

Planet Fitness, Inc.  
Form 10-Q  
August 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-37534

PLANET FITNESS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 38-3942097  
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

26 Fox Run Road, Newington, NH 03801

(Address of Principal Executive Offices and Zip Code)

(603) 750-0001

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of August 4, 2016 there were 44,489,145 shares of the Registrant's Class A Common Stock, par value \$0.0001 per share, outstanding and 54,079,804 shares of the Registrant's Class B Common Stock, par value \$0.0001 per share, outstanding.

PLANET FITNESS, INC.

TABLE OF CONTENTS

	Page
<u>Cautionary Note Regarding Forward-Looking Statements</u>	3
<u>PART I – FINANCIAL INFORMATION</u>	4
ITEM 1. <u>Financial Statements</u>	4
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	22
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
ITEM 4. <u>Controls and Procedures</u>	39
<u>PART II – OTHER INFORMATION</u>	40
ITEM 1. <u>Legal Proceedings</u>	40
ITEM 1A. <u>Risk Factors</u>	40
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
ITEM 3. <u>Defaults Upon Senior Securities</u>	40
ITEM 4. <u>Mine Safety Disclosures</u>	40
ITEM 5. <u>Other Information</u>	40
ITEM 6. <u>Exhibits</u>	40
<u>Signatures</u>	41

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, as well as information included in oral statements or other written statements made or to be made by us, contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, and other future conditions. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “envision,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “target,” “potential,” “will,” “would,” “could,” “should,” “continue,” “ongoing,” “contemplate” and other expressions, although not all forward-looking statements contain these identifying words. Examples of forward-looking statements include, among others, statements we make regarding:

- future financial position;
- business strategy;
- budgets, projected costs and plans;
- future industry growth;
- financing sources;
- the impact of litigation, government inquiries and investigations; and
- all other statements regarding our intent, plans, beliefs or expectations or those of our directors or officers.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Important factors that could cause actual results and events to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our dependence on the operational and financial results of, and our relationships with, our franchisees and the success of their new and existing stores;
- risks relating to damage to our brand and reputation;
- our ability to successfully implement our growth strategy;
- technical, operational and regulatory risks related to our third-party providers’ systems and our own information systems;
- our and our franchisees’ ability to attract and retain members;
- the high level of competition in the health club industry generally;
- our reliance on a limited number of vendors, suppliers and other third-party service providers;
- the substantial indebtedness of our subsidiary, Planet Fitness Holdings, LLC;
- risks relating to our corporate structure and tax receivable agreements; and
- the other factors identified under the heading “Risk Factors” in our annual report on Form 10-K for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Report. We undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future developments or otherwise.

## PART I-FINANCIAL INFORMATION

## ITEM 1. Financial Statements

Planet Fitness, Inc. and subsidiaries

Condensed consolidated balance sheets

(Unaudited)

(Amounts in thousands, except per share amounts)

	June 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$55,664	\$ 31,430
Accounts receivable, net of allowance for bad debts of \$643 and \$629 at June 30, 2016 and December 31, 2015, respectively	11,575	19,079
Due from related parties	973	4,940
Inventory	893	4,557
Restricted assets – national advertising fund	1,656	1,962
Other current assets	17,626	10,977
<b>Total current assets</b>	<b>88,387</b>	<b>72,945</b>
Property and equipment, net of accumulated depreciation of \$26,285 as of June 30, 2016 and \$23,525 as of December 31, 2015	54,931	56,139
<b>Intangible assets, net</b>	<b>263,739</b>	<b>273,619</b>
Goodwill	176,981	176,981
Deferred income taxes	194,240	117,358
Other assets, net	1,133	2,135
<b>Total assets</b>	<b>\$779,411</b>	<b>\$ 699,177</b>
<b>Liabilities and stockholders' equity (deficit)</b>		
Current liabilities:		
Current maturities of long-term debt	\$5,100	\$ 5,100
Accounts payable	11,992	23,950
Accrued expenses	9,100	13,667
Due to related parties	3,966	—
Equipment deposits	4,519	5,587
Deferred revenue, current	20,619	14,717
Payable to related parties pursuant to tax benefit arrangements, current	7,389	3,019
Other current liabilities	313	212
<b>Total current liabilities</b>	<b>62,998</b>	<b>66,252</b>
Long-term debt, net of current maturities	477,969	479,779
Deferred rent, net of current portion	4,799	4,554
Deferred revenue, net of current portion	8,456	12,016

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Deferred tax liabilities	1,167	—
Payable to related parties pursuant to tax benefit arrangements, net of current portion	204,947	137,172
Other liabilities	484	484
<b>Total noncurrent liabilities</b>	<b>697,822</b>	<b>634,005</b>
Commitments and contingencies (note 11)		
Stockholders' equity (deficit):		
Class A common stock, \$.0001 par value - 300,000 shares authorized, 44,489		
shares issued and outstanding as of June 30, 2016 and 36,598 shares issued		
and outstanding as of December 31, 2015	4	4
Class B common stock, \$.0001 par value - 100,000 shares authorized, 54,080		
shares issued and outstanding as of June 30, 2016, and 62,112 shares issued		
and outstanding as of December 31, 2015	6	6
Accumulated other comprehensive loss	(1,067 )	(1,710 )
Additional paid in capital	7,981	352
Accumulated deficit	(7,673 )	(14,032 )
<b>Total stockholders' deficit attributable to Planet Fitness Inc.</b>	<b>(749 )</b>	<b>(15,380 )</b>
Non-controlling interests	19,340	14,300
<b>Total stockholders' equity (deficit)</b>	<b>18,591</b>	<b>(1,080 )</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$779,411</b>	<b>\$ 699,177</b>

See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statements of operations

(Unaudited)

(Amounts in thousands, except per share amounts)

	For the three months ended		For the six months ended	
	June 30, 2016	2015	June 30, 2016	2015
<b>Revenue:</b>				
Franchise	\$25,506	\$18,691	\$46,997	\$35,658
Commission income	3,973	3,188	10,159	7,978
Corporate-owned stores	26,383	24,975	52,080	48,521
Equipment	35,610	32,099	65,579	63,718
Total revenue	91,472	78,953	174,815	155,875
<b>Operating costs and expenses:</b>				
Cost of revenue	27,801	25,300	51,440	51,246
Store operations	15,760	14,708	30,492	29,049
Selling, general and administrative	12,381	12,354	24,226	26,492
Depreciation and amortization	7,678	7,983	15,382	16,184
Other loss (gain)	21	(61 )	(165 )	(67 )
Total operating costs and expenses	63,641	60,284	121,375	122,904
Income from operations	27,831	18,669	53,440	32,971
<b>Other expense, net:</b>				
Interest expense, net	(6,161 )	(6,560 )	(12,528 )	(11,316 )
Other income (expense)	(160 )	(76 )	234	(812 )
Total other expense, net	(6,321 )	(6,636 )	(12,294 )	(12,128 )
Income before income taxes	21,510	12,033	41,146	20,843
Provision for income taxes	3,419	419	6,709	691
Net income	18,091	11,614	34,437	20,152
Less net income attributable to non-controlling interests	13,959	113	26,936	226
Net income attributable to Planet Fitness, Inc.	\$4,132	\$11,501	\$7,501	\$19,926
<b>Net income per share of Class A common stock<sup>(1)</sup>:</b>				
Basic	\$0.11		\$0.20	
Diluted	\$0.11		\$0.20	
<b>Weighted-average shares of Class A common stock outstanding<sup>(1)</sup>:</b>				
Basic	36,771		36,685	
Diluted	36,773		36,686	

(1) Represents earnings per share of Class A common stock and weighted-average shares of Class A common stock outstanding for the period following the recapitalization transactions and IPO (see Note 9).

See accompanying notes to condensed consolidated financial statements.



Planet Fitness, Inc. and subsidiaries

Condensed consolidated statements of comprehensive income

(Unaudited)

(Amounts in thousands)

	For the three months ended		For the six months ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income including non-controlling interests	\$18,091	\$11,614	\$34,437	\$20,152
Other comprehensive income (loss), net:				
Unrealized loss on interest rate caps, net of tax	(79 )	(161 )	(662 )	(940 )
Foreign currency translation adjustments	(3 )	(54 )	(96 )	47
Total other comprehensive loss, net	(82 )	(215 )	(758 )	(893 )
Total comprehensive income including non-controlling				
interests	18,009	11,399	33,679	19,259
Less: total comprehensive income attributable to non-controlling				
interests	13,899	113	26,392	226
Total comprehensive income attributable to Planet				
Fitness, Inc.	\$4,110	\$11,286	\$7,287	\$19,033

See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statements of cash flows

(Unaudited)

(Amounts in thousands)

	For the six months ended	
	June 30, 2016	2015
Cash flows from operating activities:		
Net income	\$ 34,437	\$ 20,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,382	16,184
Amortization of deferred financing costs	741	686
Amortization of favorable leases and asset retirement obligations	198	235
Amortization of interest rate caps	221	—
Deferred tax expense	6,703	21
Provision for bad debts	13	546
Gain on disposal of property and equipment	(165 )	(67 )
Equity-based compensation	960	—
Changes in operating assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	7,785	7,352
Due to and due from related parties	7,531	1,958
Inventory	3,664	2,245

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Other assets and other current assets	(3,074 )	(587 )
Accounts payable and accrued expenses	(13,931 )	(13,164 )
Other liabilities and other current liabilities	4	42
Income taxes payable to related parties pursuant to tax benefit arrangements	(5,822 )	431
Equipment deposits	(6,007 )	—
Deferred revenue	(1,068 )	(3,870 )
Deferred rent	2,232	3,230
Net cash provided by operating activities	282	1,242
Cash flows from investing activities:		
Additions to property and equipment	50,086	36,636
Proceeds from sale of property and equipment	(4,487 )	(8,538 )
Net cash used in investing activities	142	67
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	(4,345 )	(8,471 )
Principal payments on capital lease obligations	—	120,000
Repayment of long-term debt	(25 )	(258 )
Payment of deferred financing and other debt-related costs	(2,550 )	(2,250 )
Repurchase and retirement of Class B common stock	—	(1,698 )
Distributions to Continuing LLC Members	(1,583 )	—
Net cash used in financing activities	(17,472 )	(155,088 )
Effects of exchange rate changes on cash and cash equivalents	(21,630 )	(39,294 )
Net increase (decrease) in cash and	123	(14 )
	24,234	(11,143 )

cash equivalents

Cash and cash  
equivalents,  
beginning of period

31,430

43,291

Cash and cash  
equivalents, end of  
period

\$ 55,664

\$ 32,148

Supplemental cash  
flow information:Net cash paid for  
income taxes

\$ 5,971

\$ 288

Cash paid for interest

\$ 11,479

\$ 10,826

Non-cash investing  
activities:Non-cash additions to  
property and  
equipment

\$ 226

\$ —

See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statement of changes in equity (deficit)

(Unaudited)

(Amounts in thousands)

	Class A		Class B		other comprehensive loss	Accumulated in capital	Additional paid- Accumulated deficit	Non-controlling interests	Total equity (deficit)
	Shares	Amount	Shares	Amount					
Balance at December 31, 2015	36,598	\$ 4	62,112	\$ 6	\$ (1,710 )	\$ 352	\$ (14,032 )	\$ 14,300	\$ (1,080 )
Net income	—	—	—	—	—	—	7,501	26,936	34,437
Equity-based compensation expense	—	—	—	—	—	960	—	—	960
Repurchase and retirement of Class B common stock	—	—	(141 )	—	—	(441 )	(1,142 )	—	(1,583 )
Exchange of Class B common stock	7,891	—	(7,891 )	—	857	3,023	—	(3,880 )	—
Tax benefit arrangement liability and deferred taxes arising from the secondary offering	—	—	—	—	—	4,087	—	—	4,087
Distributions paid to members of Pla-Fit Holdings	—	—	—	—	—	—	—	(17,472 )	(17,472 )
Other comprehensive loss	—	—	—	—	(214 )	—	—	(544 )	(758 )
Balance at June 30, 2016	44,489	\$ 4	54,080	\$ 6	\$ (1,067 )	\$ 7,981	\$ (7,673 )	\$ 19,340	\$ 18,591

See accompanying notes to condensed consolidated financial statements.



Planet Fitness, Inc. and subsidiaries

Notes to Condensed Consolidated financial statements