

Planet Fitness, Inc.
Form 10-Q
November 13, 2015

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 September 30, 2015

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 November 6, 2015 there were 36,597,985 shares of the Registrant's Class A Common Stock, par value \$0.0001 per share, outstanding and 62,111,755 shares of the Registrant's Class B Common Stock, par value \$0.0001 per share, outstanding.

PLANET FITNESS, INC.

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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 Registration Statement on Form S-1 (File No. 333-205141) and other filings we make 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)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,461	\$ 43,291
Accounts receivable, net of allowance for bad debts of \$946 and \$399 at September 30, 2015 and December 31, 2014, respectively	9,890	19,275
Due from related parties	4,708	1,141
Inventory	2,775	3,012
Restricted assets – NAF (note 5)	5,018	—
Other current assets	8,949	8,599
Total current assets	59,801	75,318
Property and equipment, net	54,335	49,579
Intangible assets, net	278,986	295,162
Goodwill	176,981	176,981
Deferred income taxes	120,792	—
Other assets, net	10,248	12,236
Total assets	\$ 701,143	\$ 609,276
Liabilities and stockholders' deficit/members' equity		
Current liabilities:		
Current maturities of long-term debt	\$ 5,100	\$ 3,900
Accounts payable	14,695	26,738
Accrued expenses	8,358	8,494
Current maturities of obligations under capital leases	70	376
Equipment deposits	7,498	6,675
Restricted liabilities – NAF (note 5)	5,018	—
Deferred revenue, current	12,362	14,549
Payable to related parties pursuant to tax benefit arrangements, current	3,022	—
Taxes payable	4,203	—
Other current liabilities	682	153
Total current liabilities	61,008	60,885
Long-term debt, net of current maturities	498,450	383,175
Obligations under capital leases, net of current portion	9	45
Deferred rent, net of current portion	4,373	3,012

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Deferred revenue, net of current portion	12,033	9,330
Deferred tax liabilities – non current	—	606
Payable to related parties pursuant to tax benefit arrangements, net of current portion	138,989	—
Other liabilities	483	474
Total noncurrent liabilities	654,337	396,642
Commitments and contingencies (note 16)		
Stockholders' deficit/members' equity:		
Members' equity	—	146,156
Class A common stock, \$.0001 par value - 300,000 shares authorized, 36,598		
shares issued and outstanding as of September 30, 2015	4	—
Class B common stock, \$.0001 par value - 100,000 shares authorized, 62,112		
shares issued and outstanding as of September 30, 2015	6	—
Accumulated other comprehensive income (loss)	(1,888)	(636)
Additional paid in capital	122	—
Accumulated deficit	(17,376)	—
Total stockholders' deficit attributable to Planet Fitness Inc./members' equity	(19,132)	145,520
Non-controlling interests	4,930	6,229
Total stockholders' deficit/members' equity	(14,202)	151,749
Total liabilities and stockholders' deficit/members' equity	\$ 701,143	\$ 609,276

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 nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenue:				
Franchise	\$16,148	\$13,009	\$51,806	\$40,834
Commission income	3,646	2,771	11,624	9,873
Corporate-owned stores	25,153	22,692	73,674	62,823
Equipment	23,870	24,995	87,588	70,228
Total revenue	68,817	63,467	224,692	183,758
Operating costs and expenses:				
Cost of revenue	18,858	20,163	70,104	57,837
Store operations	14,305	12,494	43,354	35,818
Selling, general and administrative	17,348	8,582	43,840	23,296
Depreciation and amortization	7,976	8,542	24,160	23,585
Other (gain) loss	(9)	(269)	(76)	1,024
Total operating costs and expenses	58,478	49,512	181,382	141,560
Income from operations	10,339	13,955	43,310	42,198
Other expense, net:				
Interest expense, net	(6,556)	(5,097)	(17,872)	(16,705)
Other expense	(1,815)	(447)	(2,627)	(1,089)
Total other expense, net	(8,371)	(5,544)	(20,499)	(17,794)
Income before income taxes	1,968	8,411	22,811	24,404
Provision for income taxes	1,230	108	1,921	892
Net income	738	8,303	20,890	23,512
Less net income attributable to non-controlling interests	4,631	176	4,857	494
Net income (loss) attributable to Planet Fitness, Inc.	\$(3,893)	\$8,127	\$16,033	\$23,018
Net income (loss) per share of Class A common stock⁽¹⁾:				
Basic	\$0.05		\$0.05	
Diluted	\$0.04		\$0.04	
Weighted-average shares of Class A common stock outstanding⁽¹⁾:				
Basic	35,661		35,661	
Diluted	98,710		98,710	

(1) Represents earnings per share of Class A common stock and weighted-average shares of Class A common stock outstanding for the period from August 6, 2015 through September 30, 2015, the period following the

recapitalization transactions and IPO (see Note 14).
See accompanying notes to condensed consolidated financial statements.

Planet Fitness, Inc. and subsidiaries

Condensed consolidated statements of comprehensive income (loss)

(Unaudited)

(Amounts in thousands)

	For the three months ended		For the nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Net income including non-controlling interests	\$738	\$8,303	\$20,890	\$23,512
Other comprehensive loss, net:				
Losses on interest rate swaps	—	—	—	(92)
Unrealized loss on interest rate caps, net of tax	(557)	(29)	(1,497)	(29)
Foreign currency translation adjustments	198	5	245	5
Total other comprehensive loss, net	(359)	(24)	(1,252)	(116)
Total comprehensive income including non-controlling interests	379	8,279	19,638	23,396
Less: total comprehensive income attributable to non-controlling interests	4,423	176	4,649	494
Total comprehensive income (loss) attributable to Planet Fitness, Inc.	\$(4,044)	\$8,103	\$14,989	\$22,902

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 nine months ended	
	September 30, 2015	2014
Cash flows from operating activities:		
Net income	\$ 20,890	\$ 23,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,160	23,585
Amortization of deferred financing costs	1,070	1,006
Amortization of favorable leases and asset retirement obligations	380	251
Deferred tax (benefit) expense	(141)	2
Provision for bad debts	547	74
Gain on disposal of property and equipment	(76)	(269)
Unrealized gain on interest rate swaps	—	29
Loss on extinguishment of debt	—	4,697
Equity-based compensation	4,647	—
Changes in operating assets and liabilities, excluding effects of acquisitions:		
State income taxes	969	(2,243)
Accounts receivable	8,830	4,187
Notes receivable and due from related parties	4,532	1,280
Inventory	237	471
Other assets and other current assets	(563)	(197)
Accounts payable and accrued expenses	(11,745)	(10,573)
Other liabilities and other current liabilities	57	(241)
Equipment deposits	823	3,782
Deferred revenue	626	(1,300)
Deferred rent	1,330	1,022
Net cash provided by operating activities	56,573	49,075
Cash flows from investing activities:		
Additions to property and equipment	(13,830)	(7,667)
Acquisition of franchises	—	(38,638)
Proceeds from sale of property and equipment	76	274
Net cash used in investing activities	(13,754)	(46,031)
Cash flows from financing activities:		
Proceeds from issuance of Class A common stock sold in initial public offering, net of underwriting discounts and commissions	156,946	—
Use of proceeds from issuance of Class A common stock to purchase Holdings Units	(156,946)	—

Proceeds from issuance of long-term debt	120,000	390,000
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