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| |  | | --- | | EQUITIES | | PLNT US Outperform  Price (at 03:00, 02 Jun 2018 GMT) US$39.96 |      |  |  |  | | --- | --- | --- | | Valuation | US$ | 44.00 | | - EV/EBITDA | | | | 12-month target | US$ | 44.00 | | 12-month TSR | % | +10.1 | | GICS sector | Consumer Services | | | Market cap | US$m | 3,937 | | 30-day avg turnover | US$m | 46.0 | | Number shares on issue | m | 98.53 |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Investment fundamentals | | | | | | | | | | | | Year end 31 Dec |  | | 2017A | | 2018E | | 2019E | | 2020E | | | Revenue | | m | | 429.9 | | 518.9 | | 574.3 | | 627.2 | | EBITDA | | m | | 184.7 | | 211.4 | | 240.6 | | 272.5 | | EBITDA growth | | % | | 22.7 | | 14.4 | | 13.8 | | 13.2 | | EPS adj | | US$ | | 0.84 | | 1.18 | | 1.36 | | 1.69 | | EPS adj growth | | % | | 22.4 | | 40.7 | | 16.0 | | 24.1 | | PER adj | | x | | 47.8 | | 34.0 | | 29.3 | | 23.6 | | ROA | | % | | 49.1 | | 18.0 | | 20.4 | | 23.5 | | EV/EBITDA | | x | | 24.4 | | 19.9 | | 17.0 | | 13.5 |   PLNT US vs S&P 500, & rec history    Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.  Source: FactSet, Macquarie Research, June 2018  (all figures in USD unless noted)  **Planet Fitness US market penetration has risen from 1.5% in 2013 to 3.6% in May 2018**  Source: Planet Fitness, Macquarie Capital (USA), June 2018 |
| **Analysts**    Macquarie Capital (USA) Inc.   |  |  | | --- | --- | |  | [Matthew Brooks](https://www.macquarieresearch.com/directory/people/details?analystId=2968), CFA +1 212 231 1585  [matthew.brooks@macquarie.com](mailto:matthew.brooks@macquarie.com) | |

Planet Fitness

Counting the Planets – May 2018

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| Key points   * Planet Fitness now has 1,624 gyms on their website, up 106 units year-to-date. * Penetration continues to grow across the US, even in the Northeast where there are already more Planet Fitness members. * Given the ongoing rollout, we maintain an Outperform (TP $44). We still see a capital return catalyst occuring in 2018e. |

Event

* We update our Planet Fitness gym tracker based on the geolocation of gyms on their [“Find a Club”](https://www.planetfitness.com/gyms) page. This data includes pre-sale locations, and should be higher than the gym counts reported by PLNT (which exclude pre-sales).

Impact

* **How many Planet Fitness gyms are there?** We counted 1,624 at the end of May 2018. There were 1,591 in the US (98% of total), 26 in Canada (1.6%) and 7 others (2 in Dominican Republic, 4 in Panama, 1 in Mexico).
* **Where is the growth?** With the release of the Planet Fitness FDD (Franchise Disclosure Document) we now have data on locations by geography from the end of 2017. Planet Fitness has added 106 gyms so far in 2018 (99 in US, and 7 international). The states with the largest increase in new gyms in 2018 are Illinois (+10%), California (+8), Arizona (+7), Texas (+6) and Georgia (+6).
* **Market penetration**. We estimate 3.6% of the US is a member of Planet Fitness. Penetation is higher in the Northeast (5%), and lower out West (2.4%). Across the US, penetration is up 2.1ppt since 2013. The Northeast has seen a 1.8ppt rise in penetration since 2013, despite a higher than average penetration in 2013.
* **Capital return catalyst**. Given the falling leverage due largely to rising earnings, we still expect a levering up of the balance sheet in 2018. We expect this money plus operating cash to be used to fund regular dividends and/or buybacks.
* **International potential.** The first Mexico location had 5,000 members after its pre-open. We think this shows the low cost / “no gymtimidation” model can work in other markets, even where Planet Fitness brand awareness is low. Our model does not include franchise sales for Mexico, which could be material in 2019/20e.

Earnings and target price revision

* No change

Price catalyst

* 12-month price target: US$44.00 based on a EV/EBITDA methodology.
* Catalyst: debt refinancing for capital returns, 2Q18e results.

Action and recommendation

* **Outperform maintained**. With the stronger USD, we think the fact that PLNT get 98% of their earnings from the USA should be an attractive point to investors.

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| Fig  Planet Fitness have seen most of their unit growth in the South (+38 gyms) in the first 5 months of 2018 |
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| Source: Planet Fitness, Macquarie Capital (USA), June 2018 |
| Fig  Planet Fitness’ market penetration has increased across all major regions of the USA since 2013 |
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| Source: Planet Fitness, FactSet, Macquarie Capital (USA), June 2018. |

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| Fig  Planet Fitness – global location count and local market penetration |
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| Source: Planet Fitness, FactSet, Macquarie Capital (USA), June 2018. |

Important disclosures:

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| Recommendation definitions  Macquarie - Australia/New Zealand  Outperform – return >3% in excess of benchmark return  Neutral – return within 3% of benchmark return  Underperform – return >3% below benchmark return  Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield  Macquarie – Asia/Europe  Outperform – expected return >+10%  Neutral – expected return from -10% to +10%  Underperform – expected return <-10%  Macquarie – South Africa  Outperform – expected return >+10%  Neutral – expected return from -10% to +10%  Underperform – expected return <-10%  Macquarie - Canada  Outperform – return >5% in excess of benchmark return  Neutral – return within 5% of benchmark return  Underperform – return >5% below benchmark return  Macquarie - USA  Outperform (Buy) – return >5% in excess of Russell 3000 index return  Neutral (Hold) – return within 5% of Russell 3000 index return  Underperform (Sell)– return >5% below Russell 3000 index return | Volatility index definition\*  This is calculated from the volatility of historical price movements.  Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.  High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.  Medium – stock should be expected to move up or down at least 30–40% in a year.  Low–medium – stock should be expected to move up or down at least 25–30% in a year.  Low – stock should be expected to move up or down at least 15–25% in a year.  \* Applicable to Asia/Australian/NZ/Canada stocks only  Recommendations – 12 months  Note: Quant recommendations may differ from Fundamental Analyst recommendations | Financial definitions  All "Adjusted" data items have had the following adjustments made:  Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests  EPS = adjusted net profit / efpowa\*  ROA = adjusted ebit / average total assets  ROA Banks/Insurance = adjusted net profit /average total assets  ROE = adjusted net profit / average shareholders funds  Gross cashflow = adjusted net profit + depreciation  \*equivalent fully paid ordinary weighted average number of shares  All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards). |
| Recommendation proportions – For quarter ending 31 March 2018  AU/NZ Asia RSA USA CA EUR  Outperform 54.38% 58.90% 48.35% 43.91% 69.03% 45.26% (for global coverage by Macquarie, 3.69% of stocks followed are investment banking clients)  Neutral 32.48% 27.88% 34.07% 48.73% 21.29% 38.95% (for global coverage by Macquarie, 3.07% of stocks followed are investment banking clients)  Underperform 13.14% 13.21% 17.58% 7.37% 9.68% 15.79% (for global coverage by Macquarie, 0.39% of stocks followed are investment banking clients) | | |

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| |  |  |  | | --- | --- | --- | | PLNT US vs S&P 500, & rec history    (all figures in USD currency unless noted) |  |  | |  |  |  |   Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.  Source: FactSet, Macquarie Research, June 2018 |

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| 12-month target price methodology  PLNT US: US$44.00 based on a EV/EBITDA methodology |

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures).

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| Date | Stock Code (BBG code) | Recommendation | Target Price |
| 23-Feb-2018 | PLNT US | Outperform | US$44.00 |
| 24-Jan-2018 | PLNT US | Outperform | US$40.00 |
| 13-Dec-2017 | PLNT US | Outperform | US$37.00 |
| 08-Nov-2017 | PLNT US | Outperform | US$32.00 |
| 10-Aug-2017 | PLNT US | Outperform | US$30.00 |
| 05-Jan-2017 | PLNT US | Outperform | US$28.00 |

Target price risk disclosures:

**PLNT US:** Franchise risks – opening new franchises is a key revenue driver due to the upfront franchise fees, placement fees and equipment sales. Maintaining the performance of franchise stores is key to ongoing royalty income, comp sales and the ability to sell more franchises. Cyclical risks – Member attrition is likely to be negatively impacted by a slowing economy, even though the low price point should provide some defensiveness relative to traditional gyms. High interest rates could negatively impact franchise openings financed by debt. Competition – there are low barriers to entry in the gym industry, and there are already other gyms imitating the success of the low-cost gym model. That said, PLNT has the first-mover advantage, and national scale supported by their 9% ad royalty. Lack of pricing power - the standard membership has remained $10 per month, and therefore falling in real terms as the business model aims to attract new members. Sponsor sell-downs – TSG still owns almost 50% of PLNT, and is likely to continue to lower their stake in line with the standard practice of private equity sponsors.

Analyst certification:

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