Planet Fitness Inc.
Initiating with Outperform Rating and $19 Target Price
Differentiated Model and Numerous Growth Opportunities Put This Investment Story in Good Shape

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Investment Thesis

Unique growth story, blending a best-in-class franchise model, with a differentiated consumer proposition that supports double-digit store growth, ~10% top-line growth, and 20%+ bottom-line growth. We see the current stock price rising from a combination of EPS upside and multiple expansion.

Key Investment Drivers:

1. **Significant Unit Growth Opportunity** → Our survey work confirms that PLNT’s differentiated model aligns well with consumer preferences, including how its low price point, convenient locations and experience. Combined with a fragmented sector and a high-return franchise model, that supports above average, double-digit unit growth.

2. **Sustainable Mid- to High-Single-Digit Comps Growth** → Healthy industry backdrop (mid-single-digit consumer demand growth) and growing awareness supports member/store growth and ASP increases (trading up).

3. **Multiple Other Drivers** → Royalty rates gradually increasing, equipment growth to accelerate, and EBITDA margins to expand, given highly scalable financial model.

Incremental Analysis

- **Proprietary Survey:** Historically a difficult sector, but PLNT’s model should offer more consistency over time as it key features attract a wider demographic base.
- **Store Overlap Analysis:** Our analysis shows the whitespace, as well as opportunity to fill in markets, given convenience needs (which our survey also confirms).

Snapshots

<table>
<thead>
<tr>
<th>Rating</th>
<th>OUTPERFORM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Target</td>
<td>$19.00</td>
</tr>
<tr>
<td>Current Price</td>
<td>$16.78</td>
</tr>
<tr>
<td>Market Cap</td>
<td>$1,656 mn</td>
</tr>
<tr>
<td>Enter. Value</td>
<td>$2,124 mn</td>
</tr>
<tr>
<td>52 Wk Range</td>
<td>$15.05-$19.10</td>
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<tr>
<td>Street View</td>
<td>N/A</td>
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Valuation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>280</td>
<td>312</td>
<td>347</td>
<td>380</td>
</tr>
<tr>
<td>EBITDA</td>
<td>96</td>
<td>109</td>
<td>130</td>
<td>150</td>
</tr>
<tr>
<td>EPS</td>
<td>$0.39</td>
<td>$0.45</td>
<td>$0.56</td>
<td>$0.69</td>
</tr>
<tr>
<td>EV/Sales</td>
<td>7.6x</td>
<td>6.8x</td>
<td>6.1x</td>
<td>5.6x</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>22.2x</td>
<td>19.5x</td>
<td>16.3x</td>
<td>14.2x</td>
</tr>
<tr>
<td>P/E</td>
<td>43.0x</td>
<td>37.3x</td>
<td>30.0x</td>
<td>24.3x</td>
</tr>
</tbody>
</table>

Sources: Company data, Credit Suisse estimates, Thomson Reuters.
### Snapshot (cont’d)

#### Estimates & Valuation

- **Our Target Price of $19** equates to P/E multiples of 42x and 34x on our 2015 and 2016 EPS estimates, respectively. Our target valuation is based on a (1) peer multiple analysis, which includes other best-in-class franchisors and high-growth retailers; and (2) long-term EPS scenario, which yields $1.18 in EPS power in FY20, discounted back, using a 24x multiple.

- PLNT currently trades at 18x 2016 EV/EBITDA, a slight premium to its franchise peers, which trade at a mid-teens multiple, yet PLNT’s growth profile may be better.

- **Our Estimates:** We estimate pro-forma adjusted EPS of $0.45 in 2015 (+14.4% y/y), $0.56 in 2016 (+25.3%), and $0.69 in 2016 (+23.5%).

- We forecast 12% revenue growth in 2015, and ~10-11% in 2016 and beyond, which reflects mid-single-digit comps and double-digit unit growth.

- We forecast 14% adjusted EBITDA growth in 2015 and mid-teens to high teens in 2016 and beyond. Our estimates reflect EBITDA margins rising from 34.2% in 2014 to 39.4% by 2017, primarily driven by leverage of fixed costs such as rent, payroll, marketing and franchise support functions.

#### Key Risks

- **Competition** from similar format fitness centers; Blink, its closest competitor recently announced plans to open 300 franchise locations by 2020.

- **Attrition:** Low-cost model and lax cancellation policy may result in higher attrition.

- **Cannibalization:** With 1,000 stores today and 67% overlap within 10 miles, PLNT faces cannibalization risk as they expand to meet the 4,000 store target.

- **Concentrated Franchise Base**, increases risk profile. It is dependent on these parties for growth.

#### Key Catalysts

- PLNT stock has pulled back recently to just above its IPO price of $16. If the company can maintain and point to high-teens EBITDA growth in 2015, we see the stock rising on results on September 2, 2015.
Track Record of Consistent Comps Growth

Planet Fitness System-Wide Comps

EBITDA Stacks up Very Well vs. Peers

EBITDA Margin, 2014A

Best-In-Class Franchisors and High Growth Retailers

Model Aligns with Consumer Preferences

PLNT offers the most competitive pricing, as well as the most locations vs. other low-cost players

Convenience Matters: Fill in Market Opportunity

How long would you be willing to drive / travel to a gym?

54% of respondents would not drive more than a few miles to a gym

Differentiated Model Catering to Diverse Group

Visitors to PLNT's website by Age

In general, respondents found many of the extra amenities that PLNT does not offer to be unimportant

Sources: Company data, Credit Suisse estimates, Survey Monkey, ComScore.
Company Background

Business Overview: Differentiated Model w/ Broad Consumer Appeal

- **Market Position:**
  - Largest franchisor and operator of fitness centers across the U.S. and Canada, by number of members and stores—976 locations, including 919 franchise and 57 corporate-owned, and over 7.1mn members.

- **Unique Proposition Targets Masses, Positioning PLNT for More Consistency Over Time:**
  - Targets the 80% of the population who do not belong to a gym. Stores offer a non-intimating, no-frills, no-strings-attached, experience for a low cost of $10/$20 per month.

- **Medium-Size Facilities:**
  - Gyms average 20k sq. ft. box, and include locker rooms with showers and various equipment (including cardio, free weights, cable machines, a 30-minute circuit, and a stretching area), with cardio receiving the most floor space. They do not offer classes, personal training, daycare, juice bars, etc.

- **Diverse Customer Base:**
  - Broad appeal, spanning all ages, income levels, with more than 50% of their customers being female, which is evidenced by their success in many different types of markets.

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**Visitors to PLNT's website by Age**

<table>
<thead>
<tr>
<th>Age</th>
<th>Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>22%</td>
</tr>
<tr>
<td>25-34</td>
<td>23%</td>
</tr>
<tr>
<td>35-44</td>
<td>16%</td>
</tr>
<tr>
<td>45-54</td>
<td>17%</td>
</tr>
<tr>
<td>55-64</td>
<td>13%</td>
</tr>
<tr>
<td>65+</td>
<td>8%</td>
</tr>
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</table>

**Visitors to PLNT's website by HH Income**

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$39k</td>
<td>21%</td>
</tr>
<tr>
<td>$40-74k</td>
<td>34%</td>
</tr>
<tr>
<td>$75-149k</td>
<td>36%</td>
</tr>
<tr>
<td>$150+</td>
<td>9%</td>
</tr>
</tbody>
</table>

*Sources: Company data, Credit Suisse estimates, comScore data.*
Company Background

Three Business Segments

- **Franchise – 26% revenue, 48% of EBITDA**
  - PLNT generates most of its revenue from its 919 franchise-owned stores through royalty revenue, commissions, and equipment placement fees.

- **Corporate – 30% revenue, 28% of EBITDA**
  - PLNT owns and operates 57 stores, allowing them to capture incremental profit and derive other operational benefits, such as learning the necessary franchise support functions and financial risks.

- **Equipment – 44% revenue, 24% of EBITDA**
  - Franchisees purchase branded equipment from PLNT and replace it every four to seven years.

**Sources:** Company data, Credit Suisse estimates.
Solid Track Record of Growth

Consistent Top-Line Growth, with Above-Average Comps Trends

- **Revenue Growth:**
  - CAGR of 32% since 2010 to $280mn in 2014.

- **Member Growth:**
  - CAGR of 28% since 2010 to 7.1mn members today.

- **Unit Growth:**
  - CAGR of 24% since 2010 to ~1,000 stores today, through both franchise and corporate store additions.

- **Comparable Store-Sales Growth:**
  - Mid-single to low-double-digit comps over the past three years, which should continue over the near to medium term, supported by newer stores maturing, growth in members per store, and mix helping ASPs.

**Planet Fitness System-Wide Comps**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1Q12</th>
<th>2Q12</th>
<th>3Q12</th>
<th>4Q12</th>
<th>1Q13</th>
<th>2Q13</th>
<th>3Q13</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
<th>1Q15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>10.1%</td>
<td>7.9%</td>
<td>7.2%</td>
<td>7.4%</td>
<td>8.7%</td>
<td>7.3%</td>
<td>7.3%</td>
<td>10.4%</td>
<td>13.0%</td>
<td>10.7%</td>
<td>9.7%</td>
<td>10.2%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

Sources: Company data, Credit Suisse estimates.
Solid Track Record of Growth (cont’d)

Steady EBITDA Margin Expansion: High Operating Leverage Model

- Adj. EBITDA margins of ~34% stacks up well among other high growth retailers/franchise operators.
  - Up ~1,040 bps since 2010, due to leverage of corporate store costs and franchise-related support costs.

Sources: Company data, Credit Suisse estimates.
Favorable Industry Backdrop

Industry Growing Low/Mid-Single Digits, Which Stacks Up Well

- Participating in a Growing Industry:
  - ~$22bn fitness club industry that is growing at a low-to-mid-single-digit rate.

- Membership on the Rise:
  - 8.3% increase in gym membership penetration among the working age population since 2000, which equates to 21.3 million more fitness club members.

U.S. Fitness Club Memberships as Percent of the U.S. Working Age Population

+8.3% penetration = **21.3mn more fitness members**

*Sources: IHRSA*
Proprietary Survey Shows Positive Trend in Exercising

Survey Indicates Stable to Improving Exercise Trends:
- 60% of our survey respondents reported working out more or the same as five years ago.
  - 30% workout the same

Other Stats on Activity:
- 46% of respondents workout on a weekly basis and 11% workout one to three times a month.

Do you workout more or less than you did 5 years ago?
- 60% of respondents workout more or about the same as 5 years ago
- 40% workout less

How often do you workout?
- Almost half of our respondents workout on a weekly basis
- 28% workout 1-3 times a week
- 24% rarely
- 19% I don’t workout

Sources: Credit Suisse estimates, Survey Monkey.
Favorable Industry Backdrop (cont’d)

**Fragmented Industry with Room for Growth**

- **Significant Market Share Potential:**
  - PLNT only represents ~2% of the fitness club market, despite ~1,000 locations.
  - Other top-ten chains represent ~20% and other chains/independents account for 78%.
  - The fragmented nature of this sector could support PLNT’s ~4,000 store target.

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**Fitness Club Market by Number of Stores**

- Planet Fitness 2%
- Top-10 Chains 20%

**Fitness Club Market Share By Revenue**

- Top 10 Players = 33%
- LA Fitness: 8.3%
- 24 Hour Fitness: 5.9%
- Life Time Fitness: 5.8%
- Equinox: 3.9%
- ClubCorp: 3.8%
- Town Sports: 2.0%
- Planet Fitness: 1.2%
- Capital Fitness: 0.8%
- The Bay Club: 0.7%
- Crunch: 0.7%

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**Sources:** Company data, Credit Suisse estimates, ASF.
PLNT’s Differentiated Model
Unique Combination of Offerings Versus Peers

High-quality experience, in mid-size, conveniently located gyms, at value prices that are well below most of the primary competitors

<table>
<thead>
<tr>
<th>Category</th>
<th>Companies</th>
<th>Club Count</th>
<th>U.S. Footprint</th>
<th>Membership Fee</th>
<th>Box Size (000's sq ft)</th>
<th>Classes Offered</th>
<th>Locker Room</th>
<th>Personal Training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Cost / Mid-Market</td>
<td>Planet Fitness</td>
<td>976</td>
<td>~100%</td>
<td>$10-20</td>
<td>20</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Retro Fitness, Youfit, Blink Fitness</td>
<td>30-130</td>
<td>5%-30%</td>
<td>$10-30</td>
<td>16-18</td>
<td>Some</td>
<td>Yes</td>
<td>Some</td>
</tr>
<tr>
<td></td>
<td>Anytime Fitness, Snap Fitness</td>
<td>1500-3000</td>
<td>~100%</td>
<td>$35-45</td>
<td>4-4.5</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Low Cost</td>
<td>Retro Fitness, Youfit, Blink Fitness</td>
<td>30-130</td>
<td>5%-30%</td>
<td>$10-30</td>
<td>16-18</td>
<td>Some</td>
<td>Yes</td>
<td>Some</td>
</tr>
<tr>
<td>Small Format</td>
<td>Anytime Fitness, Snap Fitness</td>
<td>1500-3000</td>
<td>~100%</td>
<td>$35-45</td>
<td>4-4.5</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Mid-Market</td>
<td>Crunch, 24 Hour Fitness, Gold’s Gym, L.A. Fitness, Town Sports</td>
<td>100-700</td>
<td>10-80%</td>
<td>$10-100</td>
<td>20-50</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>High Cost</td>
<td>Lifetime Fitness, Equinox</td>
<td>80-110</td>
<td>20%-50%</td>
<td>$45-250</td>
<td>40-115</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Sources: Company data, Credit Suisse estimates.
PLNT’s Differentiated Model (cont’d)

Offering In-Line with Customer Preferences, per Survey

What is most important to you in choosing a gym?

- Price: 87%
- Location: 84%
- Cleanliness of facilities: 65%
- Hours: 60%
- Non-intimidating environment: 37%
- Helpful and friendly personnel: 34%
- Classes offered: 30%
- Pool: 27%
- Cardio selection: 17%
- Locker room offerings: 16%
- Personal training: 13%
- Size of gym: 12%
- Free weight selection: 11%
- Coffee / juice / snack bar: 8%

PLNT offers the most competitive pricing, as well as the most locations vs. other low-cost players.

37% look for a non-intimidating gym environment, something PLNT prides itself on.

In general, respondents found many of the extra amenities that PLNT does not offer to be unimportant.

Sources: Company data, Credit Suisse estimates, Survey Monkey.
PLNT’s Differentiated Model (cont’d)

Price Point in Sweet Spot for Consumer, per Survey

- Low Price Point Is an Important Differentiator
  - 44% of survey respondent want to pay $20 or less
  - PLNT offers $10 and $20 per month options
  - No-strings-attached cancellation policy and a small or no initiation fee

**How much are you willing to pay for a gym membership?**

*Includes only from those respondents who do not belong to a gym.*

*Sources: Company data, Credit Suisse estimates, Survey Monkey.*
PLNT’s Differentiated Model (cont’d)

Offering Unique Gym Experience, Catering to Broader Population

- **Non-intimidating Culture:** The company instills a non-intimidating culture through their numerous mantras that can be seen on national advertising campaigns and on the gym walls, including: “Judgement Free Zone,” “Lunkhead,” “You belong,” “No gymtimidation,” and “Come as you are.”

- **No-Frills Experience:** PLNT does not offer classes, personal training, daycare, juice or coffee bars, merchandise area, etc., in order to maximize space for equipment and minimize unnecessary costs.

- **Focus on Cardio:** Gym layout focuses on cardio (more popular among first-time or infrequent gym users), but includes strength machines, free weights, a 30 minute circuit, and an ab and stretching area. This ensures that there is more likely to be an available cardio machine, even at peak times. This can be seen in the store layout.

*Sources: Company data, Credit Suisse estimates, Thomson Reuters.*
Successful, High-Return Franchise Model

*Disciplined Franchise Selection Process*

- **Rigorous Selection Process:**
  - PLNT employs a disciplined selection process for new franchise operators, requiring the candidate to have $1.5mn in net worth, $500k of liquidity, and outside income of $100k per year, among other qualifications. As a result, the company has seen zero SBA loan defaults from 2000-2014 and zero store closures due to financial underperformance.

- **Concentrated Base Ensures Quality:**
  - >90% of PLNT’s store base is owned by multi-store operators with 187 franchisors operating 956 stores.

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**Number of Stores Per Franchisor**

- 3-10 stores: 53%
- 11+ stores: 35%
- <3 stores: 12%

*Sources: Company data, Credit Suisse estimates.*
Successful, High-Return Franchise Model (cont’d)

Strong Unit Economics Versus Other Franchise Models

- Stores achieve positive operating cash flow by month-five and reach maturity in 12-18 months.
- Year-two four-wall EBITDA = 36.5%, and cash-on-cash return of 30%+. Franchisees can finance their initial equipment purchase (~$600k) and achieve nearly 300 bps in higher returns.
- Initial investment typically includes: $1mn of leasehold improvement, $600k of fitness equipment, $200k of non-fitness equipment, $10k franchise fee, and $90 in other costs.
- PLNT’s franchise cash-on-cash return of 35% is among the highest in the franchise space.

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<table>
<thead>
<tr>
<th></th>
<th>Without Equipment Financing</th>
<th>With Equipment Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year 2 Revenue</strong></td>
<td>1,680</td>
<td>1,680</td>
</tr>
<tr>
<td><strong>Store-Level EBITDA</strong></td>
<td>613</td>
<td>613</td>
</tr>
<tr>
<td><strong>Margin</strong></td>
<td>36.5%</td>
<td>36.5%</td>
</tr>
<tr>
<td><strong>Less Loan Payment</strong></td>
<td></td>
<td>(114)</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>613</td>
<td>499</td>
</tr>
<tr>
<td><strong>Initial Investment</strong></td>
<td>1,900</td>
<td>1,420</td>
</tr>
<tr>
<td><strong>Franchise Cash-On-Cash Return</strong></td>
<td><strong>32.3%</strong></td>
<td><strong>35.1%</strong></td>
</tr>
</tbody>
</table>

Includes initial working capital and pre-opening expenses
Assumes 80% financing on equipment; 5-year loan at 6%

**Franchise Store Cash-On-Cash Return vs. Franchise Peers**

- PLNT: Assumes equipment financing

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Sources: Company data, Credit Suisse estimates.

*PLNT: Assumes equipment financing
Operating Metrics Stack Up Well
High Productivity Supports Industry-Leading EBITDA Margins

- **Best-in-Class EBITDA Margins:**
  - PLNT’s adj. EBITDA margins of over 36% stack up well vs. other franchisors and high-growth retailers

- **Strong Productivity Helps Explain the High Margins:**
  - Members per store has been steadily increasing over the past five years to 6,606 average members per store in 2014, a 12% increase from 2010.
  - PLNT has more members per square foot, on average, vs. other gym operators.

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**EBITDA Margin, 2014A**
*Best-In-Class Franchisors and High Growth Retailers*

**Members Per Square Foot**

Sources: Company data, Credit Suisse estimates.
Strong Cash Flow Story
Recurring Revenue Stream

- PLNT should be able to generate consistent free-cash-flow growth, given the strong recurring revenue stream from royalties and commissions and the company’s industry leading EBITDA margins of 36%. This is further augmented by the minimal working capital required to run a franchise business.
- 80% of the franchise segment revenue comes from recurring revenue streams and 95% of this is processed through automated electronic billings.
- Free cash flow will be used to fund investments in corporate stores and to pay down debt. The company currently has $481.6mn in net debt, which equates to 4.5x LTM EBITDA.

Sources: Company data, Credit Suisse estimates.

![Graph showing PLNT Free Cash Flow]

**PLNT Free Cash Flow**

- Decrease in FCF in 2015 due to IPO costs

Credit Suisse
August 31, 2015
Key Drivers

1. **Long Runway for Store Growth:** PLNT has a long-term store target of 4,000 from ~1,000 today, implying mid-teens unit growth, or ~200 stores/year, contributing to comps in the mid- to high-single digits as new stores ramp, meaningful expense leverage, and brand awareness. Our analysis of metro market penetration and store overlap is supportive of a 4,000 store target, as well as our survey results shown earlier, which highlight how PLNT’s model aligns well with consumers’ preferences.

2. **Mid- to High-Single-Digit Comp Growth:** We project comp growth of 7.1% in 2015 and 5-6% in the out years. We expect that to be supported by a healthy balance of members per store growth and pricing growth. Members per store grew 3.1% in 2014 and will likely continue to increase, given PLNT’s marketing presence and high consumer awareness (e.g., only 14% of survey respondents have not heard of PLNT). For pricing, we estimate low-single-digit increases in average monthly fee per member, with further increases in Black Card penetration and perhaps some price increases over time (e.g., our survey points to some pricing power, where PLNT could potentially take prices up slightly from the $10 and $20 plans).

3. **Franchise Growth Drivers:** We expect Franchise revenue to grow to a third of the mix by 2017 from 26% in 2014, driven by steady increases in the average royalty rate, new franchise store growth, and strong franchise comps of 7.6% in 2015, and ~6% in the out years.

4. **Re-Equipment Sales Opportunity:** We expect this high margin segment to steadily grow in the high single digit range, supported by compounding re-equipment sales as older stores come due for new equipment every 4-7 years and new equipment sales from the roughly 200 stores expected to open each year. Relative to expectations, we believe this could be a source of upside.
Driver #1: Long Runway for Store Growth
High-Teens Annual Unit Growth Opportunity

- **Significant Growth Opportunity**
  - Long-term store target of 4,000 from ~1,000 today, implies mid-teens unit growth, or ~200 stores/year.
  - Over 1,000 stores are already committed in current franchise agreements, providing clear growth runway.
  - Broad demographic appeal supports the opportunity.

- **PLNT Remains Under-penetrated in Most Markets**
  - Membership in most mature states account for 4%+ of the population.
  - In less mature markets, penetration is sub 2%.
  - Our analysis: we analyzed the number of stores per metro market population, which showed mature markets for PLNT have 100-200k population per store, but the company average is over 400k. We estimate another 3,000 locations can be added, assuming all stores move towards that 100-200k population per store range, supporting the long-term targets laid out by management.

### White Space Opportunity

<table>
<thead>
<tr>
<th>Metro Statistical Area Population (000's)</th>
<th>Current Number of PLNT Stores</th>
<th>Population Per Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>784</td>
<td>9</td>
<td>87</td>
</tr>
<tr>
<td>402,591</td>
<td>968</td>
<td>416</td>
</tr>
</tbody>
</table>

### Assume Max Penetration In-Line with Most Penetrated Market

- Potential Number of Stores @ 100k People / Store: 4,026
- Incremental Opportunity: 3,058

Sources: Company data, Credit Suisse estimates, U.S. Census Bureau.
Driver #1: Long Runway for Store Growth (cont’d)

Store Analysis Shows Medium Overlap, but Convenience Is Important for Consumers, Which Supports Further Growth

- Consumers Not Willing to Travel Far:
  - 54% of survey respondents said they would not drive more than five or ten minutes to a gym.

- Opportunity for PLNT to Still Fill In Markets:
  - We estimate just 33% of PLNT’s stores overlap within a ten-minute drive, meaning that 67% of the store base has opportunities to add more stores to those markets.

Sources: Company data, Credit Suisse estimates, Survey Monkey.
Driver #2: Healthy Comparable Store Sales Outlook

Member Growth/Store: High Awareness Should Support Growth

- **High Consumer Awareness, Should Help Support Future Growth**
  - Only 14% of our survey respondents have not heard of Planet Fitness
  - 69% of our survey respondents said that they would or maybe would join PLNT if it opened near them (note: in 2014, new stores had, on average, 1,300 members signed up before even opening their doors)

- **Scale Provides Significant Marketing Advantage:**
  - PLNT is one of the only fitness clubs with a national advertising campaign, which contributes to its high awareness. Each franchise is required to give 2% of monthly membership dues to a national advertising fund and give 5-7% of monthly membership dues to a local advertising fund. They advertise through TV, direct mail, guerilla marketing, and digital mediums and usually focus on their “Judgement Free” mantra.

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**If a Planet Fitness was open near you, would you join?**

- **69% of respondents said they would or maybe would join a PLNT if it opened near them**
- 54.07% said maybe
- 31% said no

Sources: Company data, Credit Suisse estimates, Survey Monkey.
Currently, for $20 per month, the customer can attain Black Card membership (versus $10 for the base membership), which includes access to all PLNT locations, use of massage chairs and tannings beds, discounts on in-store merchandise, and access to a special Black Card Spa area in some locations.

Over time, Black Card penetration has moved up to 55% of members from 38% in 2010, contributing to a 9.2% increase in the average monthly revenue per member to $15.50 since 2010.

The company is working to increase penetration by building out additional services, and expanding existing ones, such as the Black Card Spa area, to all of their locations.

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**For which of the following features would you be willing to pay $10 more per month?**

- Unlimited guest privileges: 31%
- Amenities (i.e. tanning beds, massage chairs): 30%
- Ability to use all chain locations: 29%
- Discounts on clothing: 11%
- None of these: 38%

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Sources: Company data, Credit Suisse estimates, Survey Monkey.
68% of respondents said they would be willing to accept a price increase for PLNT’s current offering, which we believe points to the value in this model beyond price (convenience, experience, etc.).

Competition in this category remains fierce and seems to be increasing, so we don’t necessarily expect a major change in PLNT’s pricing, but it does point to some pricing power for PLNT.

If PLNT increased pricing, would you be willing to pay the following to still be a member?

- 29% would pay up to $2 more per month.
- 24% would pay up to $5 more per month.
- 3% would pay up to $8 more per month.
- 12% would pay up to $10 more per month.
- 32% would not pay incrementally more.

68% of respondents would be willing to pay incrementally more for a PLNT membership.

Sources: Company data, Credit Suisse estimates, Survey Monkey.
Driver #3: Growth in Royalty Rates Over Time

Long-Term Goal of 5% Versus Average Rate Today of 2.95%

- Royalty revenue accounted for 45% of franchise revenue and 18% of total revenue in 2014.
- The average royalty rate was 2.95%, which reflects a blend of older rates from existing franchise agreements and the 5% royalty rate in newer agreements.
- Over time, we expect the average royalty rate to steadily increase toward 5% as older franchise agreements come up for renewal and as new franchise agreements become a larger part of the base. In 2014, 81% of store openings were at the 5% rate and 49% of the total store base paid a 5% royalty rate.
- Royalty revenue will also be driven through the addition of new franchise locations and overall system-wide sales growth.

**Every 10 bps increase in the average royalty rate equates to $1.4mn in '15, $1.7mn in '16, and $2.0mn in '17, or $0.01-0.02 in EPS.**

*Assuming system-wide franchise sales growth of 20%+ in out years*  
*Sources: Company data, Credit Suisse estimates.*
Driver #4: Equipment Sales Opportunity

Strong Growth from Re-Equips and New Store Growth

- Each store is required to replace cardio equipment every four to five years and strength every six to seven years. As the base of stores grows, more stores will be due for re-equipment, as shown in the chart below.

- Given the process of replacing equipment usually happens over several months and the steady growth in new stores, the ramp in equipment revenue should be relatively smooth over time.

- Historically, the re-equip requirement has not been strongly enforced, but corporate has made it more of a focus over the past few years. This leads to a lot of low hanging fruit in the near term as older stores all re-equip in a shorter period of time.

- Our waterfall analysis shows the potential equipment revenue assuming all stores re-equip on time. Our estimates stay below this level, as it may take some time to work through the backlog, though our estimate may be conservative.

<table>
<thead>
<tr>
<th>Year</th>
<th>Re-Equipment Revenue</th>
<th>New Equipment Revenue</th>
<th>Total Potential Equipment Revenue</th>
<th>CS Estimate</th>
<th>Discount to Potential</th>
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<tr>
<td>2015</td>
<td>59,800</td>
<td>104,075</td>
<td>163,875</td>
<td>129,684</td>
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<td>2016</td>
<td>79,034</td>
<td>112,700</td>
<td>191,734</td>
<td>138,705</td>
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<tr>
<td>2017</td>
<td>96,859</td>
<td>117,875</td>
<td>214,734</td>
<td>148,781</td>
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<tr>
<td>2018</td>
<td>107,238</td>
<td>123,625</td>
<td>230,863</td>
<td>161,934</td>
<td>-30%</td>
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<tr>
<td>2019</td>
<td>124,373</td>
<td>132,250</td>
<td>256,623</td>
<td>175,751</td>
<td>-32%</td>
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</table>

Sources: Company data, Credit Suisse estimates.
Risks

Our $19 target price is 42x and 34x our 2015 and 2016 EPS estimates, respectively. Our target price is based on a (1) peer multiple analysis, which includes other best-in-class franchisors and high-growth retailers; and (2) long-term EPS scenario, which yields $1.18 in EPS power in FY20, discounted back, using a 24x multiple.

- **Increasing Competition:** PLNT is competing in a highly fragmented industry, with many large players and growing competition from other exercising formats, such as spinning studios and class-based studios. The price point and brand awareness for PLNT has been an important differentiator.

- **Potentially High Attrition:** PLNT’s low-cost model and lax cancellation policy may result in a non-sticky customer and potentially high attrition. That may shift the onus to drive comps to new member adds, or price increases for existing members.

- **Retail Cannibalization:** With 1,000 stores today and 67% overlap within ten miles, PLNT may face the risk of cannibalization as it expands towards its long-term target of 4,000 stores. To date, the company has been able to generate solid high single digit or better comps despite that overlap.

- **Franchisors May Not Re-Equip:** Franchisees may not abide by their agreement to replace equipment every four to seven years, resulting in lost sales. PLNT did not enforce this historically, resulting in a growing group of locations with aging equipment, which could also negatively affect PLNT’s member perception.

- **Franchisee Reliance:** PLNT has a relatively concentrated franchise base of 187 franchisors operating 919 stores, which represents 70% of its sales. The health of each franchise business and their access to capital, to some degree, outside of the company’s hands.
Risks (cont’d)

Increasing Competition

- The number of fitness clubs has been accelerating since 2011, outpacing industry revenue growth in 2013. While the total industry’s revenue has been growing at a healthy rate, it is possible that this growth has been among the higher-cost and “new age” models (i.e., spinning studios and other class-based studios).
- PLNT’s closest competitor, Blink, recently announced plans to open 300 franchise locations by 2020.

Number of Fitness Clubs vs. Fitness Club Industry Revenue, Y/Y % Growth

Sources: Company data, Credit Suisse estimates.
## Valuation

### Long-Term EPS Scenario

<table>
<thead>
<tr>
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<td>16%</td>
<td>15%</td>
<td>14%</td>
<td>13%</td>
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<tr>
<td>Comps</td>
<td>7.6%</td>
<td>5.7%</td>
<td>5.9%</td>
<td>5.8%</td>
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<tr>
<td>Royalty Rate</td>
<td>3.23%</td>
<td>3.50%</td>
<td>3.71%</td>
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<td><strong>Total Revenue</strong></td>
<td><strong>312</strong></td>
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<td><strong>380</strong></td>
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<td><strong>474</strong></td>
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<td>Adjusted EBITDA</td>
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<td><strong>130</strong></td>
<td><strong>150</strong></td>
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<td><strong>239</strong></td>
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<td>Adjusted EBITDA Margin</td>
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<td><strong>41.4%</strong></td>
<td><strong>43.4%</strong></td>
<td><strong>45.3%</strong></td>
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**Valuation**

- Year to Maturity: 5
- Long-Term Earnings Potential: $1.18
- Multiple: 24x
- 2020E Stock Price: $27.91
- Discount Rate: 8%

**Discounted Stock Price**: $19.00

**EPS**

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**Y/Y % Growth**

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<th>25%</th>
<th>23%</th>
<th>21%</th>
<th>19%</th>
<th>18%</th>
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 Sources: Company data, Credit Suisse estimates.
## Valuation Multiple Analysis

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<th>CHH</th>
<th>SONC</th>
<th>PLKI</th>
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<td>$5,955</td>
<td>$4,923</td>
<td>$2,941</td>
<td>$1,445</td>
<td>$1,283</td>
<td>$771</td>
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<td>$2,124</td>
<td>$7,455</td>
<td>$7,097</td>
<td>$3,511</td>
<td>$1,888</td>
<td>$1,383</td>
<td>$999</td>
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<tr>
<td>$16.8</td>
<td>$108.4</td>
<td>$51.7</td>
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<td>$27.8</td>
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<td>46%</td>
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<td>Market Cap</td>
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<td>$5,955</td>
<td>$4,923</td>
<td>$2,941</td>
<td>$1,445</td>
<td>$1,283</td>
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<td>Enterprise Value</td>
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<td>Current Price</td>
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<td>$108.4</td>
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<td>2016 PEG</td>
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<td>1.1x</td>
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<tr>
<td>EBITDA 2013-16 CAGR</td>
<td>25.2%</td>
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<td>12.2%</td>
<td>9.7%</td>
<td>7.9%</td>
<td>10.3%</td>
<td>13.7%</td>
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<tr>
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<td>25.2%</td>
<td>16.0%</td>
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<tr>
<td>2014 EV/EBITDA</td>
<td>22.2x</td>
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<td>11.5%</td>
<td>12.0%</td>
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### Sources
Company data, Credit Suisse estimates, Thomson Reuters.
Valuation

Multiple Analysis

Sources: Company data, Credit Suisse estimates, Thomson Reuters.

P/E 2016

Avg of Best-In-Class Franchise: 22.3x  Avg of High Growth Retail: 30.4x

EV/EBITDA 2016

Avg of Best-In-Class Franchise: 12.8x  Avg of High Growth Retail: 15.4x
Valuation
Multiple Analysis

Revenue CAGR 2014-17

Avg of Best-In-Class Franchise: 8.4%
Avg of High Growth Retail: 18.1%

EBITDA CAGR 2014-17

Avg of Best-In-Class Franchise: 10.5%
Avg of High Growth Retail: 18.4%

Sources: Company data, Credit Suisse estimates, Thomson Reuters.
PLNT stacks up well against other franchise and high growth peers on CFROI® and EBITDA margins. We do not view assets turns as a reliable metric for this business.

Sources: Company data, Credit Suisse estimates, HOLT.
Market expectations seem conservative relative to peers, with the market implying little improvement in CFROI®.

Sources: Company data, Credit Suisse estimates, HOLT.
### Governance

**Management and Board of Directors**

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<thead>
<tr>
<th>Executive</th>
<th>Position</th>
<th>Years with PLNT</th>
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<tbody>
<tr>
<td>Chris Rondeau</td>
<td>Chief Executive Officer and Director</td>
<td>22</td>
</tr>
<tr>
<td>Dorvin Lively</td>
<td>Chief Financial Officer</td>
<td>2</td>
</tr>
<tr>
<td>Richard Moore</td>
<td>Chief Administrative Officer and GC</td>
<td>2</td>
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<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>Board Member Since</th>
<th>Background</th>
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<tbody>
<tr>
<td>Chris Rondeau</td>
<td>Recent</td>
<td>Current CEO</td>
</tr>
<tr>
<td>Marc Grondahl</td>
<td>Nov-12</td>
<td>Co-Founder, Former CFO</td>
</tr>
<tr>
<td>Charles Esserman</td>
<td>Nov-12</td>
<td>CEO and Founder of TSG</td>
</tr>
<tr>
<td>Pierre LeComte</td>
<td>Nov-12</td>
<td>MD at TSG; Previously at Bain &amp; Co, Yahoo!, Nabisco, Yard House Restaurants</td>
</tr>
<tr>
<td>Michael Layman</td>
<td>Mar-15</td>
<td>Principal at TSG; Investment banking at Jefferies and Wachovia</td>
</tr>
<tr>
<td>Edward Wong</td>
<td>Nov-12</td>
<td>SVP at TSG; Previously at Falconhead Capital, Citigroup</td>
</tr>
<tr>
<td>Stephen Spinelli, Jr.</td>
<td>Jan-12</td>
<td>President of Philadelphia University; Co-Founder of Jiffy Lube</td>
</tr>
</tbody>
</table>

*Sources: Company data.*
1. **Base Salary**

2. **Cash Incentive Plan:** This is calculated as a percentage of base salary. Performance metrics include corporate same-store sales, franchise same-store sales, franchise openings, EBITDA, and capex. Each performance metric has its own threshold, target, and maximum level of payout.

3. **Stock-Based Incentive Plan:** The Board can distribute Class M units to selected employees. Each employee has different vesting terms and conditions, as laid out in each individual award agreement. Amounts owned are listed below.

4. **Severance Arrangements:** Each of the named executives is protected by a severance payment in the event of termination or change in control.

5. **Other Compensation:** Includes 401(k) company match contributions, health insurance, among others.

<table>
<thead>
<tr>
<th>Executive</th>
<th>Position</th>
<th>Annual Base Salary</th>
<th>Target</th>
<th>Class-M Shares Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chris Rondeau</td>
<td>CEO</td>
<td>$500,000</td>
<td>100% of base salary</td>
<td>0</td>
</tr>
<tr>
<td>Dorvin Lively</td>
<td>CFO</td>
<td>$450,000</td>
<td>50% of base salary</td>
<td>8,707,562</td>
</tr>
<tr>
<td>Richard Moore</td>
<td>CAO, GC</td>
<td>$300,000</td>
<td>50% of base salary</td>
<td>5,298,577</td>
</tr>
</tbody>
</table>

Sources: Company data.
Financial Roadmap

■ 2015 Estimates:
  − We project sales growth of 11.7% to $312.4mn and total comps of 7.1%, driven by:
    ■ Corporate growth of 14.3% on store comps of 1.1% and unit growth of 5.5%,
    ■ Franchise growth of 19.1% on store comps of 7.6%, unit growth of 21.7%, and royalty rate expansion of 28 bps,
    ■ Equipment growth of 5.5%.
  − Total operating expenses are projected to deleverage 320 bps to 81.1% as the company’s cost of equipment will increase and the lower sales volume versus 2013 will result in deleverage of corporate store expenses and franchise support function expenses.
  − Overall adjusted EBITDA margins are projected to expand 70 bps to $109.2mn excluding certain one-time costs associated with the IPO.
  − 2015 EPS is estimated to be $0.45, or 14.4% y/y growth, assuming diluted shares of 98.71mn and a pro-forma tax rate of 40.5%.

■ 2016 Estimates:
  − We project sales growth of 11.0% to $346.7mn and total comps of 5.6%, driven by:
    ■ Corporate growth of 6.0% on store comps of 4.3% and unit growth of 1.7%,
    ■ Franchise growth of 22.7% on store comps of 5.7%, unit growth of 18.8%, and royalty rate expansion of 27 bps,
    ■ Equipment growth of 7.0%.
  − Total operating expenses is projected to leverage 880 bps to 72.4%, primarily driven by leverage of corporate store expenses and franchise support expenses.
  − Overall adjusted EBITDA margins are projected to expand 250 bps to $130.1mn excluding certain one-time costs associated with the IPO.
  − 2016 EPS is estimated to be $0.56, or 25.3% y/y growth, assuming diluted shares of 98.71mn and a pro-forma tax rate of 40.5%.
Survey Methodology

We conducted a survey of 527 respondents. Survey respondents ranged in age from 18-60+, with 28% in the 18-29 cohort, 32% in the 30-44 cohort, 35% in the 45-59 cohort, and 6% in the 60+ cohort. Genders were even, as was geographic diversity. 43% had household income of $0-49k, 22% had $50-99k, 15% had $100k-199k, and 4% had $200k+, with the balance choosing not to respond. We felt that this makeup reflects the general population.
Companies Mentioned (Price as of 28-Aug-2015)

Bojangles (BOJA.OQ, $21.44)
Boot Barn Hldg (BOOT.N, $21.13)
Chipotle Mexican Grill, Inc. (CMG.N, $721.2)
Choice Hotels Int’l (CHH.N, $51.05)
Domino’s Pizza (DPZ.O, $108.4)
Dunkin’ Brands Group (DNKN.OQ, $51.69)
El Pollo Loco (LOCO.OQ, $13.7)
Fire Belly, Inc. (FIVE.OQ, $38.5)
Habit (HABT.O, $29.96)
Jack In The Box, Inc. (JACK.O, $81.77)
Papa Murphy’s (PAPA.OQ, $14.5)
Planet Fitness, Inc. (PLNT.N, $27.78, OUTPERFORM), (TP $19.2)
Popeyes (PLU.OQ, $56.3)
Restaurant Brands International (QSR.N, $30.56)
Shake Shack (SHAK.N, $92.0)
Sonic Corp (SONC.OQ, $27.83)
Starbucks (SBUX.OQ, $55.63)
Sbarro’s (SNBR.OQ, $2.24)
Taco Bell (TB.N, $37.83)
Ululemon athletica Inc. (ULLU.OQ, $83.17)

Disclosure Appendix

Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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**Underperform (U)** - The stock’s total return is expected to underperform the relevant benchmark over the next 12 months.

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Credit Suisse’s distribution of stock ratings and (banking clients) is:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Versus universe (%)</th>
<th>Of which banking clients (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outperform/Buy*</td>
<td>53%</td>
<td>(30 banking clients)</td>
</tr>
<tr>
<td>Neutral/Hold*</td>
<td>32%</td>
<td>(41 banking clients)</td>
</tr>
<tr>
<td>Underperform/Sell*</td>
<td>12%</td>
<td>(30 banking clients)</td>
</tr>
</tbody>
</table>

Risk:

Price Target: (12 months) for Planet Fitness, Inc. (PLNT.N)

Method:

Our $19 target price for PLNT is 34x our 2016 EPS estimate of $0.56 and is based on a peer multiple analysis, which includes other beach-in-class franchisers and high-growth retailers, and a long-term EPS scenario.

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August 31, 2015

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guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.