members while minimizing their environmental impact. Furthermore, all waste and recycling are collected and delivered to a local landfill and cogeneration facility, generating over 3.3 million megawatts of renewable energy which was used to service the local community.

Since energy use is one of the largest contributors to GHG emissions, and in turn, climate change, all Planet Fitness franchise and corporate clubs built after 2015 have been required to install energy efficient LED lights and Save Energy Systems. Tankless water heaters were also installed to save energy by only heating water when needed.

Social

Studies have found that fitness is vital for physical and mental wellbeing but only 23% of Americans get the exercise they need. According to research, during the pandemic, 70% of Americans were considered obese or overweight and 42% of people in the U.S. said they had gained on weight, averaging 29 pounds per person. Planet Fitness aims to promote physical activity to those who may not have incorporated this into their routines. The company is doing so by removing barriers of intimidation and increasing affordability for their members.

Beyond physical health, Planet Fitness has partnered with Boys and Girls Clubs of America to provide social-emotional skill training to promote kindness and positive interactions among peers. This program also aims to prevent bullying and

negative peer interactions. Since 2016, PLNT has contributed over \$7 million dollars and since 2017, the company has awarded over 130 scholarships to youth.

Planet Fitness is committed to DEI, with a dedicated task force working on four key pillars: intentional recruitment and career pathing, cultural competency training, fostering an inclusive culture, and regular feedback mechanisms for employees. The company is working to increase representation of women and BIPOC employees, as well as offering training and support for cultural competency and unconscious bias.

Governance

Planet Fitness has elected a Board of Directors with a diverse set of experiences and backgrounds to ensure a wide range of perspectives are leveraged to support the leadership team. This same approach is applied to the company's management. The Board of Directors is made up of 25% women, 12.5% racially/ethnically diverse women, and 12.5% racially/ethnically diverse men. Additionally, the management team is made up of 36% women and 64% men.

All Planet Fitness employees must uphold a Code of Ethics and the CEO and other senior executives must also follow a supplemental Code of Ethics which covers issues like conflicts of interest, making accurate and timely financial disclosures, and complying with laws and regulations. Furthermore, franchisees, vendors, and contractors, and other business partners must follow a specific set of standards including a Franchisee Code of Ethics and the Vendor Code of Conduct, all of which were implemented in 2021.

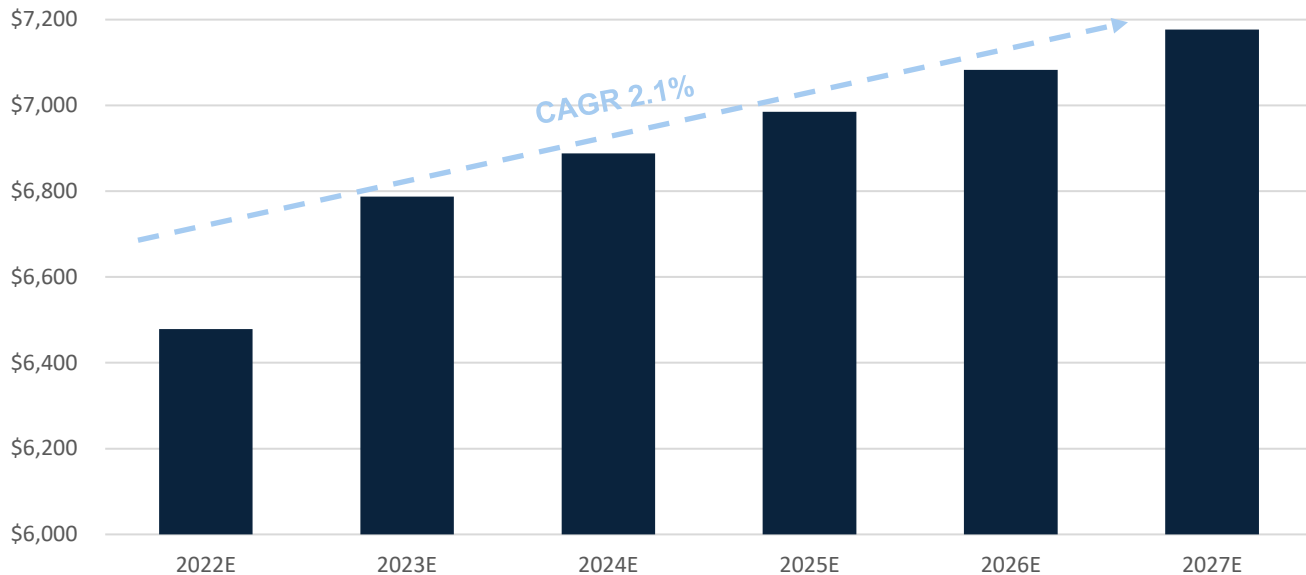
To ensure internal data security, a privacy committee was created to monitor the regulatory landscape to ensure Planet Fitness's policies are compliant with the latest laws. Furthermore, the company had a third-party security firm conduct a risk assessment to understand any gaps in the current data security systems.

Industry Analysis

Gym, Health, and Fitness Clubs

In general, companies in this industry operate sports facilities for both fitness and recreational use. All players in this industry offer exercise equipment and/or recreational sports activities for members. Some fitness clubs appeal to consumers who are more budget conscious (i.e., Planet Fitness) and others aim to attract a niche market by offering specific workout classes or environments, often with a luxury priced attached (i.e., Equinox). In 2019, the total number of health club memberships increased to 64.2 million in the United States, indicating a heightened demand for these services.

Industry Revenue (\$M)
FY22 – FY27



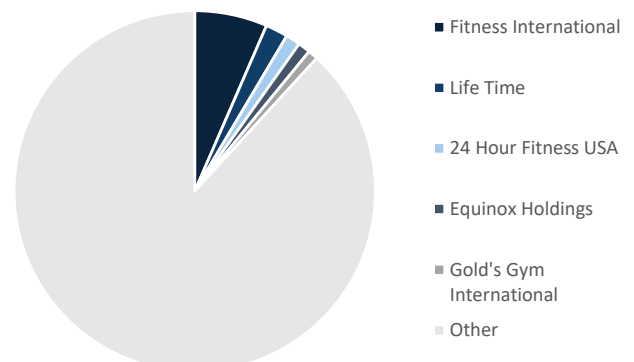
COVID-19

As governments began to ease COVID-19 restrictions, the industry experienced a 4% growth in revenue in the months following. This sudden growth could also be linked to an increase in health consciousness among consumers. With that said, the participation in recreational sports is expected to increase in the coming years, which will lead to a larger number of potential customers. As a result, we can expect industry revenue to grow at a rate of 1.9% a year for the next 5 years. Income sources in the industry have not experienced any change, but major players like Gold's Gym and 24 Hour Fitness faced significant financial struggles due to the pandemic, having filed for Chapter 11 bankruptcy protection. This has highlighted the importance of maintaining an asset-light business model.

Competition

Major players in this industry include Fitness International, Life Time Group Holdings, 24 Hour Fitness, Equinox, and Gold's Gym. Surprisingly, the top five operators in this industry only make up around 20% of revenue in 2022, making this a highly fragmented industry. Most operators in this industry serve a local niche and account for nearly two thirds of the industry market share. The major players in this industry operate many locations across the United States while the smaller players operate a few locations in just one or two states. This presents a fantastic opportunity for larger players

Major Players
FY2022: \$32B



to increase market share as they could acquire these smaller, niche gyms.

Even though many larger players will likely aim to increase market share, smaller players will continue to attract local customers by offering conveniently placed establishments in unsaturated markets. We can expect larger players to limit this growth by leveraging technology to attract new customers. These larger players may use smartphone apps that allow members to view their fitness statistics from each workout session and allow them to reserve sessions online. As a result, this increased implementation of technology will improve efficiency for both consumers and operators.

The number of operators in this industry is expected to grow at an annualized rate of 2.5% over the next five years. This growth can be characterized by the entrance of smaller, independently owned gyms and fitness clubs. In addition to the industry operator growth rate, employment in the industry is also expected to grow at an annualized rate of 2.4% over the next five years. This is due to industry players requiring a larger workforce to maintain stable growth. Additionally, to ensure profitability in a growingly competitive industry, operators will begin to provide additional services like spa treatments and fitness classes which will also require additional human capital.

Catalysts

Growing Health-Consciousness

Over the last five years, we have seen significant growth in health-consciousness amongst consumers, in particular baby boomers due to their age, which has resulted in rising consumer demand for health club memberships. Additionally, another driver of health-consciousness is the rising obesity rates in the U.S. which reached an all time high of 41.9% in 2017 according to the CDC. Furthermore, in a recent earnings call, the CEO of Planet Fitness Chris Rondeau, stated that members were visiting the gyms more frequently and membership cancellations were lower compared to 2019. As consumer discretionary spending begins to fall due to rising inflation, low-cost monthly memberships offered by companies like Planet Fitness will likely experience growing demand. With many consumers joining a fitness club for the first time, they will be more inclined to purchase a membership at a club that offers a welcoming environment. As a result, Planet Fitness is positioned perfectly to capitalize on this unique opportunity. We believe it is reasonable to assume that growing health-consciousness would result in an increase in share price.

Increased Market Penetration

Pre-COVID, Gen Z was one of Planet Fitness's smallest segments. Having seen the long-term opportunity of targeting this generation, the company has since made tremendous efforts to increase penetration of all generations with a strong focus on Gen Z. Particularly in 2019, the company launched the High School Summer Pass program, which gives kids aged 14-19 years old access to Planet Fitness clubs for free all summer long. This past summer, 3.5 million teens or 14% of all high school aged teens in the U.S. had enrolled. Since the summer has ended, Planet Fitness has managed to convert 300,000 teens for a total conversion rate of 5%. The company has already outpaced the conversion rate experienced in 2019, and the program brought in 3.5x the participants so its clear that Planet Fitness's marketing efforts are seeing success. Part of the success can also be attributed to PLNT's investment into their mobile app, which made the sign-up process more seamless and enabled the company to connect with parents and guardians. Given the fact that Planet Fitness has yet to

fully tap into to this demographic, we believe this could be a major driver of revenue growth, resulting in a higher share price.

Management Team

Chris Rondeau – Chief Executive Officer

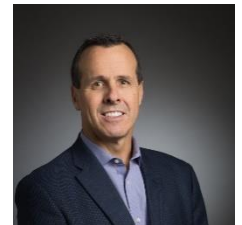
Chris Rondeau joined Planet Fitness in 1993, one year after the original founders started the company. Since 2003, he served as the Chief Operating Officer and was then appointed the CEO of Planet Fitness in January 2013. Chris has had a significant impact in the development of Planet Fitness's unique business model and lean operating system which has revolutionized the fitness and franchising industry. Mr. Rondeau has earned many accolades over the years including Entrepreneur Franchise 500 – Fastest Growing Franchise List, Franchise Time's Top 200, and Forbes Americas Best Franchises, just to name a few. In 2020, Chris joined the International Franchise Association (IFA) Board of Directors.



In 2021, Rondeau's reported base salary was \$900K (10% of total compensation), with \$2.5M in bonus and incentive compensation (27% of total compensation), \$2.7M in stock awards (29% of total compensation), and \$3.1M in option awards (33% of total compensation). Given the fact that 60% of his compensation comes from stock and option awards, Chris Rondeau is clearly incentivized to make decisions that will positively impact Planet Fitness's share price.

Bill Bode – Division President, U.S. Franchise

Bill Bode joined Planet Fitness in 2016 as the Senior Vice President of Franchise Operations and currently serves as the Division President, U.S. Franchise. Bill was previously the Regional Vice President for Dunkin Donuts, where he was responsible for overseeing more than 2,600 restaurants, U.S. brand compliance, and business development. Prior to his leadership role at Dunkin Donuts, he was a Dunkin Donuts franchisee.



Bill Bode reported \$1.4M in total compensation in 2021. Of the \$1.4M he received, his base salary was \$358K (26% of total compensation), \$500K was bonus pay and non-equity incentives (37% of total compensation), \$237K was stock awards (17% of total compensation), and \$260K was option awards (19% of total compensation). Considering nearly a third of Mr. Bode's compensation is his base salary, his interests with respect to Planet Fitness's stock price may differ from Chris Rondeau, who's base salary only makes up 10% of his total compensation.

Thomas Fitzgerald – Chief Financial Officer

Thomas Fitzgerald joined Planet Fitness in 2020 as the Chief Financial Officer. Mr. Fitzgerald has over 30 years of leadership experience in financial management and previously served as the Chief Financial Officer and Senior Vice President at Potbelly Sandwich Works. He also served in various executive positions at Charming Charlie Inc., Sears Canada, and Bath & Body Works. Tom holds an MBA in Finance from Indianan University Kelley School of Business and a bachelor's degree in finance from the University of Florida.



In 2021, Thomas Fitzgerald reported a base salary of \$490K (27% of total compensation), \$610K in bonus and incentive pay (34% of total compensation), \$330K in stock awards (18% of total compensation), and \$360K in option awards (20% of total compensation). Mr. Fitzgerald has similar interests as Bill Bode given their near identical compensation distribution.

Edward Hymes – President and Chief Operating Officer

On December 12th, 2022, Planet Fitness announced that Edward Hymes has been appointed the President and Chief Operating Officer. Edward has over 30 years of experience in international retail and e-commerce businesses for global companies. Mr. Hymes previously served as the President and Chief Executive Officer of Jiffy Lube International where he oversaw the strategic direction of the company, managing franchisee relationships to drive and maintain market share through innovation and a customer-first strategy.



Prior to Jiffy Lube, he served on Shell's Downstream Acquisitions and Divestments Leadership Team and Director and General Manager for internet startup Kozmo. He also held a variety of positions at Kmart from an hourly store team member to Regional Manager. Mr. Hymes holds a degree in Marketing from Northwest Missouri State University, and he participated in Wharton's Executive Leadership Program and Harvard Business School's Executive Education Program.

Investment Thesis

Thesis 1: Adolescent Market Segment

As obesity levels in the U.S. continue to rise, adolescents are becoming more health-conscious and are seeking affordable and accessible fitness options. Planet Fitness's unique brand identity and low-cost membership fees make it an attractive option for adolescents. With Gen Z previously being one of PLNT's smallest customer segments and given the fact that there are an estimated 25 million adolescents in the U.S., we believe there is strong growth potential as the company continues to tap into this underserved demographic.

Thesis 2: Store Growth Strategy

Planet Fitness is a leading fitness franchise with a proven track record of success in the gym industry. The company's store growth strategy is centered around expanding its presence across the United States and international markets, opening new stores in existing markets, and upgrading existing clubs to improve the customer experience. Overall, the company is

expecting to open 1,000 new stores with 500 opening in the next 3 years. Planet Fitness's focus on opening new stores in underserved markets should help drive continued growth in the years to come.

Thesis 3: Strong Liquidity Compared to Competitors

Considering the current macroeconomic conditions, Planet Fitness is well-positioned to meet its financial obligations given its current ratio is 1.85, compared to the industry average of 1.36. This high level of liquidity is important for a rapidly growing franchise like Planet Fitness, as the company requires significant capital investments for new store construction and equipment purchases. Moving forward, we expect PLNT to utilize their strong cash position to fund its commitment to growth and expansion.

Shareholder Base and Liquidity

Shareholder Base

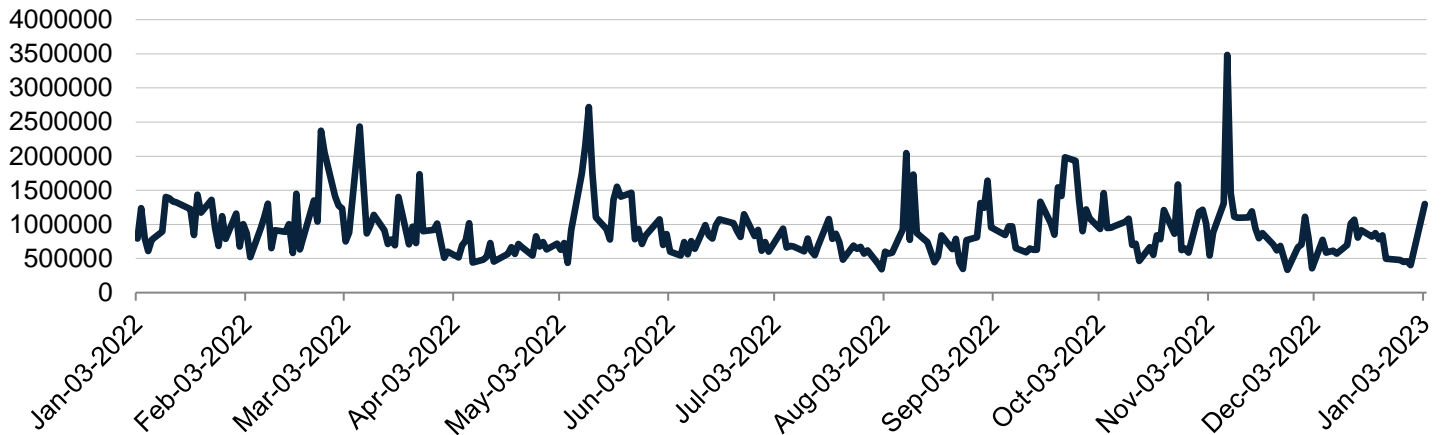
Of the 83,415,699 shares outstanding, Planet Fitness has 76,206,546 of free float shares which makes up 91.4% of total shares. Institutions hold 95.24% of shares, hedge fund managers hold 8.34% of shares, and insiders hold 0.26% of shares. Within the institutions, BlackRock, who is one of the world's leading providers of investment, advisory, and risk management solutions, has the largest position in Planet Fitness. Of the Hedge Funds, Davidson Kempner Capital Management LP owns 0.45% of total shares outstanding and is considered an activist investor.

Holder	Position	% Shares Outstanding	Market Value (mm)	Insider (Y/N)
BlackRock, Inc.	8,723,313	10.46%	687.4	N
Vanguard Group, Inc.	7,516,351	9.01%	592.3	N
SRS Investment Management, LLC	6,956,803	8.34%	548.2	N
AllianceBernstein L.P.	3,021,165	3.62%	238.1	N
J.P. Morgan Asset Management, Inc.	2,959,869	3.59%	233.2	N
Columbia Management Investment Advisers, LLC	2,740,788	3.29%	216.0	N
Amundi Asset Management	2,232,162	2.68%	175.9	N
BNY Mellon Asset Management	2,062,371	2.47%	162.5	N
TSG Consumer Partners, LP	2,014,197	2.42%	160.2	N
Bares Capital Management, Inc.	1,986,613	2.38%	158.7	N
Top 10 Shareholders	40,213,632	48%	3172.5	

Liquidity

The average daily trading volume for PLNT over the last twelve months (LTM) is 922,557 shares, with a high of 3,480,000 shares and a low of 334,164 shares. Comparing the company's LTM trading volume to its free float of 76,206,546, we can see there is relatively low liquidity.

1 Year Trading Volume
FY22 – FY23



Valuation

Discounted Cash Flow (DCF) Assumptions

Revenue Forecast

Our revenue forecasts are driven by six key variables: Newly opened corporate locations, sales per corporate store, newly opened franchise locations, closed/sold/consolidated franchise locations, equipment sales per franchise location, and membership sales per franchise location.

Seeing as Planet Fitness emerged from COVID-19 virtually unscathed and having recently acquired Sunshine Fitness, creating 114 new corporate locations, we are optimistic of future corporate store growth. With that said, considering the high cost of debt due to rising interest rates, acquisitions have become more expensive and thus, less attractive. With respect to sale per store, the PF Black Card Membership has seen incremental price increases since 2017, totalling to \$1.53. Considering the company is investing heavily into promoting this more expensive membership highlighted by their recent partnership with Amazon Halo, we forecasted a slight increase in corporate store sales over the next 5 years.

Planet Fitness has committed to opening over 1,000 new franchise locations, with 500 beginning operations over the next 3 years. Additionally, we expect the gym, health, and fitness industry to grow at an annualized rate of 2% over the next 5 years. Keeping in mind Planet Fitness's pre-COVID franchise store growth rate, we forecast a conservative number of store openings due to current supply chain issues surrounding HVAC installations which has played a factor in slowing down store growth. All things considered, we believe that the company will open 150 new stores in 2023 and over the following 2 years, there will be 175 new store openings per year, and this will begin to ramp up come 2024 where we forecast 250 new store openings a year. Since Planet Fitness did not experience a significant influx of store closures despite strong government regulations preventing members from using fitness clubs because of COVID-19, we believe that store closures will follow a historical mean of 2 per quarter.

We do not believe that Planet Fitness will increase the cost of equipment for its franchisees and the useful life of this equipment remains consistent at 5-7 years, so we forecasted annual equipment sales of \$120k based on the historical mean. As Planet Fitness attracts new franchisees, average royalty rates will begin to increase. Although the company expects ambitious growth over the next 5 years, we made a conservative forecast for 2023 due to supply chain issues and a high cost of debt which will likely result in slower franchise store growth than previously anticipated. Following 2023, we expect the supply chain issues to fade and interest rates to stabilize, we forecast membership sales per store to grow to \$25k bi-annually.

Cost of Goods Sold (COGS)

The cost of goods sold as a percent of revenue has historically ranged between 44.2% and 54.1%. We forecast a 45% of revenues rate which is the historical mean.

Selling, General, and Administrative Expenses (SG&A) and Operating Expenses (OPEX)

Since Planet Fitness is not taking any measures to cut costs and is instead focusing on expanding the number of locations and penetrating new geographies, we forecast SG&A as a percent of revenue and OPEX as a percent of revenue to remain slightly higher than their historical means (excluding 2020 and 2021 due to being outliers for OPEX) of 12% and 0.2% respectively. Therefore, we forecast a 13% of revenues rate for SG&A and .4% of revenues rate for OPEX.

Capital Expenditures (CAPEX)

Like our assumptions for SG&A and OPEX, Planet Fitness's historical mean of CAPEX as a percent of revenues is 41%, that is the rate we forecast for the near future.

Effective Tax Rate

We assumed an effective tax rate of 33.6% based on the company's historical mean.

Weighted Average Cost of Capital (WACC)

Based on our calculations and information gathered from *Bloomberg*, WACC is estimated to be 7.6%. This was derived by identifying Planet Fitness's cost of equity (9.1%) and cost of debt (2.5%). To determine cost of equity, we identified the risk-free rate by using the current US 5-year Treasury Bill rate of 3.8%. Additionally, we determined the markets expected return to be 8.6% based on the S&P 500's normalized annual returns and used an adjusted beta of 1.11. Calculating the cost of debt, we assumed a pre-tax cost of debt of 3.8% and an effective tax rate of 33.6% based on the company's historical mean.

Perpetuity Growth Rate

We applied a 2.5% perpetuity growth rate reflecting an expected 2% annualized growth rate in the gym, health, and fitness club industry and Planet Fitness's store growth and geogprahy and generation penetration efforts.

Terminal EV/EBITDA Multiple

We assumed a 17.7x terminal EV/EBITDA multiple. This multiple was derived from the mean terminal EV/EBITDA multiple across comparable companies.

Comparable Companies Analysis Set

Costco Wholesale

Costco is a membership warehouse club, dedicated to bringing our members the best possible prices on quality brand-name merchandise. With hundreds of locations worldwide, Costco provides a wide selection of merchandise, plus the convenience of specialty departments and exclusive member services, all designed to make your shopping experience a pleasurable one.

Life Time Group

Over nearly 30 years, Life Time has reshaped the way consumers approach their health through omnichannel, healthy way of life communities that address all aspects of healthy living, healthy aging and healthy entertainment. More than 30,000 Life Time professionals are dedicated to providing the best programs and experiences at more than 150 Life Time athletic resort destinations in the United States and Canada, and via a complementary, comprehensive digital platform and portfolio of iconic athletic events – all with the objective of inspiring healthier, happier lives.

Xponential Fitness

Xponential Fitness is the largest global franchisor of boutique fitness brands. Through its mission to make boutique fitness accessible to everyone, the Company operates a diversified platform of ten brands spanning across verticals including Pilates, indoor cycling, barre, stretching, rowing, dancing, boxing, running, functional training and yoga. In partnership with its franchisees, Xponential offers energetic, accessible, and personalized workout experiences led by highly qualified instructors in studio locations across 48 U.S. states and Canada, and through master franchise or international expansion agreements in 12 additional countries.

F45 Training

F45 Training is a global fitness community specializing in innovative, high-intensity group workouts that are fast, fun, and results-driven. Become part of the F45 family today and experience for yourself what makes us different. With our fitness studios expanding across the United States, there's probably an F45 Training near you.

Vail Resorts

Vail Resorts, Inc. is the premier mountain resort company in the world and a leader in luxury, destination-based travel at iconic locations. Our Company operates in three separate, but highly integrated segments: Mountain, Lodging, and Real Estate Development

Recommendation

Buy

Just as the economy is beginning to stabilize following COVID-19, a recession is looming due to rising inflation. Despite declining economic conditions, we expect Planet Fitness to experience continuous growth in the coming years. The company has plans to open 500 new U.S. stores in the next 3 years, with an overall goal of opening 1,000 more locations nationwide. Beyond that, the company is expanding their international operations as they have recently partnered with a Mexican retail services company and one of the largest U.S. developed to develop a minimum of 80 stores in Mexico over the next 5 years. Looking to the years prior to COVID-19, this type of store growth is certainly within Planet Fitness's capabilities. This in combination with the expected annual industry growth of 2% leads us to believe that Planet Fitness could be a good investment if its share price were to fall slightly below its current level.

We have weighed our valuation on an 80/20 split between the discounted cash flow analysis and the comparable companies' analysis. The comparable companies' analysis is weighed at 20% because Planet Fitness's direct competition are private companies (i.e. Anytime Fitness, Gold's Gym, LA Fitness, etc.). Furthermore, the public companies that operate in the fitness industry employ a completely different business model while the companies with similar business models operate in completely different industries.

Risks

Highly Competitive Industry

Internal Competition

As mentioned previously, the gym, health and fitness industry is highly competitive. Due in part to the low barrier to entry, many firms compete on price, offering low-cost memberships to attract novice gym goers. Since a large part of Planet Fitness's value proposition relies on their low-cost nature, this increase in competition will pose a significant threat. As time goes on, it will be of utmost importance for Planet Fitness to maintain their strong brand reputation to ensure differentiation amongst other discount fitness centers. Additionally, recreational fitness centers operated by government and nonprofit organizations pose a significant threat to discount fitness companies as these fitness clubs can obtain land and build centers at lower costs. Finally, due to high industry fragmentation, we can expect larger players to acquire smaller niche gyms with the goal of increasing their overall market share. With Planet Fitness being a relatively smaller player with only 0.3% of market share, this could also pose a significant threat as firms with greater access to capital could begin to take market share at faster rates.

External Competition

Beyond competition from current players in this industry, there is also significant external competition. For instance, the inclusion of fitness clubs in new condominiums is becoming more and more prevalent and exercise studios are growing in popularity. More importantly, technological disruption in the industry could pose a significant threat. At-home fitness services and equipment such as Peloton give consumers the ability to work out from the comfort of their own home. Furthermore, these services allow consumers to get specialized training at a cheaper price than the same personal in-person training. Due to the already high level of fragmentation in the industry, these at-home fitness services could materially affect the structure of the industry. Moving forward, it will be vital for Planet Fitness to swiftly adapt to changing consumer preferences, especially with the advent of technological advancements in the fitness industry.

Laws and Regulations

Franchise

PLNT is subject to various federal and state franchise laws in the United States and similar laws in other countries like Canada, Mexico, and Australia. These laws regulate the offer and sale of franchises and require the company to provide certain disclosures to prospective franchisees. The company is also subject to franchise relationship laws in certain states and territories that regulate various aspects of the franchise relationship, such as renewals, terminations, and franchisee rights. The company is required to comply with these laws, or it may face fines, damages, and other remedies, which could negatively impact its business and operations. In addition, the company and its franchisees are subject to labor laws in various countries governing matters such as minimum wage and working conditions, which could affect their labor costs and store performance. Finally, the company and its franchisees are subject to various environmental, building, and zoning regulations, which could impact their operations and development of properties.

Industry

Beyond franchise laws and regulations, PLNT is subject to federal and state regulations governing the sale, financing, and collection of memberships, including the Truth-in-Lending Act and Regulation Z. These laws often prescribe certain forms and regulate the terms and provisions of membership contracts, including the right to cancel the contract within a certain period of time and the requirement to escrow funds or post a bond. Industry operators are also subject to labor laws governing the relationship with employees, such as minimum wage requirements and working conditions.

Economic Uncertainty and Indebtedness

Demand for gyms and fitness centers is heavily dependent on household disposable income. Generally, as consumer discretionary spending rises, so does demand for gyms and fitness clubs. With rising inflation rates, we can expect discretionary spending to fall and thus, a decline in demand for gyms and fitness clubs. As a result, we will likely see a significant decline in Planet Fitness's overall growth. Additionally, PLNT is highly leveraged and when interest rates are higher, servicing existing debt becomes increasingly expensive. With a potential recession on the horizon, this poses a significant threat to the company's financial health.

Appendix 1: Summary Page

Summary Page															
	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27
(Figures in mm USD)	FY2017	FY2018	FY2019	FY2020	FY2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Income Statement															
Revenue	429.9	572.9	688.8	406.6	587.0	186.7	224.4	244.4	199.9	855.4	1,145.9	1,317.4	1,536.1	1,731.9	1,953.8
EBITDA	179.3	219.3	277.4	113.6	206.2	74.3	87.3	94.5	80.0	336.1	486.4	559.2	652.0	735.1	829.3
Net Income	55.6	103.2	135.4	(15.2)	46.1	18.4	25.1	30.7	22.3	96.4	258.8	310.7	377.1	436.5	503.8
Earnings Per Share	\$ 0.70	\$ 1.18	\$ 1.62	\$ (0.19)	\$ 0.55	\$ 0.22	\$ 0.29	\$ 0.36	\$ 0.26	\$ 1.14	\$ 3.06	\$ 3.67	\$ 4.46	\$ 5.16	\$ 5.96
Cash Flow Statement															
Capital Expenditures	(37.7)	(40.9)	(57.9)	(52.6)	(54.1)	(23.9)	(17.6)	(23.7)	(20.8)	(85.9)	(138.0)	(135.2)	(136.6)	(137.9)	(139.3)
Acquisitions	-	(45.8)	(52.6)	-	(1.9)	(425.8)	0.9	-	-	(424.9)	-	-	-	-	-
Divestitures	0.7	0.2	0.1	0.3	(35.0)	-	0.1	20.8	-	20.9	-	-	-	-	-
Dividend Payment	(2.0)	(1.0)	(0.2)	(0.2)	-	-	-	-	-	-	-	-	-	-	-
Dividend Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout to Earnings	3.6%	0.9%	0.2%	-1.5%	-	-	-	-	-	-	-	-	-	-	-
Dividend Payout to Core FCF	1.1%	0.4%	0.1%	0.2%	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance Sheet															
Current Assets	177.0	388.5	540.1	566.8	662.4	615.6	523.4	540.5	573.4	573.4	845.3	1,166.1	1,558.3	2,007.8	2,526.9
Non-Current Assets	915.5	964.9	1,177.1	1,282.9	1,353.6	2,376.8	2,360.7	2,305.8	2,294.6	2,294.6	2,302.7	2,306.0	2,309.3	2,312.7	2,316.1
Assets	1,092.5	1,353.4	1,717.2	1,849.7	2,016.0	2,992.4	2,884.1	2,846.3	2,868.0	2,868.0	3,148.0	3,472.1	3,867.6	4,320.5	4,843.0
Current Liabilities	112.0	131.4	145.5	111.9	176.6	251.0	263.6	258.1	257.6	257.6	278.8	292.3	310.7	327.1	345.7
Non-Current Liabilities	1,117.4	1,604.8	2,279.5	2,443.5	2,482.2	2,952.3	2,849.5	2,836.2	2,836.2	2,836.2	2,836.2	2,836.2	2,836.2	2,836.2	2,836.2
Liabilities	1,229.4	1,736.2	2,424.9	2,555.4	2,658.8	3,203.3	3,113.1	3,094.4	3,093.8	3,093.8	3,115.0	3,128.5	3,146.9	3,163.3	3,182.0
Shareholders' Equity	(119.5)	(374.6)	(706.5)	(705.9)	(645.4)	(212.7)	(185.4)	(203.7)	(181.3)	(181.3)	77.4	388.1	765.2	1,201.6	1,705.5
Cash	113.1	320.1	478.8	515.8	603.9	536.7	446.3	467.2	504.9	504.9	732.0	1,040.3	1,414.9	1,848.8	2,350.2
Debt	703.8	1,172.1	1,705.0	1,693.9	1,682.8	2,010.3	2,006.5	2,002.9	2,002.9	2,002.9	2,002.9	2,002.9	2,002.9	2,002.9	2,002.9
Net Debt	590.7	852.0	1,226.2	1,178.1	1,078.8	1,473.6	1,560.2	1,535.7	1,498.0	1,498.0	1,270.9	962.6	588.0	154.1	(347.3)
Minority Interests	(17.5)	(8.2)	(1.3)	0.2	2.5	1.8	(43.6)	(44.5)	(44.5)	(44.5)	(44.5)	(44.5)	(44.5)	(44.5)	(44.5)
Debt/EBITDA	3.3 x	3.9 x	4.4 x	10.4 x	5.2 x	-	-	-	-	4.5 x	2.6 x	1.7 x	0.9 x	0.2 x	n/a
Operating Metrics															
Return on Equity (ROE)	-46.5%	-27.5%	-19.2%	2.2%	-7.1%	-	-	-	-	-53.2%	334.2%	80.1%	49.3%	36.3%	29.5%
Return on Assets (ROA)	5.1%	7.6%	7.9%	-0.8%	2.3%	-	-	-	-	3.4%	8.2%	8.9%	9.8%	10.1%	10.4%
Return on Invested Capital (ROIC)	0.14	0.04	0.11	0.03	0.07	-	-	-	-	0.07	0.11	0.12	0.13	0.14	0.14
Valuation Metrics															
Stock Price (High)	\$ 35.03	\$ 34.25	\$ 81.90	\$ 88.77	\$ 99.60	\$ 97.33	\$ 88.31	\$ 82.96	\$ 76.66	\$ 97.33	\$ 76.66	\$ 76.66	\$ 76.66	\$ 76.66	\$ 76.66
Stock Price (Low)	\$ 18.32	\$ 28.98	\$ 52.15	\$ 23.77	\$ 67.89	\$ 73.72	\$ 61.11	\$ 54.15	\$ 76.66	\$ 54.15	\$ 76.66	\$ 76.66	\$ 76.66	\$ 76.66	\$ 76.66
Stock Price (Average)	\$ 26.68	\$ 31.62	\$ 67.03	\$ 56.27	\$ 83.75	\$ 85.53	\$ 74.71	\$ 68.56	\$ 76.66	\$ 75.74	\$ 76.66	\$ 76.66	\$ 76.66	\$ 76.66	\$ 76.66
Diluted Shares Outstanding (Average)	79.0	87.7	83.6	80.3	83.9	84.6	85.2	84.5	84.5	84.7	84.5	84.5	84.5	84.5	84.5
Market Capitalization (Average)	2,106.6	2,771.8	5,604.6	4,518.6	7,025.7	7,238.4	6,365.1	5,796.1	6,481.4	6,417.6	6,481.4	6,481.4	6,481.4	6,481.4	6,481.4
Enterprise Value (Average)	2,679.8	3,615.6	6,829.5	5,697.0	8,107.0	8,713.8	7,881.6	7,287.4	7,934.9	7,871.1	7,707.8	7,399.6	7,024.9	6,591.0	6,089.6
P/E	37.9 x	26.9 x	41.4 x	n/a	152.3 x	-	-	-	-	66.6 x	25.0 x	20.9 x	17.2 x	14.9 x	12.9 x
EV/EBITDA	14.9 x	16.5 x	24.6 x	50.2 x	39.3 x	-	-	-	-	23.4 x	15.8 x	13.2 x	10.8 x	9.0 x	7.3 x
FCF Yield to Market Capitalization	-11.9%	5.3%	3.0%	0.9%	2.6%	-	-	-	-	2.7%	3.2%	4.3%	5.3%	6.1%	7.1%
FCF Yield to Enterprise Value	-9.3%	4.1%	2.4%	0.7%	2.2%	-	-	-	-	2.2%	2.7%	3.8%	4.9%	6.0%	7.5%
Free Cash Flow															
EBIT	147.5	184.0	233.1	59.8	143.4	48.7	55.1	61.9	48.0	213.7	356.5	427.3	518.8	600.6	693.4
Tax Expense	(373.6)	(28.6)	(37.8)	(0.7)	(5.8)	(11.9)	(8.7)	(15.7)	(16.1)	(71.8)	(119.8)	(143.5)	(174.3)	(201.7)	(232.9)
D&A	31.8	35.3	44.3	53.8	62.8	25.7	32.2	32.6	32.0	122.4	129.9	131.9	133.2	134.6	135.9
Capital Expenditures	(37.7)	(40.9)	(57.9)	(52.6)	(54.1)	(23.9)	(17.6)	(23.7)	(20.8)	(85.9)	(138.0)	(135.2)	(136.6)	(137.9)	(139.3)
Changes in NWC	(18.3)	(2.2)	(14.8)	(19.3)	35.7	2.2	(16.9)	3.8	4.2	(6.7)	(23.5)	0.9	0.9	0.8	0.9
Unlevered Free Cash Flow	(250.3)	147.6	167.0	41.0	182.0	40.7	44.1	59.0	47.3	171.7	205.1	281.3	342.1	396.3	458.0
Valuation Summary															
Current Price	\$ 76.66														
Target Price	\$ 87.86														
Total Return	14.6%														
Recommendation	BUY														
DCF Valuation															
Perpetuity Growth Implied Price	\$ 73.32														
Exit Multiple Implied Price	\$ 117.22														
Comps Valuation															
Comps - EV/EBITDA Implied Price	\$ 58.22														
Comps - P/E Implied Price	\$ 33.64														

Appendix 2: Discount Cash Flow Analysis

Appendix 3: Comparable Companies Analysis

Comparable Company Analysis									
(Figures in mm USD)				EV/EBITDA Multiple			P/E Multiple		
Company	Ticker	Equity Value	Enterprise Value	2021A EV/EBITDA	2022E EV/EBITDA	2023E EV/EBITDA	2021A P/E	2022E P/E	2023E P/E
Costco Wholesale	(Nasdaq: COST)	224,411.5	224,273.5	24.9 x	23.1 x	20.4 x	45.0 x	38.5 x	34.7 x
Life Time Group Holdings	(NYSE: LTH)	2,536.3	6,478.2	n/a	24.4 x	15.1 x	(3.5 x)	(48.4 x)	52.2 x
Xponential	(NYSE: XPOF)	611.1	949.0	62.8 x	13.2 x	9.4 x	71.4 x	92.3 x	21.7 x
F45 Training	(NYSE: FXLV)	248.1	319.8	n/a	12.3 x	8.4 x	(1.0 x)	(9.1 x)	10.6 x
Vail Resorts	(NYSE: MTN)	10,513.1	12,583.5	23.0 x	15.1 x	13.6 x	74.3 x	31.9 x	29.1 x
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
Planet Fitness	(NYSE: PLNT)	6,451.4	7,942.7	35.9 x	21.9 x	18.5 x	100.9 x	47.9 x	36.9 x
Median					15.1 x	13.6 x	31.9 x		
Mean					17.7 x	13.4 x	21.0 x		
High					24.4 x	20.4 x	92.3 x		
Low					12.3 x	8.4 x	(48.4 x)		
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$	47.34	\$ 51.92	\$	50.96	\$ 60.49
Mean				\$	58.22	\$ 50.72	\$	33.64	\$ 61.70
High				\$	87.41	\$ 86.83	\$	147.60	\$ 108.66
Low				\$	35.39	\$ 25.21	-\$	77.39	\$ 22.10

Legal Disclaimer

The content, opinions, estimates, and projections contained in this report are those of WestPeak Research Association (known as “WestPeak” or “WestPeak Research”) and its directors, analysts, and affiliates and are subject to change without notice. The content, opinions, estimates, and projections on this report may not have been updated directly by WestPeak and its directors, analysts, and affiliates and may also have been altered or without your or our knowledge. WestPeak and its directors, analysts, and affiliates, without exception, do not accept any liability for factual, typographical, and grammatical errors, omissions, or content in this report. WestPeak and its directors, analysts, and affiliates do not accept any liability for damages arising from the use of or reliance on any of the content, opinions, estimates, and projections on this report. WestPeak and its directors, analysts, and affiliates endeavor to ensure that the content, opinions, estimates, and projections have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. Information may be available to WestPeak and its directors, analysts, and affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This report is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. WestPeak and its directors, analysts, and affiliates may have a personal long or short position in any of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that WestPeak and its directors, analysts, and affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The reader, by the viewing of and use of the content, opinions, estimates, and projections contained in this report is assumed by WestPeak and its directors, analysts, and affiliates to have fully read, understood, and unconditionally agreed to all the terms and conditions set forth in this legal disclaimer.

Justin Houlberg
Analyst

WestPeak Research Association
contact@westpeakresearch.com