Planet Fitness, Inc. | NYSE:PLNT

INVESTMENT RESEARCH REPORT

"All Pumped Up, And Nowhere To Go But Down."

RECOMMENDATION: *Strong Sell*

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Table of Contents

Executive Summary

Spruce Point Is Short Planet Fitness ("PLNT") For the Following Reasons:

1 **Questionable Business Strategy with Unachievable Revenue Goals**: The fitness industry is intensely competitive, subjecting Planet to the whim of changing consumer preferences (yoga, boot camp, barre burn, adventure courses), potential technology disruption from wearables, and rife with examples of chains that over-expanded and failed (e.g. Bally Total Fitness, Curves, Town Sports). Planet Fitness ("Planet" or "PLNT") tries to differentiate itself with a "no judgment" model for the casual fitness user that doesn't want to be "gymtimidated," at no-commitment, and a low entry price of $10/month (plus initiation fees). On average, its clubs have 6,500 members, and it needs both densely populated markets and members who won't use its gyms to make its financial model work! **Furthermore, we believe Planet's revenue targets and growth rate are unrealistic and likely to disappoint current expectations**. According to a former Planet insider, Planet appears to have created a pre-IPO fairytale goal that it can quadruple its club base from over 1,000 to 4,000 locations, so unrealistic that it implies massive market share of approx. 40% and would severely cannibalize existing locations. With no barriers to entry, competitors have already replicated Planet's look, pricing plan, and "specialty black card" model. We've identified over 700 +comparable clubs with sub $20/month pricing that all are targeting Planet's core customers. With its competitive advantage disappearing, we fear Planet will be left to compete solely on price - a proven deflationary force in the fitness industry. Highlighting our concerns, we note Planet's net income and operating cash flow barely grew in 2015 despite highlighting top line growth! Planet appears to be trying hard to keep members from cancelling, but in the process has aggravated customers resulting in scores of internet complaints and Better Business Bureau citations. At the extreme, even a class action lawsuit from former club members has been filed claiming unfair cancellation terms! Is it a surprise that Planet doesn't disclose member churn? Signs of financial strain are manifesting itself in 2015 from rapidly rising bad debt expense and Planet's explosion in marketing and advertising costs to recruit new members. However, by our estimate, Planet's National Advertising Fund recently operated at a deficit despite a hefty requirement that 2% and 7% of total gross monthly dues must be used for national and local advertising, respectively.

2 **Planet is Really A Glorified Gym Equipment Seller With Unsustainable Margins:** Over 95% of Planet's clubs are franchise-owned, but counter to appearances, equipment is more meaningful than appreciated at 43% of its sales and 26% of its EBITDA coming from high margin equipment sales to franchises. According to Planet's 2015 Franchise Disclosure Document, it imposes guidelines that franchisees must purchase new equipment from its own entity, Planet Fitness Equipment LLC, and replace cardio and fitness equipment every 4 and 6 years, respectively; however, not as reoccurring as it appears. With a total estimated upfront cost to own a new franchise at $728k - $3.7m, re-equipment costs at $320-$784k in years 4-6, and location remodeling costs of $75k - $550k every 4 years, Planet risks aggravating and receiving push back from the marginally profitable franchisees that may decide it is not worth the cost to re-equip. Planet has to walk a fine line in appeasing its current franchisees, which were responsible for opening 90% of new locations in 2015 and are expected to be a major driver of its ambitious growth plan! We believe that Planet has made concessions to sacrifice equipment margins in an effort to boost its effective royalty rate and scale it toward 5%. The reason for this is simple: Planet hopes to convince Wall St. analysts it should get a higher valuation for more royalty payments! Planet's equipment margins have also benefitted from supplier rebates, but like other financial matters related to its equipment sales, Planet does not gives much disclosure into the exact impact

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Spruce Point's Base Case: 50% Downside to $8.00 / share

3 **Accounting and Financial Disclosure**: Planet IPO'ed in Aug 2015 under the Jobs Act, but in our opinion, should not be excused from a plethora of questionable issues including: 1) Its lack of transparency on key performance metrics (e.g. member churn) and scant disclosure of its performance targets post-IPO, 2) Potentially flawed / aggressive "gross" revenue accounting for equipment to bolster its top line revenue, 3) Aggressive definition of "active" members to include pre-sales, 4) Appearance of undisclosed deficit spending in Planet's Advertising Fund, 5) Potential understatement of the tax benefits payable by $569m, 6) Potential misclassification of placement revenue tied to equipment in franchise revenue (and related costs placed in SG&A), and 7) Weak internal controls leading to the sentencing to prison of a Planet Fitness corporate systems manager in Jan 2016 who stole $1m through a fraudulent invoice scheme.

4 **Governance Concerns**: Planet's road to the pubic markets is not without controversy. For example, New Hampshire's governor failed to disclose his ties to Planet both as an investor and Board member while lobbying state legislators for a tax change to benefit Planet. Nor did he reveal that he and former Cabletron Chief Financial Officer David Kirkpatrick (an SEC investigated individual) played a crucial role in the effort to take the company public three years ago. Planet was ultimately sold privately, a sale that resulted in two lawsuits, with one of them being the former CFO who accused Planet of securities fraud. Our closer evaluation of Planet's governance reveals additional causes for concern. First, Planet's FDD reveals a disclosure that one of its officers owns an indirect interest in its equipment vendor, Planet Fitness Equipment LLC. This disclosure is not made to investors in its SEC filings. Upon review of prior FDD documents, we also identified instances of related party steering of business to franchisee owned vendors (related parties), also not disclosed in SEC filings, and which could disadvantage shareholders and other franchisees. Investors should be cautioned that management is held accountable primarily to members of TSG Consumer, a private equity firm that controls 65% of the voting power and 4 of 8 Board seats. Planet provides no transparency on target metrics its management must achieve to attain cash bonuses; as a result, management can potentially fail to meet public guidance, and still get paid handsomely!

5 **Valuation Disconnect and Downside Catalyst**: Valued at 5.5x 2017E sales and 13x 2017E EBITDA, Wall St. has embraced the Planet story with 11 analysts saying "Buy" and setting an avg. target of $20.20/sh (+25% upside). In setting lofty price targets, analysts' stretch comparisons of Planet's business to include "healthy living" comps (supermarkets e.g. Whole Foods), fast food operators (e.g. Chipotle), and clothing retailers (e.g. Michael Kors); absurd comparisons to industries with different business risks! Planet would like credit from investors for being a high value franchisor, but in our view, Planet's valuation should be anchored toward gym equipment makers (given its dependence on equipment sales), and to other clubs such as Life Time fitness (recently privatized) and Town Sports. Analysts also fail to account for a hefty tax liability, which could saddle shareholders with debts of $1.40 -$7.20 / share! We apply a 7x -10x EBITDA multiple and arrive at a price target of $4.65 - $12.00 /sh ($8.00 at the midpoint, or ~50% downside). We estimate Planet's private equity backer has a 3x return on its investment, and a big concentration of shares in its portfolio (est. 20%). As a result, we expect a large secondary to act as an overhang and downside catalyst

Brief Overview of Planet Fitness

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What is Planet Fitness?

- Over 1,124 clubs (58 company owned / 1,066 franchised) across the U.S., Canada, Dominican Republic and Puerto Rico with approximately 7.3 million members as of 12/31/15. Average club size is approx. 20,000 sqft.
- 2015 Sales and Adj. EBITDA of $330m and $123m, respectively (43% of sales and 26% EBITDA come from equipment sales)
- Caters to casual fitness user that doesn't want to be "gymtimidated" or "judged" at a gym
- Very focused on cardio equipment over heavy free weights
- Low cost monthly membership options
    - Planet bets on its customers not using its facilities since its average membership per club is 6,500 people, with some locations over 10,000 members
    - Black card conveys additional "benefits"

	No Commitment* Join Now & Save!	Get the PF Black Card!
Membership Type Benefits	$10 per month	$19.99 per month
Includes T-Shirt	✓	✓
Unlimited access to home club	✓	✓
Unlimited Fitness Training	✓	✓
Reciprocal use of all PF Franchise Locations		✓
Unlimited guest privileges at any PF location		✓
Use of Tanning		✓
Unlimited use of Massage Chairs		✓
1/2 Price Cooler Drinks (Restrictions may apply)		✓

Source: Planet Fitness

Capital and Debt Structure

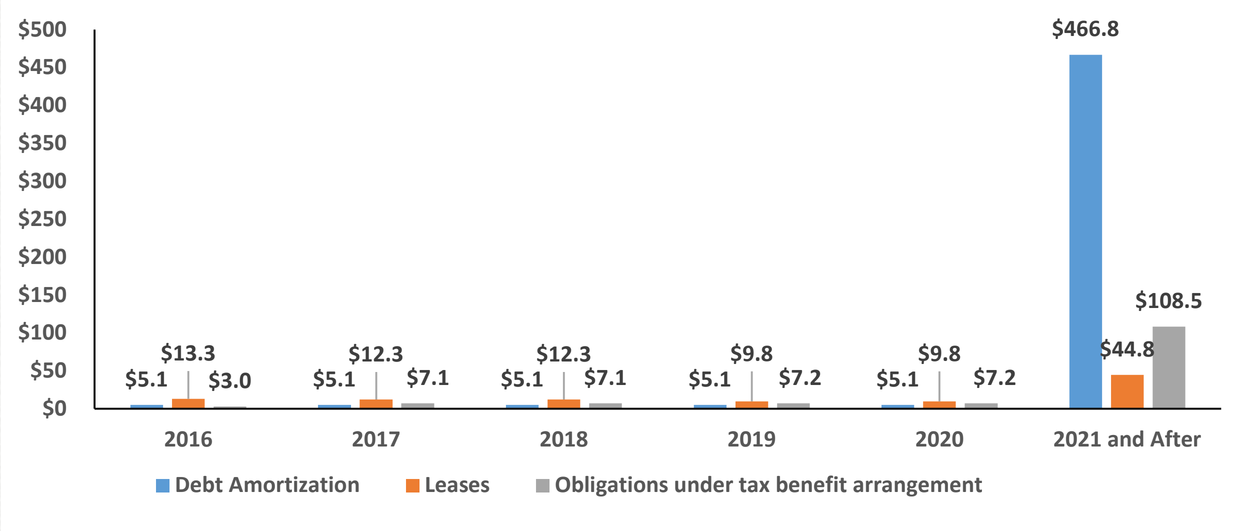
Planet IPO'ed at $16 in Aug 2014. Its aggressive leverage and high valuation leave no margin for error. Investing in the fitness industry involves significant risks, including changing consumer preferences and intense competition. Recent example of public company failures in the fitness industry include Bally Total Fitness and Town Sports Int'l

$ in mm (except per share and member amounts)

Stock Price	$15.75
Diluted Shares Outstanding	98.7
Market Capitalization	**$1,555**
Term Loan	$484.9
Tax Payable Liability	$140.1
Total Adjusted Debt	**$625.0**
Plus: Minority Interest	$14.3
Less: Cash	$31.4
Total Enterprise Value	**$2,162.5**

	Valuation and Credit Stats		
Metrics	**2015E**	**2016E**	**2017E**
EV / Sales	6.5x	6.0x	5.5x
EV / Adj. EBITDA	17.5x	15.2x	13.3x
Price / Adj .EPS	29.2x	25.4x	21.9x
Debt / EBITDA	3.9x	3.4x	3.0x
EV / Fitness Club ($m)	$1.9	$1.6	$1.4
EV / Member	$296	$249	$217

Note: We include the **$140m book value** of the tax payable liability in our valuation, although our interpretation is that it could be upwards of $711m based on Planet's Risk Factor disclosures



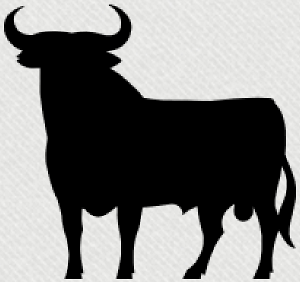
PLNT paid its owners a handsome $140m dividend pre-IPO by upsizing its term loan by $120m and using $20m of cash. It pays approx. 4.75% on the term loan. Moodys assigned PLNT a B1 rating noting its "aggressive financial policy"

PLNT also has an unused $40m revolver expiring on 3/31/19 @ 4.75%

At Dec 31, 2015, the terms of PLNT's senior secured credit facility require it maintain a leverage ratio of no more than 6.0x. The covenant will become more restrictive over time and drop to 4.0x by 6/30/19

Summary of Fundamental Short Thesis

Planet Fitness: Bulls vs. Bears



Bull Case

- Differentiated Business Model
- Large Runway for Growth to 4,000 Clubs
- Membership Growth Opportunity to Sustain High Single Digit Comps Growth
- Predictable and Recurring Revenue and Cash Flow

Bear Case

- Differentiation Based Primarily On Price (potentially no longer the case), a Deflationary Force in the Fitness Industry
- No Barriers To Entry ➡ Competition Rising Fast (700+ similar clubs)
- 4,000 Clubs Arbitrarily Chosen as a Large Figure to Sell a Fairytale Growth Story ➡ Cannibalization Risk Makes 10% Revenue Growth Expectations Difficult
- Significant portion of business tied to success of re-equipment sales
- Member Churn (Not Disclosed), Appears To Be Rising
- Predictable Revenue and Cash Flow Not As Certain as Claimed Given Easy Cancellation Policy
- Street appears to be missing up to +$700m tax receivable liability which reduces equity value

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Four Real Risks To The Bull Case

Increasing Competition With Limited Barriers To Entry: Planet is facing increased competition from both 1) identical fitness concepts designed to match its value / price / no judgment member proposition, and 2) increasing popularity of alternative fitness programs such as SoulCycle, Flywheel, Barre Workouts, CrossFit programs, adventure course, and boot camps. The fitness industry is highly fragmented, with many large players and seemingly deflationary pricing power.

Signs of Rapid Member Attrition: Planet doesn't disclose its membership churn, which we believe is very critical to evaluating its underlying performance. Planet advertises a "no commitment" policy which does not guarantee cash flow stability – as such, this does not warrant a premium valuation. This shifts the burden on Planet to flawlessly execute new club openings and high SSS performance to maintain its growth profile with minimum cancellation. We already see evidence of rising churn as bad debt expense is rising rapidly

Unrealistic Club Goals, Potential For Cannibalization: It took Planet 23 years to reach 1,000 current clubs, and it has guided investors towards a long-term target of 4,000 (with 1,000 currently under ADA). Planet will have to compete for prime locations in densely populated areas that can accommodate clubs upwards of 20,000 sqft, which can attract over 6,000 members per club. Planet's expansion could reach a saturation point where new clubs cannibalize existing ones

Franchisees May Fight The Re-Model and Re-Equipment Requirements: Planet's margins are abnormally high as a result of it earning 20%+ margins on equipment sales and 65%+ on placement revenues. <u>These high margin revenue sources are not guaranteed</u>. In our opinion, Planet places onerous terms on its franchisees by requiring them to replace cardio and fitness equipment every 4 and 6 years, respectively, at an estimated cost of $250 - $760k. This mandatory replacement is a requirement even if the equipment is perfectly fine and functional! Additionally, franchisees must maintain the fitness facility according to Planet's standards, which may include substantial remodeling as frequently as every four years at a cost of $75k - $550k. Overall, added costs of $325k - $1.3m could place a financial strain on the marginally profitable and unprofitable clubs, forcing them to renegotiate with Planet.

Hot off the Press: New Risk Factors!

Planet just released its first 10-K on March 4th 2016 after FY 2015 earnings. There are notable additions to the risk factors from their prospectus filing in August 2015.
<u>Notably, Planet's risk factors appear contrary to both the Company's and Analysts' views on its model</u>

Financial forecasting may differ materially from actual results.

"*Due to the inherent difficulty of predicting future events and results, our forecasted financial and operational results may differ materially from actual results. Discrepancies between forecasted and actual results could cause a decline in the price of our stock*."

Planet has been issuing public guidance since Q2'2015. Why is it now just adding this risk factor?

Changes in the industry could place strains on our management, employees, information systems and internal controls, which may adversely impact our business.

"*Changes in the industry affecting gym memberships and payment for gym memberships may place significant demands on our administrative, operational, financial and other resources or require us to obtain different or additional resources. Any failure to manage such changes effectively could seriously harm our business. To be successful, we will need to continue to implement management information systems and improve our operating, administrative, financial and accounting systems and controls in order to adapt quickly to such changes. These changes may be time-consuming and expensive, increase management responsibilities and divert management attention, and we may not realize a return on our investment in these changes."*

Isn't it unusual that Planet is finally acknowledging changes in its industry at the same time it is warning that its outlook could be materially different from actual results?

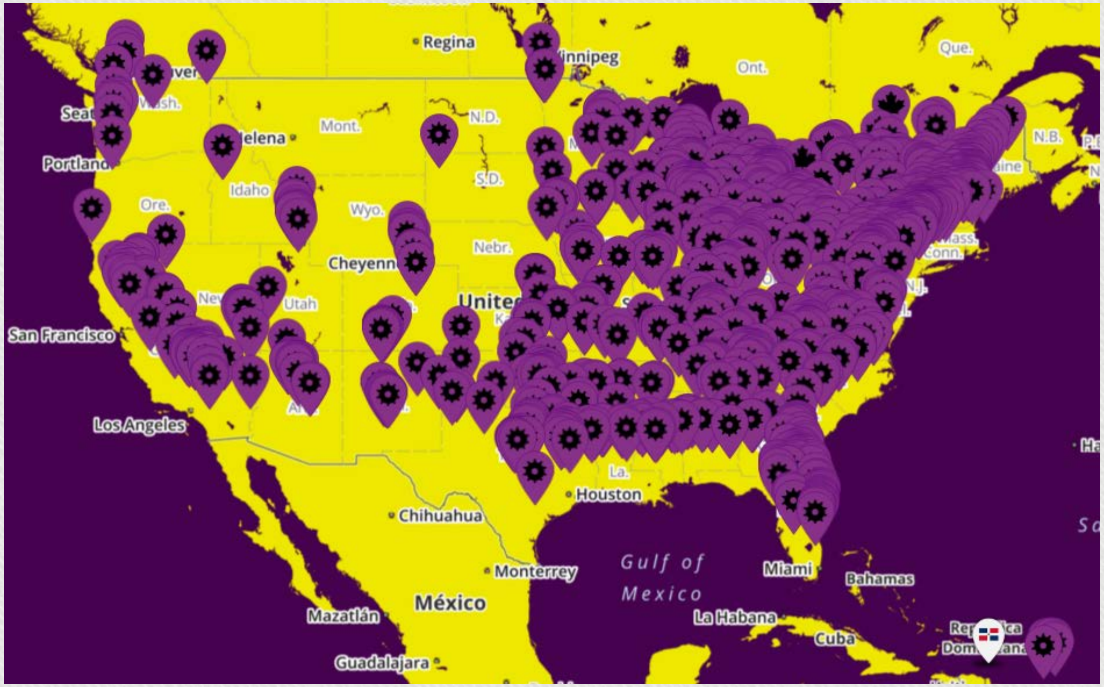
Loss of Competitive Advantage and Unrealistic Growth Expectations

Planet Fitness Pitching a Fairytale Story of Reaching 4,000 Clubs

A key part of Planet's pitch to investors is that it can grow to 4,000 clubs from just over 1,100 today. According to a quote from a former Executive Director of the Planet Fitness Independent Franchisee Association (PFIFA), the 4,000 club target appears to be newly created not long prior to going public.

"The company has stated in its S-1 filing that it can quadruple its store count to over 4,000 stores in the U.S. itself. That number is higher than any number I have heard before. There is no doubt in my mind as well as some franchisees that encroachment issues will develop such as lower membership dues collection per club on the way to 4,000 locations"

Planet Fitness Clubs Currently Total 1,121



Source: Planet Fitness website

The Absurdity of Planet's Club Goals Simply Illustrated

Assuming Planet can add 200 clubs/yr for the next 10 years, and industry membership grows 2-3% p.a., Planet will dominate the fitness industry with 39% market share....yeah right!

Planet cites the following statistics in its prospectus and 10-K:

- According to the International Health, Racquet & Sportsclub Association ("IHRSA"), the United States health club industry generated approximately $24.2 billion in 2014. **The industry is highly fragmented, with 34,460 clubs across the United States serving approximately 54 million members, according to IHRSA**.

- **Over the next five years, industry sources project that U.S. health club industry revenues will grow at an annualized rate of approximately 3%**, primarily attributed to an increase in discretionary spending coupled with continued consumer awareness and public initiatives on the health benefits of exercise. We believe we are well-positioned to capitalize on these trends, and our impressive growth reinforces our distinct approach to fitness and broad demographic appeal.

- **Let's assume the following to see what Planet's market share would look like in 10 years:**

    - Assume that approximately 75% of the total 54 million members (40 million members) are actually in Planet's target market.[1] Let's also assume the membership base grows at 3% for the next 5 years and 2% thereafter. That works out to approximately 52 million total members by 2026 (in 10 years)

    - Furthermore, let's assume Planet adds 200 clubs per annum over the next 10 years. It's club count will be approximately 3,100

    - It's current average members per club is approx. 6,500. This suggests that Planet's membership count would grow to 20.1m

    - **If Planet could in fact grow to 20.1m members, it would have approximately 39% total market share....we doubt it!**

1) Per Credit Suisse's survey approximately 44% of those surveyed would pay under $20/month and 27% would pay $21-50/month (71% between the two categories). We assume 75% for simplicity sake.

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Planet's Target Market Could Be Shrinking As Competition Encroaches

Planet has suggested a 4,000 location goal, and is currently at 1,124 as of Dec 31, 2015. However, there are already at least over 700 similar-styled no-judgment sub $20.00 / month gyms. Planet suggests it is only at 25% market penetration, but it could already be over 40% if competitors are included. Many are growing faster than Planet!

Fitness Club	Current Number of Locations	Source	YoY Growth
Planet Fitness	1,124	Source	22%
Fitness 19	148	Source	N/A
Crunch	**142**	**Source**	**59%**
Retro Fitness	140	Source	17%
YouFit	**115**	**Source**	**25%**
Fit-4-Less (Goodlife)	**61 (including soon-to-be)**	**Source**	**49%**
Blink Fitness	**47 (including soon-to-be)**	**Source**	**40%**
Charter Fitness	45	Source	11%
Blast Fitness	28	Source	-10%
Total	**1,850**		

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Stretching For Growth In Suboptimal Locations Already Evident

As Planet Fitness expands nationally, it may be forced into economically challenged markets and struggle to find good locations. As illustrated in the local Milwaukee article, Planet recently took a location in a struggling mall and is planning expansion into a neighboring mall where a shooting just occurred

Planet Fitness planned for Regency Mall Gym will replace about nine existing stores inside shopping center

Feb 16, 2016

Planet Fitness will enter the Racine market with an 18,000-square-foot location **in the struggling Regency Mall**.

Dec 2, 2015 Median Household Income down 7.9% in Racine, WI

The gym will be located on the southwest end of the mall, 5502 Durand Ave., between the Burlington Coat Factory store and h.h.gregg. Rendering of the Planet Fitness planned for Regency Mall in Racine. Rendering of the Planet Fitness planned for Regency Mall in Racine. Planet Fitness will take up about nine existing store spaces, only two of which are active stores right now, said Tim Connolly, project director of Cleveland-based K2M Design.

Connolly, whose firm is working on behalf of Regency Mall owner, CBL & Associates Properties, Inc., said construction on the gym's shell will begin in a few weeks. Planet Fitness will then take over and outfit the building, which will take another three to four months, Connolly said. Planet Fitness, which will be open 24 hours a day, will not have an exterior entrance, but a security gate will be installed to block off the rest of the mall concourse when the mall is closed, Connolly said. The Racine plan commission approved the mall's conditional use plan to allow the gym inside of the mall last week.

Built in 1981, the 810,337-square-foot Regency Mall has struggled for several years to retain quality tenants. Sears closed its 89,119-square-foot store in 2014, and JCPenney did the same the following year, closing its 149,196-square-foot store. The mall has been able to hold onto its other two anchor stores, the 80,000-square-foot Burlington Coat Factory store and a 105,869-square-foot Boston Store. Ross Dress for Less and Jo-Ann Fabric and Craft Stores are also expected to open at the mall in spring.

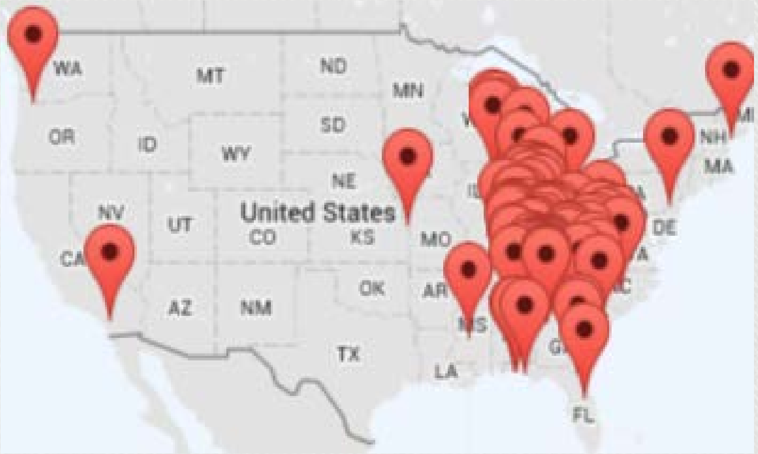
Connolly believes the addition of Planet Fitness will bring more traffic to the mall, which could lead to more tenants and more retail activity for the existing tenants. Planet Fitness has 24 locations in Wisconsin, including seven in the Milwaukee area**. K2M Design is working on a similar Planet Fitness proposal inside of East Towne Mall in Madison, which has not yet been approved.**

Dec 20, 2015 "19yr old shot during dispute at East Town Mall"

Source: Milwaukee Business News

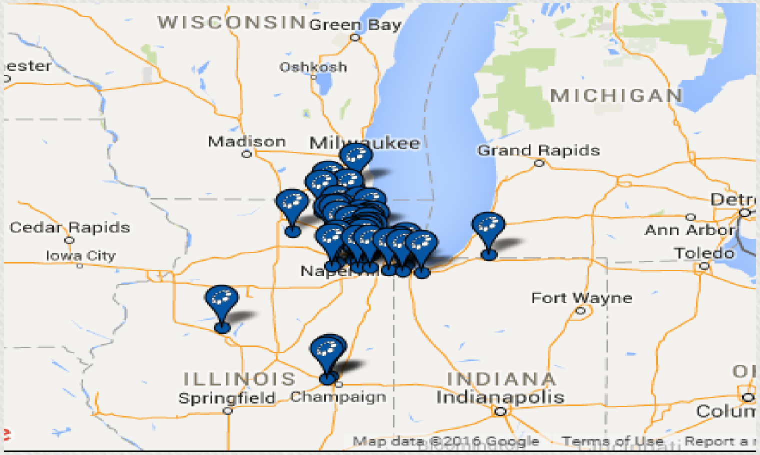
Rising Competition in All Geographies

Workout Anytime



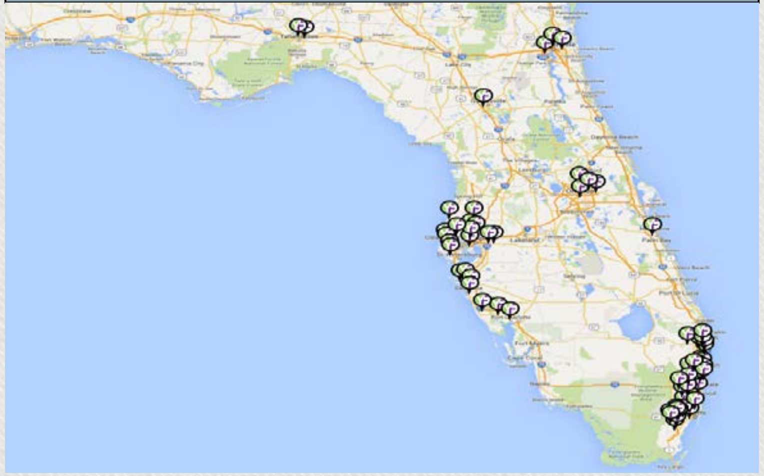
Source: Workout Anytime website

Charter Fitness



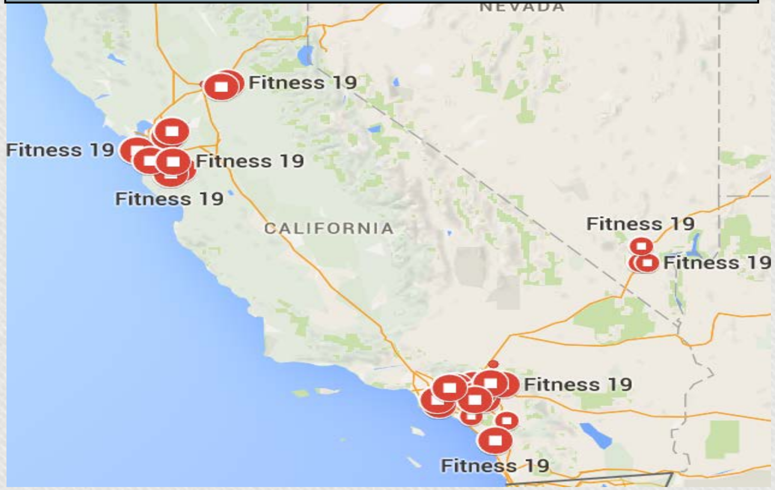
Source: Charter Fitness website

Youfit – South Florida



Source: Youfit website

Fitness 19 - California

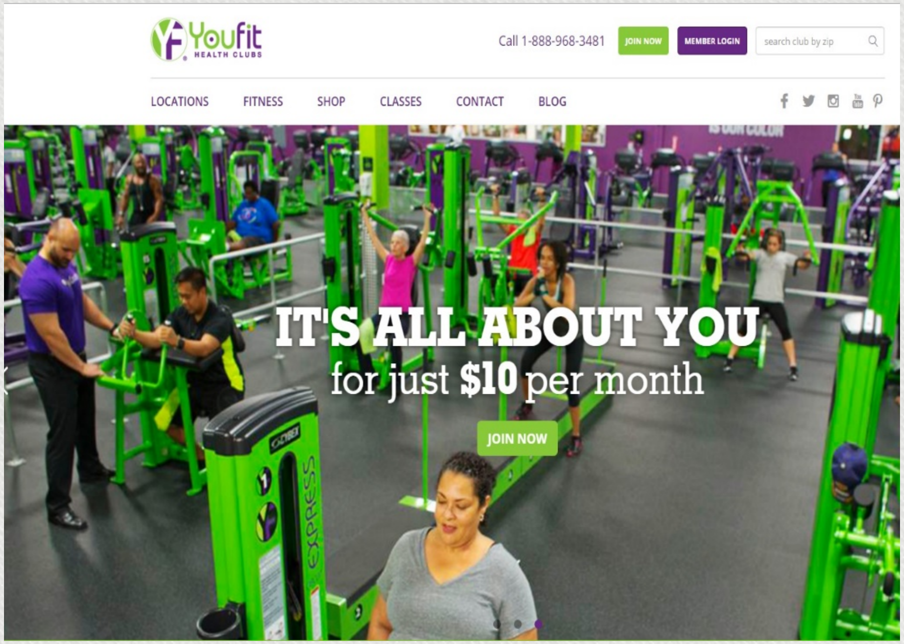


Source: Google Maps

Limited Barriers To Entry

Look familiar? Both Planet Fitness and YouFit have similar color schemes....

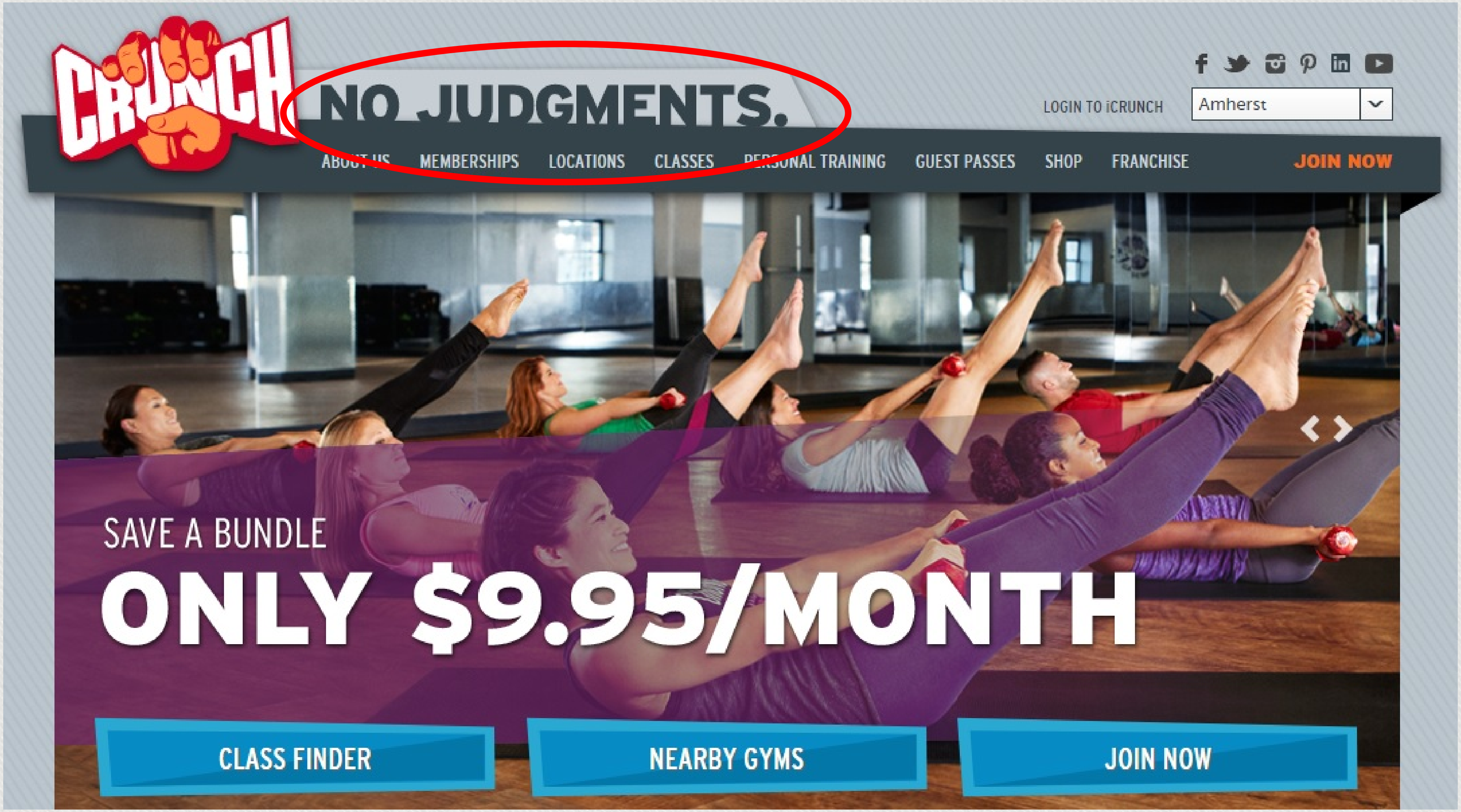
YouFit	Planet Fitness



Source: YouFit

Investment Pitch:
We Offer A "Judgment Free Zone"

Planet Fitness Claims It's a "Judgment Free Zone"...Crunch Won't Judge You Either!

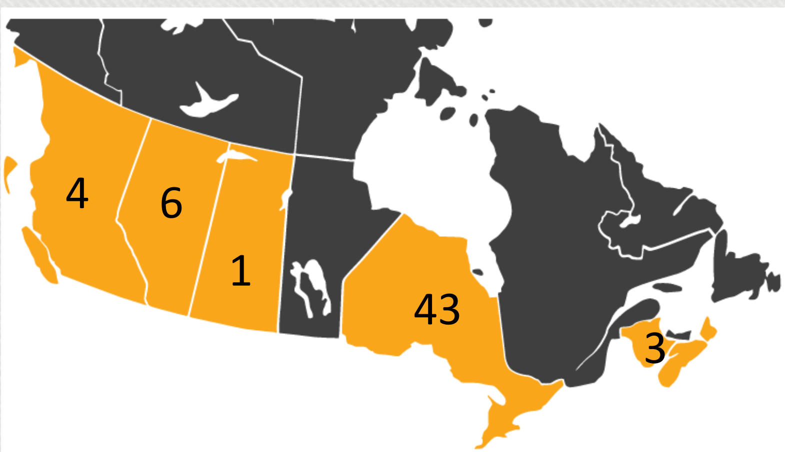


Source: Crunch

Investment Pitch: Blue Sky International Growth Opportunities!

Planet Fitness tells investors it is planning international opportunities, with a focus on Canada. As of Dec 31, 2015 Planet has 4 locations in Ontario, and has committed to open more than 100 additional franchisee-owned stores in Canada.
Unfortunately, Canadians have already started to replicate Planet Fitness' business model

Fit 4 Less Number of Clubs by Province; $9.98 / month + Joining Fee



Source: Fit4less.ca

Hone Fitness – Not a Black Card, But a Blue and Orange!

BLUE CARD
$10.00 PER MONTH

- Use of all strength equipment
- Use of all cardio equipment
- Use of locker room
- Free Personal Training Session
- Enrollment fee $129.95
- Annual maintenance fee 39.95 one year after you join (and every year thereafter)

ORANGE CARD
$20.00 PER MONTH

- Use of all strength equipment
- Use of all cardio equipment
- Use of locker room
- Free Personal Training Session
- Use of functional training zone
- Unlimited tanning
- Unlimited use of massage chairs
- Unlimited Guest Privileges (cardio & strength only)
- Half price drinks (Gatorade & water)
- Use of all Hone locations
- Enrollment fee $129.95
- Annual maintenance fee $39.95 one year after you join (and every year thereafter)

Source: Hone Fitness

Alternative Forms of Fitness Rising….

Emerging Fitness Trend	Examples
Cycling	SOULCYCLE, FLY FLYWHEEL
Yoga	YogaFit, BIKRAM YOGA
Barre Burn	pure barre, barre3
Bootcamp	FIT BODY BOOT CAMP UNSTOPPABLE FITNESS FORMULA, BARRY'S
Adventure Courses	SPARTAN, TOUGH MUDDER
Other	CROSSFIT NYC, Fitwall

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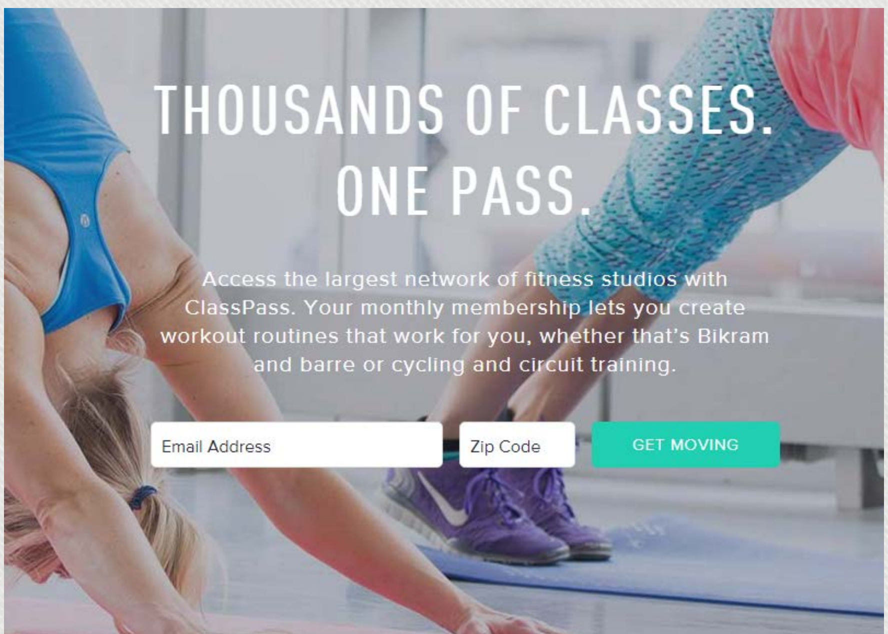
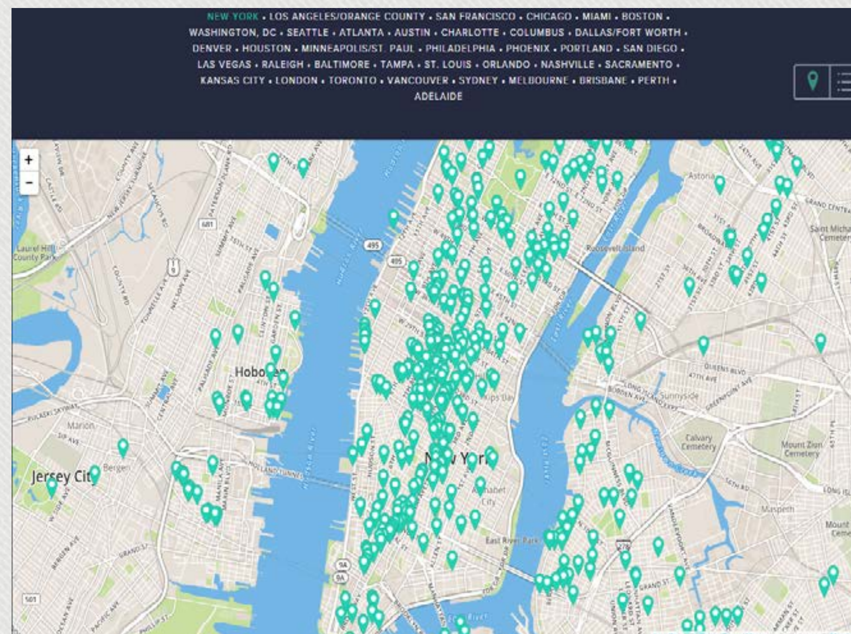
Technology Giving Consumers Exponentially More Fitness Options

New companies such as Class Pass offer fitness users significantly more options and flexibility to tailor a fitness routine. While more expensive at approximately $100/month, Class Pass gives members access to numerous crossfit, yoga, barre burn, spinning, and yoga classes

Class Pass is rapidly expanding to cities across the U.S. and abroad. To illustrate its appeal and the challenges it could present to Planet Fitness, the map below shows the number of fitness classes available to its members in Manhattan. Planet Fitness currently has just 10 clubs in Manhattan....





Source: Class Pass website

SPRUCE POINT
CAPITAL MANAGEMENT

Financial Strains Appear To Be Playing Out Already….

Digging beneath the surface of Planet's 2015 results shows signs of weakness in its financial model. Net Income to shareholders decreased, and cash from operations was up moderately.

Planet and its analysts were quick to highlight seemingly impressive results for 2015 including:

1. 18% total revenue growth
2. System-wide same store sales of 7.7%
3. EBITDA growth of 22.8%
4. Club growth of 23.5% from the addition of 209 new clubs
5. 20% "active" member growth to 7.3 million from 6.1 million

Despite These "Impressive" Results, We Observe That Net Income and Cash Flow grew by just 2%!

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Revenue:		
Franchise	$ 71,762	$ 58,001
Commission income	16,323	13,805
Corporate-owned stores	98,390	85,041
Equipment	144,062	122,930
Total revenue	330,537	279,777
Operating costs and expenses:		
Cost of revenue	113,492	100,306
Store operations	57,485	49,476
Selling, general and administrative	55,573	35,121
Depreciation and amortization	32,158	32,341
Other (gain) loss	(273)	994
Total operating costs and expenses	258,435	218,238
Income from operations	72,102	61,539
Other expense, net:		
Interest expense, net	(24,549)	(21,800)
Other expense	(275)	(1,261)
Total other expense, net	(24,824)	(23,061)
Income before income taxes	47,278	38,478
Provision for income taxes	9,148	1,183
Net income	38,130	37,295
Less net income attributable to non-controlling interests	19,612	487
Net income attributable to Planet Fitness, Inc.	$ 18,518	$ 36,808

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Cash flows from operating activities:		
Net income	$ 38,130	$ 37,295
Adjustments to reconcile net income to net cash		
Depreciation and amortization	32,158	32,341
Amortization of deferred financing costs	1,596	1,315
Amortization of favorable leases and asset retirement obligations	478	501
Amortization of interest rate caps	28	—
Deferred tax (benefit) expense	6,135	(63)
Gain on decrease in tax benefit arrangement	(2,549)	—
Provision for bad debts	667	139
Gain on disposal of property and equipment	(273)	(545)
Loss on extinguishment of debt	—	4,697
Equity-based compensation	4,877	—
Changes in operating assets and liabilities		
Accounts receivable	(414)	(3,632)
Notes receivable and due from related parties	4,210	177
Inventory	(1,545)	(769)
Other assets and other current assets	(5,720)	(1,818)
Accounts payable and accrued expenses	263	5,042
Other liabilities and other current liabilities	99	(2)
Income taxes	115	(1,670)
Equipment deposits	(1,088)	4,028
Deferred revenue	2,994	842
Deferred rent	1,502	1,527
Net cash provided by operating activities	81,663	79,405

Source: Planet 10-K

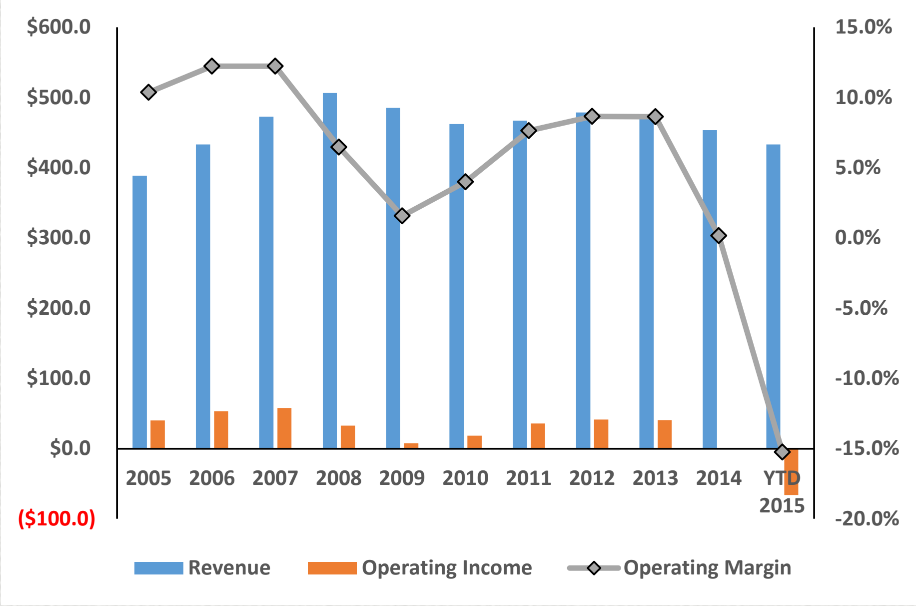
Case Study: Failure of Town Sports (CLUB)

Town Sports operates company owned fitness clubs in densely populated metropolitan markets like New York, Boston, Philadelphia and D.C. Its financial performance has deteriorated in recent years as a result of changing fitness trends and lower priced gym options forcing comparable club revenue declines. Its EBIT margins peaked shortly after going public in the 12% range.

In our opinion, Planet's operating margins are unsustainably higher than even CLUB's peak margins as a result of its focus on equipment sales and associated placement revenues for delivering and setting up the equipment. We estimate it earns 20% margins on the equipment and 65% on placement revenues. We believe the greatest risk facing Planet is that franchisees push back on the requirement to replace fitness and cardio equipment. This is especially true for the marginally profitable franchise operators that face $0.3 - $1.3 million of costs in years 4 – 6.

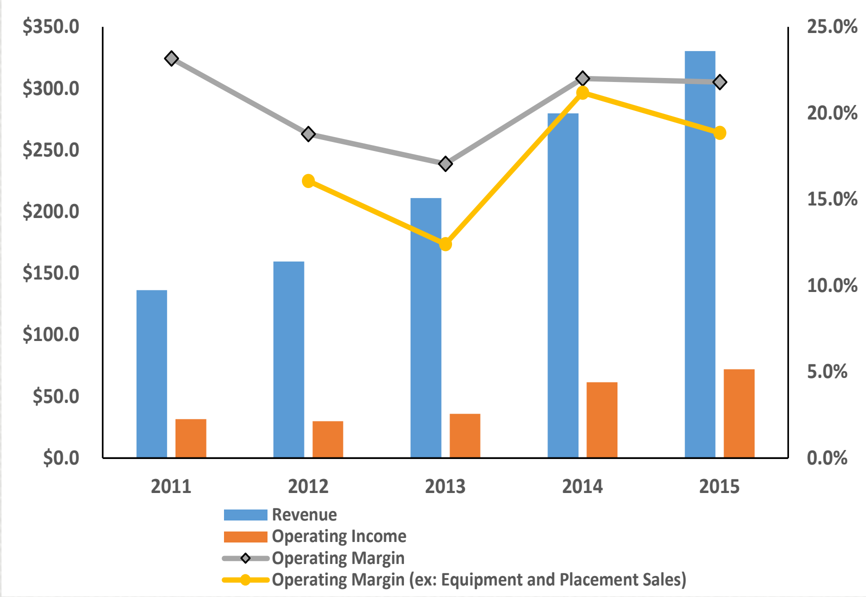
Town Sports Operating Margin

$ in mm



Planet Fitness Operating Margin

$ in mm



Source: SEC Financials

Accounting and Financial Disclosure Concerns

Many Key Performance Metrics Not Disclosed By Planet Fitness

Spruce Point Capital Management

Planet's disclosures are among the worst of the recent public fitness chains

	Bally Total Fitness	Lifetime Fitness	Town Sports Int'l	Planet Fitness
Total Clubs	Yes	Yes	Yes	Yes
Total Club Square Footage	Yes	Yes	No	No
Revenue per club	No	No	Yes	No (1)
Ending Period Members	Yes	Yes	Yes	Yes
Avg. Members During Period	Yes	Yes	No	No
Avg. Club Revenue per Member	No	Yes	Yes	No
Avg. Monthly Membership Price	Yes	No	Yes	Yes
% of Members By Membership Plan	Yes	Yes	Yes	No (2)
Avg. Membership Term	Yes	Yes	Yes	No
Same Club Revenue Growth	No	Yes	Yes	Yes
Annual Attrition Rate / Churn	No	Yes	Yes	No
Advertising and Marketing Costs	Yes	Yes	Yes	No (3)

(1) Planet discloses just for corporate-owned clubs. Given it is predominately a franchise model, it should disclose revenue per franchised club
(2) Planet does not put in its quarterly SEC filings the mix of black card members
(3) Planet does not discuss advertising and marketing costs on a quarterly basis or on its conf calls, as other peer club operators have done

Planet Changes Key Performance Metrics Three Months Post IPO

Within 3 months of going public, Planet quickly changed the language in its 10-Q about how it evaluates its business. Differences are underlined in red. Most of what it says it tracks, it does not disclose to investors on a quarterly basis in its financial filings

Pre-IPO

How We Assess The Performance of Our Business

"*In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures for determining how our business is performing include total monthly dues and annual fees from members (which we refer to as system-wide sales), number of new store openings, same store sales for both corporate-owned and franchisee-owned stores, net member growth per store, average royalty fee percentages for franchisee-owned stores, monthly PF Black Card membership penetration percentage, EBITDA, Adjusted EBITDA and Segment EBITDA*."

Source: IPO Prospectus, Aug 8th 2015

Post-IPO

How We Assess the Performance of Our Business

"*In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures for determining how our business is performing include the number of new store openings, same store sales for both corporate-owned and franchisee-owned stores, EBITDA, Adjusted EBITDA, Segment EBITDA, pro forma adjusted net income, and pro forma adjusted net income per diluted share*."

Source: 10Q filing Q3'2015, Nov 13, 2015

In Our Opinion, Planet's Justification For Not Disclosing Churn Is Laughable

Planet Fitness doesn't disclose membership churn, and talked its way out of disclosing this information at the request of the SEC. In our opinion, since its contracts are non-committal and can be cancelled at any time, it is very material to know how frequently members are exercising this cancellation option.

SEC Comment Letter, April 21, 2015

Q. 10: "**Please disclose the membership renewal or retention rates at your company stores and your franchisees**. We note the statement that you believe that regularly refreshing equipment enhances renewal rates from existing members. We also note the statement on page 91 that raving members are the pillars of your success."

Q. 30: "**Please include a discussion of your corporate-owned stores membership churn rate. In this regard, please discuss your membership renewal rate and your termination or forfeiture rate of memberships for each year**. Clearly explain whether your membership growth and the increase in corporate-owned revenues are a result of membership retainment through renewals, new members joining existing locations, or by the expansion of corporate-owned stores in new geographic locations."

SEC Response Letter, May 20, 2015

"We have reviewed your response to our prior comment 30. **Please include disclosure of how you determine net "new" membership growth per store as part of your assessment of net member growth per store, in addition to also disclosing why you do not consider corporate-owned membership or franchisee-owned membership churn rate to be a factor in your growth**. Also, please disclose the last sentence of your response whereby you attribute your membership growth to the growth of the franchisee-owned store base."

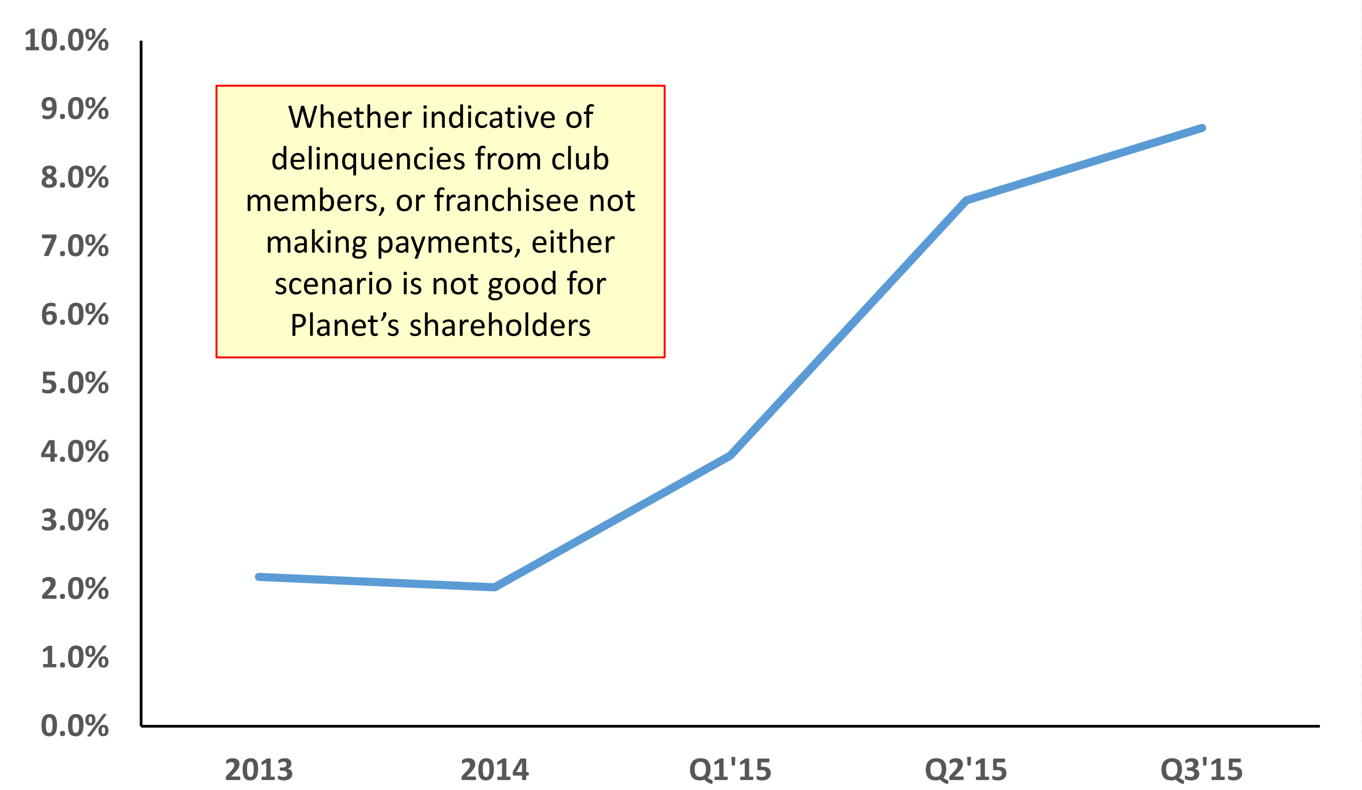
In Our Opinion, Planet's Response Per Its Prospectus Lacks Substance. Disclosing Churn, Does Not Impact Member Experience

"*We seek to make it simple for members to join, whether online or in-store, and, while some memberships require a cancellation fee, we offer, and require our franchisees to offer, a non-committal membership option. This approach to memberships is part of our commitment to appeal to new and occasional gym users. As a result, we do not measure membership attrition as an operating metric in assessing our performance***"**

Source: First SEC Comment Letter and Second SEC Comment Letter. Note: The SEC has not released the response letters provided from Planet Fitness pertaining to these comment letters cited.

Warning: Bad Debts Rising Fast

Bad Debt as a % of Gross Receivables Has Grown 4x since FY 2013



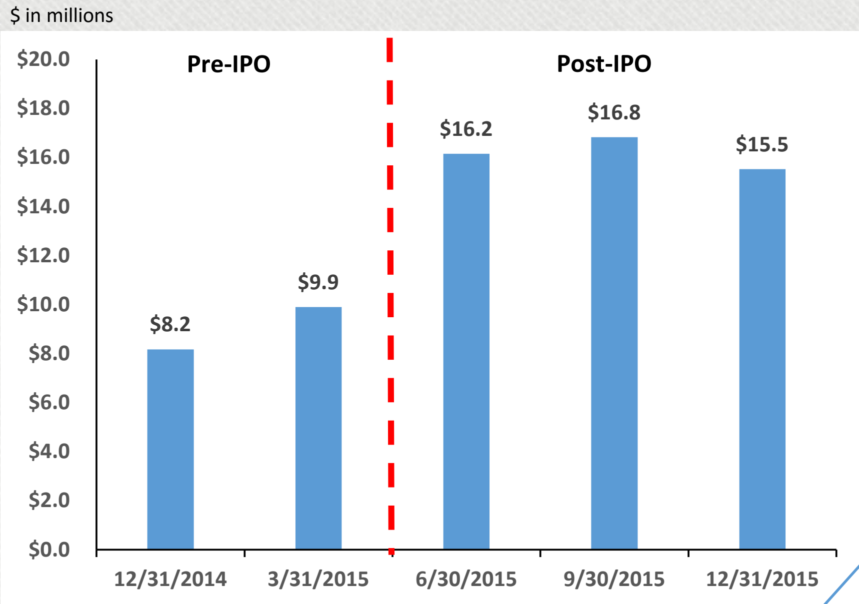
Receivables	$16.1	$19.7	$9.8	$12.3	$10.8
Bad Debt	$0.4	$0.4	$0.4	$0.9	$0.9
%	2.2%	2.0%	3.9%	7.7%	8.7%

Source: Planet SEC Filings

Warning: Marketing and Advertising Costs Rising Faster Than Membership Gains

The fitness industry depends heavily on recruiting and retaining members through extensive marketing and advertising. Planet franchisees are required to contribute 2% of monthly membership dues to its National Advertising Fund ("NAF") and 7% to local advertising. Planet does not disclose marketing costs on a quarterly basis or on its investor conference calls. Clues from Planet's 10-K and prospectus filings suggest its has dramatically increased its marketing and advertising expenditures with membership growth stagnating sequentially in 2015. We are skeptical that advertising alone will be able to save Planet from its growth issues.

Contractual Advertising Commitments (inc. NAF)



Members (mm)	**6.1**	**7.1**	**7.2**	**7.1**	**7.3**
Total Clubs	**918**	**976**	**1,014**	**1,040**	**1,124**

In its June 2015 prospectus (p. 4), Planet makes the following statements about its marketing and advertising, imply $33m/yr of spending:

"Planet and its franchises have spent an estimated $150 million since 2011 on marketing to drive consumer brand awareness"

And later in its recent 10-K (p. 5), a revelation that marketing costs have exploded by at least $75 million ($225m - $150m)

"...us and our franchisees have spent over $225m since 2011 on marketing to drive brand awareness"

In its footnotes discussing "Contractual Obligations and Commitment" Planet reveals that its advertising commitments doubled Post-IPO

Judging by the stagnating member growth through 2015 even with total clubs increasing by 206, it appears the dramatic increase in planned advertising is likely a result of pressures to retain and attract new members, or forestall possible cannabilzation. As we previously discussed, Planet also does not disclose membership churn

Source: Planet SEC filings

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Capital Management

Warning: National Advertising Fund Accounting Could Be Problematic

Planet separates and restricts assets of its National Advertising Fund ("NAF"). By our estimate, it appears to spend more money that it has available. If true, how has the deficit been financed?

Thinly Capitalized Advertising Fund?

$ in thousands

	December 31, 2013	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 31,267	$ 43,291
Accounts receivable	15,783	19,275
Due from related parties, current	1,332	1,141
Inventory	2,243	3,012
Notes receivable, current	513	1,290
Restricted assets—NAF (note 6)	1,351	—
Prepaid expenses	3,573	4,355
Other current assets	1,485	2,954
Total current assets	57,547	75,318
Property and equipment, net	33,766	49,579
Intangible assets, net	303,328	295,162
Goodwill	157,210	176,981
Notes receivable, net of current portion	3,672	2,007
Other assets, net	6,573	10,229
Total assets	$562,096	$609,276

Source: Planet SEC Filings

Planet discloses in its prospectus (p. 6): that it spent over $21 million from the NAF in 2014. Furthermore, Planet also discloses that it paid itself $1.01 million in administration fees for the NAF in 2014 (Note 6, F-31)

Planet also reveals some information in its 2015 Franchise Disclosure Document ("FDD" p. DD36) that 5.3% of NAF funds were spent on administrative expenses in 2014

Simple math implies that NAF funds were approximately $19m in 2014 = ($1.0m / 5.3%)

Assuming our analysis is correct, it appears that in 2014 the NAF spent $2.0m (= $21m - $19m) more than it actually had! *How was the deficit financed and were shareholder funds commingled with the NAF?*

- Planet's own balance sheet shows a $0 balance for the NAF at 2014 and $1.3m at year end 2013. Planet's FDD makes a disclosure which does not appear in its SEC filings:

  "The NAF is accounted for separately from our other funds. While our intent is to balance the NAF on an annual basis, periodically the NAF may run at either a surplus or deficit. All disbursements from the NAF are made first from income and then from contributions. We may spend in any fiscal year an amount greater or less than the aggregate contributions of all PLANET FITNESS businesses to the NAF in that year, and the NAF may borrow from us or other lenders to cover deficits in the NAF or cause the NAF to invest any surplus for future use by the NAF."

Spruce Point Capital Management

Aggressive "Active Member" Definition

"We define members as all active members, which includes both monthly billing members, prepay members and all pre-sale members. Pre-sale members include those that have joined a store prior to the store opening. This data is system-wide, which includes members of corporate-owned and franchisee-owned stores"

What are the implications of this aggressive definition?

Why won't Planet break-out pre-sale members?

Why did Planet stop disclosing its active member definition or discuss pre-sales in its new 10-K?

	Years ended December 31,					Quarters ended March 31,	
	2010 (Predecessor)	2011 (Predecessor)	2012 (Combined)	2013 (Successor)	2014 (Successor)	2014 (Successor)	2015 (Successor)
Other Operating Data: (Unaudited)(1)							
Number of stores at end of period:(2)							
Franchisee-owned	356	457	562	704	863	732	919
Corporate-owned	33	31	44	45	55	53	57
System-wide	389	488	606	749	918	785	976
Same store sales growth:(3)							
Franchisee-owned	14.3%	3.8%	8.7%	9.1%	11.5%	13.6%	11.7%
Corporate-owned	5.7%	3.3%	4.8%	6.1%	5.4%	6.1%	4.6%
System-wide	13.6%	3.6%	8.1%	8.4%	10.8%	13.0%	10.9%
(In millions)							
System-wide membership data:							
Number of members at end of period(4)	2.3	2.9	3.7	4.8	6.1	5.7	7.1
System-wide sales(5)	$ 415.6	$ 519.7	$ 693.7	$ 891.0	$ 1,189.9	$ 228.0	$ 328.0
EBITDA(6)	$ 22.1	$ 36.1	$ 42.6	$ 64.1	$ 92.6	$ 19.6	$ 21.8
Adjusted EBITDA(6)	$ 22.6	$ 38.1	$ 51.3	$ 71.1	$ 100.6	$ 22.0	$ 28.5

(1) For the other operating data shown in the table above, we have combined the Predecessor and the Successor periods to present 2012 on a combined basis only.

(2) We classify a store as open on the date the store receives its occupancy certificate, which is typically the date the store is first available for use by its members.

(3) Same store sales refers to year-over-year sales comparisons for the same store sales base. We define the same store sales base to include those stores that have been open and for which membership dues have been billed for longer than 12 months. We measure same store sales based solely on monthly dues billed to members of our corporate-owned stores and franchisee-owned stores.

(4) We define members as all active members, which includes both monthly billing members, prepay members and all pre-sale members. Pre-sale members include those that have joined a store prior to the store opening. This data is system-wide, which includes members of corporate-owned and franchisee-owned stores.

(5) We define system-wide sales as the monthly dues and annual fees from members of both corporate-owned and franchisee-owned stores.

(6) EBITDA is defined as net income before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as net income before interest, taxes, depreciation and amortization, adjusted for the impact of certain non-cash and other items that we do not consider in our evaluation of ongoing operating performance. These items include certain purchase accounting adjustments, management fees, certain IT system upgrade costs, acquisition transaction fees, IPO-related costs, pre-opening costs and certain other charges and gains that we do not believe reflect our underlying business performance. EBITDA and Adjusted EBITDA as presented in this prospectus are supplemental measures of our performance that are neither required by, nor presented in accordance with, GAAP. EBITDA and Adjusted EBITDA should not be considered as substitutes for GAAP metrics such as net income or any other performance measures derived in accordance with GAAP. Also, in the future we may incur expenses or charges such as those added back to

Source: Planet prospectus

Potential To Game the Pre-Sale Member Numbers?

Planet Fitness reserves the right for the pre-marketing and sales to start no less than 45 days prior to a store opening. Pre-sale practices could enable them to artificially boost their reported active member count

"The stated amount is an estimate of the amount you will spend on pre-sale marketing prior to commencing operations. The pre-sale marketing period typically begins no less than 45 days immediately preceding the date that you commence regular operations at your PLANET FITNESS location, and it may be as long as 180 days thereafter ("Pre-Sale Marketing Period"). We will determine the length and start date of the Pre-Sale Marketing Period based upon the location of the BUSINESS, demographics and other factors. Presale marketing expenses will include a variety of marketing, public relations programs, media and advertising materials that we approve. You will conduct your pre-opening marketing efforts from a temporary facility located at or near the site of your future" Source: 2014 Franchise Disclosure Document

Perhaps One Way Planet Is Gaming Membership Numbers?

Recent evidence to suggest Planet Fitness could be stretching the pre-sale period by up to 60 days

Planet Fitness coming to Terre Haute's south side in February
By David Hughes/Tribune-Star Dec 2, 2015

Anyone who has seen a national Planet Fitness television commercial probably hasn't forgotten it. "I make your little muscles into big muscles," a man exaggerating the stereotype of a "musclehead" gym trainer tells a potential customer in one of them.

A few seconds later, the Planet Fitness "lunk alarm" sounds and a purple-shirted employee explains in a more relaxed setting: "We're not a gym. We're Planet Fitness." What's stressed after that are Planet Fitness' catchphrases of "No Gymtimidation," "No Lunks" and "No Pressure."

Next month, Wabash Valley residents will be able to join a Planet Fitness in Terre Haute. It'll be located inside the old Antiques Crafts & Things and Sue's Hallmark Shop buildings at 138 W. Honey Creek Parkway, just south of Honey Creek Mall. Mike Campagnolo, owner of this Planet Fitness and others around Indiana**, told the Tribune-Star on Tuesday that the 24,000-square-foot facility should be <u>open by late February</u>.**

<u>A $1 pre-sale on memberships for the Terre Haute Planet Fitness will begin Jan. 2</u>, although the facility won't be available for workouts that soon. The $1 can be used as a down payment toward either form of monthly membership in the future.

Source: Tribune-Star

Planet Fitness to Open First Club in Mt. Pleasant, MI in December 2015

MT. PLEASANT, Mich., Oct. 13, 2015 /PRNewswire/ -- Planet Fitness, the innovative health club franchise known for its Judgement Free Zone® and affordable prices, announced a December opening for a new club in Mt. Pleasant, at 2135 Mission St, located next to Staples. The club will offer special pre-sale memberships for just $1 down and $10 a month with no commitment. **<u>The pre-sale office will be open Monday, November 2, 2015 with the club scheduled to open by the end of the year</u>**, marking the chain's first location in Mt. Pleasant.

Once open, the 16,000-square-foot club will be fully staffed and open 24-hours seven days a week, and will feature an extensive selection of the latest new cardio equipment including treadmills, ellipticals, arc trainers, and stationary bikes. Every cardio machine will be connected to an entertainment system with multiple 65-inch widescreen HD televisions. Planet Fitness also offers upper and lower body strength machines, a 30-minute PF Express circuit, an abdominal and stretching area, and a PF Black Card Spa, with multi-level tanning, Red Light therapy booths, HydroMassage® beds and massage chairs. Unlimited fitness training is also included in all memberships at no additional charge.

Source: PR Newswire

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Capital Management

Equipment Revenue Highly Material, With Limited Disclosure to Evaluate Performance

It is critically important to understand Planet's equipment and re-equipment sales since 42% and 26% of consolidated 2015 sales and EBITDA were derived from this segment

Item Not Disclosed	Reason Why It Is Material and Should Be Disclosed
Concentration Risk to Equipment Vendors	Planet noted a significant increase in concentration of equipment purchases from two vendors in 2015, but does not explain who are the vendors, or why the concentration materially increased in 2015. *"For the year ended 2015 purchases from two vendors comprised 79% and 18%; for the year ended 2014 purchases from two vendors comprised 66% and 25%; for the year ended 2013, purchases from these two vendors comprised 66% and 25%*
% of Equipment Revenue Coming From Replacement Sales	PLNT states: *"equip" and "re-equip" requirements create a predictable and growing revenue stream as our franchisees open new stores under their ADA*. Planet does not break out the exact amount of revenue in its SEC filings coming from replacing of equipment and cardio machines from existing franchisees, but has commented on rough percentages on conference calls
Maturity Schedule For Existing Equipment	If re-equipment sales are in fact predictable, PLNT could disclose to investors a multi-year schedule that lays out its expectation for when it expects to realize re-equip revenues. PLNT does not disclose such information and has offered a loose discussion of it on its conference calls without much specificity
Equipment Rebates	PLNT has disclosed that rebates have been a meaningful driver of equipment margins on conference calls, but does not discuss the exact amount of rebates or impact in its SEC filings...why?
Equipment Fess Payable to Related-Parties	In its 2015 Franchise Agreement document on p. DD-27 there is a disclosure: "*One of our officers owns an indirect interest in PF Equipment, an approved supplier of fitness equipment*." This disclosure was not made in any of PLNT's SEC Filings. What % is owned and who is the related party?
Divergent Accounting Choices Merits Further Scrutiny	Planet historically disclosed it accounted for equipment sales under the "gross" revenue accounting model, which is an accounting choice subject to significant managerial discretion. On its FY 2015 conference call, management made the unusual disclosure that it accounts for domestic equipment sales under the "gross" revenue method, but applies international equipment sales under the "net" revenue method....why?

Divergent Accounting Choices For Equipment….Why?

Spruce Point had been analyzing Planet's choice of gross revenue accounting for its equipment, when Planet made an usual disclosure on its recent FY 2015 call that it applies two methods based on location of shipment. In Spruce Point's experience, we have never seen a company use two different accounting methods for the same business transaction!

According to CFO Dorvin Lively:

"We recognize our revenues on equipment purchases by our international franchisees differently, compared to when we sell equipment to franchisees here in the U.S. Domestically, we take title of the equipment from the equipment manufacturer, ship the equipment to the franchisee location and then we generally assist the franchisee with assembly and placement for this equipment whereby we also recognize a placement fee for those services. In other words, we have gross revenue, cost of goods sold and a gross profit."

"Internationally, we do not take title to the equipment from the equipment manufacturer, but rather the manufacturer sells this equipment directly to the international franchisee and then pays us a commission on this sale that is equal to the gross profit that we would have recognized as if that transaction had occurred here in the U.S. Another way to think about it is that we have lower revenues for these new stores outside the U.S., but it generates the same gross profit dollars"

Source: 2015 Earnings Conf Call

Spruce Point Capital Management

No Disclosure of Int'l Equipment Sales

Despite claiming international equipment sales that are accounted for differently, Planet does not break-out the figures for investors and lists all its sales as U.S.

	Year Ended December 31,		
	2015	2014	2013
Revenue			
Franchise segment revenue – U.S.	$ 87,299	$ 71,806	$ 44,157
Franchise segment revenue – International	786	—	—
Franchise segment total	88,085	71,806	44,157
Corporate-owned stores segment – U.S.	95,459	85,022	67,364
Corporate-owned stores segment – International	2,931	19	—
Corporate-owned stores segment total	98,390	85,041	67,364
Equipment segment – U.S.	144,062	122,930	99,488
Equipment segment total	144,062	122,930	99,488
Total revenue	$ 330,537	$ 279,777	$ 211,009

Source: Planet 10-K, p.86

Proper Accounting Open To Interpretation; Insights from the FDD Document

	Disclosure From Franchise Agreement (2015)	SEC Disclosure (2015)
Revenue Recognition Policy	The Company sells and delivers equipment purchased from third-party equipment manufacturers to franchised health clubs. Equipment revenue is recognized upon the equipment being delivered to and assembled at each club and accepted by the franchisee. The Company recognizes revenue on a gross basis in these transactions as management has determined the Company to be the principal in the transaction.	The Company sells and delivers equipment purchased from third-party equipment manufacturers to franchisee-owned stores. Equipment revenue is recognized upon the equipment being delivered to and assembled at each store and accepted by the franchisee. The Company recognizes revenue on a gross basis in these transactions as management has determined the Company to be the principal in these transactions. Management determined the Company to be the principal because the Company is the primary obligor in these transactions, the Company has latitude in establishing prices for the equipment sales to franchisees, the Company has supplier selection discretion and is involved in determination of product specifications, and the Company bears all credit risk associated with obligations to the equipment manufacturers.
Who Provides the Product /Service and What is the Flow of Funds?	"In addition, **if you fail to make any payment when due to a designated supplier**, or if we (in our business judgment) determine that it is the most efficient method to remit payment to any supplier, we have the right to act as a pass through by collecting payments .....for the specific product or service and remitting those payments **to the supplier, who ultimately provides the product or the service to you**..... **Products and services for which we may act as a pass through may include equipment**, fixtures, goods, merchandise, inventory....."	PLNT's own language makes it clear that funds flow from the franchisee to the suppliers. How then can PLNT claim it bears the credit risk? PLNT's own language makes it clear that the supplier ultimately provides the product and service. How then can it claim to be the primary obligor?
Who Has Risk to the Equipment?	All insurance policies must be issued on an "admitted" basis by carriers approved by us.... contain such types and min amounts of coverage, exclusions and max deductibles as we prescribe in our current Franchise Disclosure Document or otherwise in writing from time to time; **name us and our Affiliates, including but not limited to Planet Fitness Equipment, LLC and PFIP, LLC, as additional insureds**;	Risk to physical loss of product is a key consideration in determining net vs. gross revenue application. PLNT requires its franchisees to hold insurance and name its equipment company as an insured party.

Spruce Point
Capital Management

Illustrative Impact of Change in Equipment Revenue Accounting

Planet earns approximately 20% on its equipment sales. Presenting equipment sales on a net basis would reduce total revenue by approximately 35%

$ in millions

	2012	2013	2014	2015
Gross Equipment Revenue	$75.8	$99.5	$122.9	$144.1
Net Equipment Revenue (1)	$13.3	$19.1	$26.0	$30.2
Reported Total Revenue	$159.7	$211.0	$279.8	$330.5
Adjusted Total Revenue	$97.2	$130.6	$182.9	$216.6
% Decline in Total Revenue	-39.0%	-38.1%	-34.6%	-34.5%

(1) Cost of revenue (less Point-of-system costs) were $62.5m, $80.4m and $96.9m implying a 17.2%, 19.2%, and 21.1% gross margin on equipment sales

SPRUCE POINT
CAPITAL MANAGEMENT

Potential Overstatement of Franchise Revenues

	Planet Disclosure	Spruce Point Observation and Opinion
Placement Revenues	**Effective January 1, 2012, we began to report placement revenue within franchise revenue. Prior to January 1, 2012, this revenue was reported within equipment revenue**. Placement revenue includes amounts we charge our franchisees for assembling and placing cardio and strength equipment at franchisee-owned stores. Placement revenue is recognized upon completion and acceptance of the services at the franchisee stores	We believe Planet wants to focus investors more on its franchise revenues and less on its equipment revenues as investors are more likely to value the stability of franchise revenues higher than the lumpiness of equipment sales. **Not surprisingly, Planet reclassified the location of placement revenues on its income statement. We also believe Planet focused more effort on increasing its collectable royalty rate to 5% and is de-emphasizing equipment margin**
Placement Costs	Selling, general and administrative expenses: Consists of costs associated with administrative and franchisee support functions related to our existing business as well as growth and development activities, **including costs to support placement services**. These costs primarily consist of payroll, IT-related, marketing, legal and accounting expenses	It is highly unusual and distortive, if not outright flawed, to put a cost associated with revenue in the SG&A line. Planet does not report a cost of franchise revenue line item and its cost of revenue line relates just to equipment product sales. In our opinion, the placement costs should be netted against the placement revenue

$ in millions

	FY	FY 2014				FY	FY 2015				FY
	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4	2015
Royalty revenue	$21.0	$6.9	$9.0	$7.9	$8.9	$32.7	$10.5	$12.7	$10.9	$12.1	$46.2
% of franchise	*62.3%*	*55.4%*	*58.6%*	*60.7%*	*51.8%*	*56.4%*	*61.9%*	*67.9%*	*67.5%*	*60.5%*	*64.3%*
Franchise and Other Fees	$6.4	$4.0	$4.8	$3.6	$4.4	$16.8	$4.5	$3.7	$3.7	$4.0	$15.9
% of franchise	*19.0%*	*32.1%*	*31.2%*	*27.7%*	*25.6%*	*29.0%*	*26.5%*	*19.8%*	*22.9%*	*20.0%*	*22.1%*
Placement revenue	$6.3	$1.6	$1.5	$1.5	$3.9	$8.5	$2.0	$2.3	$1.6	$3.9	$9.8
% of franchise	*14.3%*	*12.8%*	*9.8%*	*11.5%*	*22.7%*	*11.8%*	*9.2%*	*12.3%*	*9.9%*	*19.5%*	*13.6%*
Total Franchise Revenue	**$33.7**	**$12.5**	**$15.3**	**$13.0**	**$17.2**	**$58.0**	**$17.0**	**$18.7**	**$16.2**	**$20.0**	**$71.9**
YoY Growth	--	--	--	--	--	***72.1%***	***36.0%***	***22.2%***	***24.6%***	***16.3%***	***24.0%***
Royalty revenue	$21.0	$6.9	$9.0	$7.9	$8.9	$32.7	$10.5	$12.7	$10.9	$12.1	$46.2
% of franchise	*66.8%*	*57.5%*	*60.9%*	*63.2%*	*55.8%*	*59.2%*	*64.6%*	*70.8%*	*70.6%*	*64.3%*	*67.5%*
Franchise and Other Fees	$6.4	$4.0	$4.8	$3.6	$4.4	$16.8	$4.5	$3.7	$3.7	$4.0	$15.9
% of franchise	*20.3%*	*33.3%*	*32.5%*	*28.8%*	*27.6%*	*30.4%*	*27.7%*	*20.6%*	*24.0%*	*21.2%*	*23.2%*
Placement revenue	$6.3	$1.6	$1.5	$1.5	$3.9	$8.5	$2.0	$2.3	$1.6	$3.9	$9.8
Less: Placement Costs	($2.2)	($0.5)	($0.5)	($0.5)	($1.2)	($2.7)	($0.8)	($0.8)	($0.8)	($1.2)	($3.5)
Adjusted Placement Revenue	**$4.1**	**$1.1**	**$1.0**	**$1.0**	**$2.7**	**$5.8**	**$1.2**	**$1.5**	**$0.8**	**$2.7**	**$6.3**
% of franchise	*12.9%*	*9.2%*	*6.7%*	*8.1%*	*16.7%*	*10.4%*	*7.7%*	*8.6%*	*5.4%*	*14.5%*	*9.3%*
Pro Forma Franchise Revenue	**$31.5**	**$12.0**	**$14.8**	**$12.5**	**$16.0**	**$55.3**	**$16.2**	**$17.9**	**$15.4**	**$18.8**	**$68.4**
YoY Growth	--	--	--	--	--	***75.7%***	***35.3%***	***21.3%***	***23.4%***	***18.0%***	***23.9%***

Source: Planet SEC Filings

Tax Receivable Concern

Why is PLNT's post IPO balance sheet liability of approximately $140m for a complicated tax benefit arrangement much lower than $711m described in its Risk Factors? Planet warns that shareholders could be on the hook for substantial payments years in advance of the tax benefits being realized and place a strain on its liquidity

*"For example, if we had elected to terminate the tax receivable agreements as of December 31, 2015, based on a share price of $15.63 per share of our Class A common stock (based on the closing price of our Class A common stock on the New York Stock Exchange as of December 31, 2015) and a discount rate equal to 2.1%, **we estimate that we would have been required to pay $576.0 million in the aggregate under the tax receivable agreements.**"*

*"Assuming no material changes in the relevant tax law and that we earn sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreements, we expect that the reduction in tax payments for us associated with sales of the corresponding Holdings Units as described above would aggregate to approximately $836.7 million over 23 years from our IPO based on a price of $15.63 per share of our Class A common stock, the closing price per share of our Class A common stock on December 31, 2015 and, assuming all future sales had occurred on such date. **Under such scenario, we would be required to pay the other parties to the tax receivable agreements 85% of such amount, or $711.2 million, over the applicable period under the tax receivable agreements**."*

	December 31, 2015	December 31, 2014
Liabilities and stockholders' deficit/members' equity		
Current liabilities:		
Current maturities of long-term debt	$ 5,100	$ 3,900
Accounts payable	23,950	26,738
Accrued expenses	13,667	8,494
Equipment deposits	5,587	6,675
Deferred revenue, current	14,717	14,549
Payable to related parties pursuant to tax benefit arrangements, current	3,019	—
Other current liabilities	212	529
Total current liabilities	66,252	60,885
Long-term debt, net of current maturities	479,779	375,881
Deferred rent, net of current portion	4,554	3,012
Deferred revenue, net of current portion	12,016	9,330
Deferred tax liabilities	—	606
Payable to related parties pursuant to tax benefit arrangements, net of current portion	137,172	—
Other liabilities	484	519
Total noncurrent liabilities	634,005	389,348

Source: Planet 10-K

Warning About Tax Receivable Strategies

A New York Times article discussed private equity's use of tax receivable strategies as an "obscure tax strategy," "controversial," and "financial engineering use to deprive companies of cash." Not surprisingly, the article also noted that most sophisticated investors don't understand these deals. Buyer beware: what's beneficial to Pre-IPO private equity investors may not necessarily be beneficial to Post-IPO public shareholders.

Squeezing Out Cash Long After the I.P.O.
By LYNNLEY BROWNING MARCH 13, 2013 6:26 PM

"When the Berry Plastics Group, a container and packaging company, went public last October, it generated up to $350 million in tax savings. But the company won't collect the bulk of the benefits. Rather, Berry Plastics will hand over 85 percent of the savings, in cash, to its former private equity owners. The obscure tax strategy is the latest technique that private equity firms are using to extract money from their companies, in this case long after the initial public offering.

In a typical buyout, the owners make money by sprucing up the operations and selling the business to another company or public investors. Private equity firms have also found ways to profit before the so-called exit with special one-time dividends and annual management fees. Now, buyout specialists are increasingly collecting continuing payouts from their former portfolio companies. The strategy, known as an income tax receivable agreement, has been quietly employed in dozens of recent offerings backed by private equity, including those involving PBF Energy, Vantiv and Dynavox.

***While relatively rare, the strategy, referred to as a supercharged I.P.O., has proved to be controversial. To some tax experts, the technique amounts to financial engineering, depriving the companies of cash**. Berry Plastics, for example, has to make payments to its one-time private equity owners, Apollo Global Management and Graham Partners, through 2016. "It drains money out of the company that could be used for purposes that benefit all the shareholders," said Robert Willens, a corporate tax and accounting expert in New York who coined the term "supercharged I.P.O."*

***It's lucrative for the private equity firms**. The payments, which can last as long as 15 years, create a tidy income stream, typically taxed at the lower capital gains rate. The Graham Packaging Company, a maker of plastic containers, expects to pay its former owners $200 million, according to securities filings; Emdeon, a billing company, $151 million; and National CineMedia, a cinema advertiser, more than $196 million. **But some tax experts take issue with the strategy. "They involve millions, often billions, of dollars in cash transfers from newly public companies to a small group of pre-I.P.O. owners**," Victor Fleischer, a tax professor at the University of Colorado, and Nancy Staudt, a public policy professor at the University of Southern California, wrote in a 2013 study. (Mr. Fleischer is a contributor to DealBook.) The study said the primary reason for the deals was tax arbitrage.*

***Another potential issue is that sophisticated investors do not necessarily understand the deals, either. The agreements typically warrant just a few paragraphs in a company's I.P.O. filings. And the companies are generally on the hook for the cash payments, even if their profits deteriorate**. Berry Plastics lost $10 million in the last quarter and already carries a costly debt load of $4.6 billion. In its I.P.O. filing, the company cautioned that the tax deal could affect its liquidity.*

Source: Full article at New York Times

Insights from BBB Complaints

Common Customer Complaints Highlighted by BBB include:
Double Billing of Dues
Difficulty in Cancelling Membership
Difficulty in Transferring Clubs

87 complaints closed with BBB in last 3 years | 19 closed in last 12 months

Complaint Type	Total Closed Complaints
Advertising / Sales Issues	3
Billing / Collection Issues	43
Delivery Issues	1
Problems with Product / Service	40
Guarantee / Warranty Issues	0
Total Closed Complaints	**87**

Overview | Complaints | Customer Reviews | Directions

THIS BUSINESS IS NOT BBB ACCREDITED

Planet Fitness (Headquarters)

Find a Location

Phone: (603) 750-0001

Fax: (603) 742-1544
26 Fox Run Road, Newington, NH 03801
http://www.planetfitness.com

F

On a scale of A+ to F
Reason for Rating
BBB Ratings System Overview

Source: Better Business Bureau

Spruce Point
Capital Management

Typical Complaints

There is evidence to suggest Planet fitness makes it difficult for customers to cancel memberships so that the Company can maintain the member as "active"

01/28/2016 | Advertising / Sales Issues | Read Complaint Details

X

Complaint
Signed up with Planet Fitness in 2012, but only attended gym for 3 months and totally forgot about it until I lost my job in Sept 2015. October of 2015, I received a call from bank stating I was overdrawn due to Planet Fitness, I forgot they had been taking money out my account, and with no income could not pay (after Sept/2015) I sent an email stating I would like to cancel my membership, but received a you have to cancel in person. I had asked my bank not to honor withdraws (since I would rack up overdrafts)and went up to the fitness center. I told them I would like to cancel my membership, since I have not used it since 2012, and can't afford it. (I have no money-but looking for employment while staying with relatives). They said they can't cancel since I have a balance. My problem is they got free money from me since I forgot to cancel it, however, since the account will go into collection anyway, why can they not cancel the plan and bill me for amount owed to the day cancelled, instead of running a constant tab. "You can't get blood from a stone" as they say. This company is a ripoff. I don't mind paying the couple months owed prior to me going up and requesting cancellation, but keeping a running meter on someone who can't pay is just wrong.

Desired Settlement
I should be allowed to cancel even with the balance and billed for the 2or 3 months owed. Companies should not be allowed keep a running service tab, if you ask to be removed. My cirMost companies, put you in collections with the amount owed at close of service and begin compounding interest. Not a running service bill once you request to terminate.

Business Response
The membership agreement states that an active membership must be cancelled in person or through certified mail. This allows the business to place the member's signature on file for confirmation as well as allowing the company to provide the member with verification. The member's account was cancelled as of 1/10/16 due to the past due balances. Planet Fitness does not accrue or compound interest. The membership dues will remain outstanding and will need to be paid if the member wishes to rejoin the club location. The membership and account information are no longer active and will no longer be billed.

04/16/2015 | Billing / Collection Issues | Read Complaint Details

X

Complaint
Planet fitness refuses to cancel my membership and continues to debit my checking account despite multiple requests to cancel membership.
I am now complaining to corporate Headquarters because I complained multiple times to local planet fitness (1635 S. Braddock Ave, Pittsburgh Pa) and they refuse to respond to my requests to cancel membership. I went into my local planet fitness at above address after I was in car accident in May last year (2014) and had fractured hand. I filled out membership cancellation paperwork with their employee because of my fracture from the car accident. He said all charges to my checking account would cease and there would be no cancellation charges. Since then I have continued to have $10 monthly charges taken from my checking account every month. I've called them and they have not been helpful over the phone. I filed local BBB complaint without any response. I am now filing BBB with the Planet fitness headquarters. I want membership cancelled and refund of all membership fees since May 2014 (12 months x 10 months = $120).

Desired Settlement
cancel membership. Refund $120

***** *****

Business Response
After doing some research into this member's account, we were able to locate the original copy of his cancellation form. He did in fact cancel his membership on May 17th of 2014. The staff member who was assisting him failed to cancel him out of the system correctly. As a result, his membership was not cancelled until March 19th of this year when Mr. ***** brought it to the attention of the staff at this location. So, to rectify the situation - a refund

Spruce Point Capital Management

Recent Class Action Lawsuit Claims
Unfair Cancellation Terms

If the lawsuit is true, it illustrates that you can only take advantage of customers for so long before they take their business to the competition!

Planet Fitness Membership Class Action Filed in NJ

A class action lawsuit was filed against Planet Fitness and franchise stores in New Jersey, alleging that **their membership agreements have unfair cancellation terms** and fail to disclose several notices required by New Jersey law. Planet Fitness is the brand name for a popular health club, with approximately 40 franchise stores in New Jersey, according to the lawsuit. The Planet Fitness class action lawsuit was initially filed in state court in September, and was removed to New Jersey federal court last week.

The Planet Fitness membership agreement class action lawsuit alleges that Planet Fitness requires its franchise stores to use its contracts, which "**obligate their customers to automatically and perpetually renew their contracts by imposing unreasonable and unduly onerous requirements to cancel their health club memberships**."

Plaintiff Marni Truglio's membership agreement says she could cancel her membership "by the 10th of the month," but another section requires "thirty days notice" in order to cancel. The class action lawsuit claims that "in reality, the written notification must be completed within thirty-seven (37) days notice."

According to the Planet Fitness class action lawsuit, "This confusing and/or misleading language in the Membership Agreement results in many consumers being forced to pay for, at least, one additional month of membership at [Planet Fitness] health clubs after they cancel the contract."

In addition, the Planet Fitness membership agreement class action **lawsuit alleges that the membership agreements fail to clearly state the total cost to the consumer up front**. Truglio's membership agreement reportedly stated her first month's prorated fee of $11.33, the monthly membership fee of $19.99, and the one-time annual renewal fee of $39.00, but did not state the total. According to the Planet Fitness class action lawsuit, "Given that the Membership Agreement is for a minimum of 12 months, it fails to set forth the total payment obligation of … $270.22."

Finally, the Planet Fitness class action lawsuit details **several terms and notices required by New Jersey law for health club membership contracts that are missing from Planet Fitness membership agreements**. Such notices include the right to cancel within three days, and that a bond is filed with a state agency for consumers harmed by the health club, among others, according to the class action lawsuit.

Source: New Release

Warning: Lapses in Financial Controls Playing Out in Real-Time

IPO Prospectus Warning....

"We recently determined that a material weakness in internal control over financial reporting existed relating to our controls over the authorization of IT hardware purchases and processing of related invoices. We have implemented processes and controls designed to remediate this material weakness by revising existing, and implementing new, procedures and systems regarding (i) authorizing purchases, (ii) receiving invoices, (iii) receiving IT hardware products and (iv) processing invoices. However, we cannot assure you that the measures we have taken to date, or any measures we may take in the future, will be sufficient to remediate the material weakness we have identified or avoid potential future material weaknesses."

Source: Planet Fitness S-1 Filing,

Cold Reality Hits Hard

Former Planet Fitness Systems Manager Sentenced to 33 Months in Prison For iPad Scheme

Eric Stromgren, Content Producer | *Club Industry* — *Feb 1, 2016*

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Nicholas Selby, who pleaded guilty in the case, purchased 2,190 iPads from four of Planet Fitness' technology vendors without authorization.

Nicholas Selby caused Planet Fitness to pay for iPads by submitting fraudulent invoices from the company's accounts payable department.

Source: Clubindustry.com and Dept of Justice

Governance and Related Party Issues

Planet's Road to IPO Worth Carefully Evaluating

It is worth considering that Planet's former CFO sued the company and it did business with an SEC investigated businessman on the road to its IPO

Planet Fitness' road to a public offering
Ex-Cabletron exec played role in private equity deal

by Bob Sanders, July 9, 2015

Craig Benson would like Planet Fitness to become "the next Cabletron."

At least that's what the former Cabletron Systems CEO and New Hampshire governor told state legislators on May 27, when he urged them to approve a special tax change in anticipation of the Newington-based gym chain's $100 million initial public offering.

What Benson didn't mention was his interest in the company, both as a recent investor and board member and the owner of the chain's 35-gym franchise in New Jersey. Nor did he reveal that he and former Cabletron Chief Financial Officer David Kirkpatrick played a crucial role in the effort to take the company public three years ago.

That effort ended up in a private equity sale for more than $500 million – a sale that resulted in two lawsuits. One went to trial and resulted in a $3 million judgment that was settled on appeal and the other was filed by Planet Fitness's former CFO, Jayne Conway, who accused the company of securities fraud for not giving her a fair share of that private equity payoff.

Kirkpatrick is apparently no longer involved with Planet Fitness, but he has had experience with charges of securities fraud.
He settled a civil suit with the U.S. Securities and Exchange Commission for nearly $350,000, for his alleged actions as Cabletron's CFO. Criminal charges against executives of Cabletron's spin-off, Enterasys Networks, resulted in hefty prison sentences for top-level executives.

Kirkpatrick was never charged criminally nor admitted guilt civilly, but the mere accusation prevented one accounting firm from having anything to do with an IPO involving him, even though Kirkpatrick was only acting as a consultant, according to Conway's suit. Indeed, Conway alleges that the reason she was fired is that she revealed Kirkpatrick's involvement to auditors.
Neither that lawsuit nor seven other previously settled suits disclosed in the company's franchise documents were mentioned in Planet Fitness' extensive draft IPO filings, but the filings do anticipate federal tax savings as a result of going public, savings that would mainly go to the equity firm

Source: New Hampshire Business Review

Governance Concerns

The Board is not currently structured well to protect the interest of public shareholders

Classification of Board Members

- Planet's Board currently has three classes of directors, with terms staggered to expire in 2016, 2017, and 2018
- A classified Board makes it difficult for outside shareholders to change the composition of the Board quickly

Composition of Board Members

- Currently 4 of 8 Board members are connected to the largest shareholder TSG

Unclear Bonus Structure for Management

- Planet has not given outside investors a transparent view into how its management will be compensated for performance of key metrics. In other words, Planet's management can fail to hit guidance it gives to the market, yet still get paid full bonuses
- *"The terms of our of cash bonus program for our 2015 fiscal year, as they apply to our named executive officers and our other senior executives, are generally the same as the terms that applied for our 2014 fiscal year, as described above under "2014 performance bonuses". Cash bonus awards payable in respect of our 2015 fiscal year will be based on the achievement of key corporate financial and strategic goals relating to corporate same store sales, franchise same store sales, club openings, and earnings before interest, taxes, depreciation and amortization"*

	TSG Representative	Audit Committee	Compensation Committee	Nominating and Governance
Marc Grondahl, Founder			X	
Charles Esserman	CEO, TSG			X
Pierre LeComte	MD, TSG	X	X	X
Mike Layman	Principal, TSG		X	
Ed Wong	SVP, TSG			X
Stephen Spinelli Jr		X		
Dave Berg		X		

Related Party Deals Worth Evaluating

It is noteworthy that Planet does not make mention that an officer owns an indirect interest in its equipment company – a key generator of revenue and profitability. The disclosure was made only in the Franchise Disclosure Document (2014, p DD-24)

Entity	Purpose	Disclosed to Investors	Entity Owners	Terms Disclosed	Do Shareholders Directly Benefit
Planet Fitness Equipment LLC	Sole supplier of the required fitness equipment (Life Fitness or Cybex) to franchises	No	The FDD says an officer owns an indirect interest in the company	No	Yes
PFP Direct Loan LLC and PF Principals	Financing to certain qualified Planet FItness franchisees to fund leasehold improvements and other related expenses	Yes in the prospectus	Chris Rondeau and Marc Grondahl are partial owners	No	No. Planet does not participate in these transactions
MMC Fox Run LLC	Lease agreement for HQ in New Hampshire	Yes in the prospectus	Chris Rondeau and Marc Grondahl	Yes, ten years, with two five-year renewal options, annual payments ~$0.3m	No
Matthew Michael Realty LLC	Lease agreement for a corporate owned store in Dover, NH	Yes in the prospectus	Owned by Mr. Michael Grondahl, an original owner, and brother of Marc Grondahl	Fourteen year lease, annual payments ~$0.4m	No
PF Melville Realty Co., LLC	Lease agreement for a corporate owned store in Melville, NY	Yes in the prospectus	Owned by Mr. Michael Grondahl	Fifteen year lease, annual payments ~$0.5m	No

Undisclosed Steering of Business to Franchise Owners?

Spruce Point Capital Management

Planet appears to be steering business to entities owned by other Planet franchisees, which might not be arms length, and could disadvantage shareholders and other franchisees. Planet used to disclose Spectrum Monthly as a preferred marketing supplier to franchisees in its 2014 FDD, but stopped its disclosure in the 2015 FDD. Our research suggest Planet still uses Spectrum.

"For all products and services purchased from us and our affiliates, you must pay the then-current price in effect which may be more than cost. Other sole suppliers include: ***Spectrum Monthly, LLC (marketing materials)****; RCS Software (computer system and software); and Fusion Group, LLC (retail merchandise)."* - 2014 Franchise Disclosure Document (p. DD-23) (1)

Planet's Illinois Franchise Owners

Richard Pease 1163 E. Ogden Avenue Naperville, IL 60563 630-416-7200	Richard Pease 1445 West Lake Street Addison, IL 60101 630-953-4961

Planet's Massachusetts Franchise Owners

Richard Pease
Brian Mikol
Michael Sweeney
Paul Alfano
Martin Baroff
355 Middlesex Avenue
Wilmington, MA 01187
978-658-5645

1) Planet stopped disclosing its relationship with Spectrum in its 2015 FDD, but our research suggests they still work together (Source 1, 2)

<u>Warning from Recent 10-K on concentration Risk</u>

The Company, including Planet Fitness NAF, LLC ("NAF") <u>uses one primary vendor for advertising services. Purchases from this vendor totaled 49%, 61%, and 68% of total advertising purchases</u> for the years ended December 31, 2015, 2014 and 2013, respectively

SPECTRUM
Monthly & Printing, Inc.

95 Eddy Road, Suite 101
Manchester, NH 03102
Tel 603/627-0042 Fax 603/627-1637

RICHARD PEASE / BRIAN MIKOL PUBLICATION

December 28, 2007

To Whom It May Concern:

We, Richard Pease and Brian Mikol, owners of Spectrum Monthly, Inc. give permission to " Spectrum Marketing Companies, Inc." to utilize the name Spectrum as part of its registered name and incorporation. We are aware of the type of business it is and the services it offers.

Regards –

Brian Mikol

Richard Pease

"New Hampshire's Largest Circulation Monthly Direct Mail Publication"

Source: New Hampshire Corp Registry

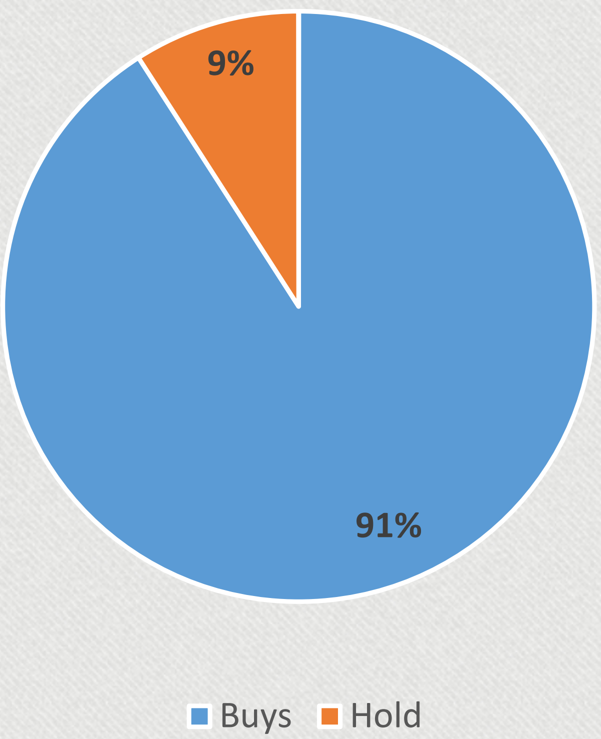
Valuation and Sell-Side Disconnect

Wall St. Analysts Hyper Bullish On A Fitness Club Concept!

Planet Fitness has a large roster of analysts saying BUY! who see average upside to $20.50 per share or approximately 25% above the current trading price.

Broker	Rating	Price Target
Jefferies	Buy	$25
Wedbush	Outperform	$20
JP Morgan	Buy	$22
Cowen	Buy	$21
Piper Jaffray	Overweight	$20
Guggenheim	Buy	$20
Credit Suisse	Outperform	$19
Stephens	Equal weight	$18
Bofa/ML	Buy	$19
Roth Capital	Buy	$18
William Blair	Outperform	NA
	Average Price **% Avg Upside** **% Max Upside**	**$20.20** **25%** **56%**

Buys vs. Holds



Upside based on $16.00 stock price
Source: Bloomberg

Comparing Planet to "Highly Franchised" Food Operators

Clearly, Wall St. analysts' are out of shape and have not gotten to the gym lately!
One analyst compares Planet with food franchises (an even non-franchised models like Chipotle)! In reality, they are trying hard to get Planet a higher multiple as a franchise mode, despite only 27% of its 2015 revenues having come from franchise fees and royalties!

Chart 40: Valuation Comps

Company	Ticker	JEF Rating	8/28/15 Price	Market Cap	Enterprise Value	EV/EBITDA FY1	EV/EBITDA FY2	P/E FY1	P/E FY2
Highly Franchised									
Wingstop Inc.	WING	Buy	$28.33	764	856	32.2x	28.3x	NM	56.3x
Bojangles', Inc.	BOJA	Buy	$21.44	804	1,035	14.5x	13.1x	28.0x	25.3x
Dunkin' Brands Group, Inc.	DNKN	Hold	$51.69	5,008	7,070	17.0x	15.8x	26.9x	23.0x
Domin's Pizza, Inc.	DPZ	Hold	$108.41	6,139	7,544	17.2x	15.7x	30.8x	26.7x
Restaurant Brands International Inc.	QSR	NC	$39.56	18,846	27,017	17.1x	15.6x	39.1x	31.2x
Popeyes Louisiana Kitchen, Inc.	PLKI	Buy	$56.02	1,300	1,360	15.9x	14.1x	29.4x	25.3x
Average						***19.0x***	***17.1x***	***30.9x***	***31.3x***
High-Growth Retailers									
Under Armour, Inc.	UA	Hold	$96.41	21,203	21,747	42.0x	32.9x	NM	NM
Ulta Salon, Cosmetics & Fragrance, Inc.	ULTA	Hold	$159.00	10,241	9,766	14.9x	12.7x	33.6x	28.3x
Lululemon Athletica Inc.	LULU	Hold	$63.10	8,981	8,326	18.3x	15.7x	32.7x	27.2x
Zoe's Kitchen, Inc.	ZOES	Hold	$36.78	719	723	38.7x	30.9x	NM	NM
Five Below, Inc.	FIVE	Buy	$38.50	2,107	2,054	18.0x	14.2x	36.7x	28.9x
Chipotle Mexican Grill, Inc.	CMG	Hold	$721.20	25,963	25,084	24.6x	20.9x	41.5x	34.8x
Average						***26.1x***	***21.2x***	***36.1x***	***29.8x***
Planet Fitness	PLNT	Buy	$16.78	1,656	2,135	18.8x	16.2x	35.4x	29.2x
Total Average						***22.2x***	***18.9x***	***33.4x***	***30.6x***

Source: Jefferies estimates, Factset, company data. (NC = not covered)

Analysts Struggle To Justify A High Multiple; Compare Planet to a Supermarket

Analysts struggling to define Planet Fitness, so compare it to food producers, food distributors and supermarkets....!!

Figure 30: Peer Comparison Table: Healthy Living Universe

					Revenues				EBITDA				EPS				
Company Name	Ticker	Rating	Price	Mkt Cap	FY14A	FY15E	FY16E	CAGR	FY14A	FY15E	FY16E	CAGR	FY14A	FY15E	FY16E	CAGR	Consensus
Jamba Juice	**JMBA**	**OUTPERFORM**	**$15.29**	**$247**	**$219**	**$175**	**$120**	**-26%**	**$14**	**$11**	**$17**	**11%**	**$0.19**	**$0.28**	**$0.81**	**107%**	**$0.27**
Natural Grocers	NGVC	NEUTRAL	$24.16	$543	$521	$623	$744	20%	$41	$50	$60	20%	$0.60	$0.73	$0.86	20%	$0.73
Sprouts Farmers Market	SFM	NEUTRAL	$22.86	$3,511	$2,967	$3,583	$4,215	19%	$261	$295	$349	16%	$0.71	$0.82	$0.99	18%	$0.81
The Fresh Market	TFM	NEUTRAL	$23.74	$1,154	$1,753	$1,847	$1,988	6%	$190	$198	$211	5%	$1.61	$1.63	$1.70	3%	$1.60
Whole Foods Market	WFM	NEUTRAL	$32.07	$11,477	$14,194	$15,372	$16,581	8%	$1,311	$1,405	$1,488	7%	$1.57	$1.67	$1.85	9%	$1.67
Planet Fitness	**PLNT**	**OUTPERFORM**	**$17.83**	**$1,760**	**$280**	**$316**	**$349**	**12%**	**$101**	**$113**	**$133**	**15%**	**$0.39**	**$0.47**	**$0.57**	**21%**	**$0.47**
Average								***6%***				***12%***				***30%***	
United Natural Foods	UNFI	NEUTRAL	$50.66	$2,537	$6,794	$8,193	$8,616	13%	$261	$314	$320	11%	$2.52	$2.86	$2.90	7%	$2.92
Boulder Brands	BDBD	NEUTRAL	$9.00	$553	$517	$519	$552	3%	$64	$53	$69	4%	$0.20	$0.20	$0.25	11%	$0.20
Hain Celestial	**HAIN**	**OUTPERFORM**	**$58.04**	**$5,956**	**$2,154**	**$2,722**	**$3,073**	**19%**	**$304**	**$370**	**$424**	**18%**	**$1.58**	**$1.87**	**$2.22**	**18%**	**$2.19**
Inventure Foods	**SNAK**	**OUTPERFORM**	**$8.90**	**$174**	**$286**	**$298**	**$330**	**7%**	**$25**	**$17**	**$29**	**6%**	**$0.48**	**$0.27**	**$0.57**	**9%**	**$0.14**
Keurig Green Mountain	GMCR	NEUTRAL	$56.74	$8,741	$4,708	$4,537	$4,596	-1%	$1,244	$1,098	$1,114	-5%	$3.93	$3.46	$3.54	-5%	$3.42
Lancaster Colony	LANC	NEUTRAL	$99.15	$2,713	$1,041	$1,105	$1,173	6%	$174	$177	$188	4%	$3.70	$3.77	$4.05	5%	$4.11
Landec	LNDC	NOT RATED	$13.05	$352	$477	$539	$585	11%	$25	$27	$38	23%	$0.71	$0.50	$0.81	7%	$0.81
Treehouse Foods	THS	NOT RATED	$80.50	$3,467	$2,946	$3,423	$3,546	10%	$389	$408	$441	6%	$3.53	$3.46	$3.90	5%	$3.07
WhiteWave Foods	**WWAV**	**OUTPERFORM**	**$46.21**	**$8,122**	**$3,437**	**$3,873**	**$4,384**	**13%**	**$415**	**$488**	**$577**	**18%**	**$0.98**	**$1.15**	**$1.42**	**20%**	**$1.15**
Average								***9%***				***10%***				***9%***	

							FY15E			P/E			Yields			
	Shares	Avg. Vol (K)	LT Debt	Cash	EV	Debt/Cap	EV/Rev	EV/EBITDA	PEG	FY14A	FY15E	FY16E	Div Yield	FCF/sh	CF Yield	Price Target
Jamba Juice	**16**	**230.3**	**$0.0**	**$17.8**	**$229**	0%	1.3	21.6	0.5	81.0	54.2	18.9	0.0%	**($0.72)**	-4.7%	**$18**
Natural Grocers	22	115.4	$21.7	$5.1	$560	19%	0.9	11.2	1.7	40.3	33.3	28.1	0.0%	**($0.30)**	-1.3%	$24
Sprouts Farmers Market	154	2276.4	$370.2	$130.5	$3,750	25%	1.0	12.7	1.5	32.3	27.8	23.1	0.0%	**$0.44**	1.9%	$24
The Fresh Market	49	1254.8	$33.3	$48.5	$1,139	9%	0.6	5.7	5.1	14.8	14.6	14.0	0.0%	**$0.93**	3.9%	$27
Whole Foods Market	358	5909.7	$60.0	$190.0	$11,347	2%	0.7	8.1	2.2	20.5	19.2	17.4	1.6%	**$0.40**	1.2%	$40
Planet Fitness	**99**	**651.9**	**$383.2**	**$43.3**	**$2,100**	**N/A**	**6.6**	**18.6**	**1.8**	**45.6**	**38.3**	**31.1**	**0.0%**	**$0.60**	**3.4%**	**$22**
Average	***120***	***1957.3***	***97.1***	***78.4***	***$3,405***	*13.6%*	*0.8*	*9.4*	*2.6*	*27.0*	*23.7*	*20.6*	*0.4%*	*$0.36*	*1.4%*	
United Natural Foods	50	940.9	$537.8	$17.4	$3,058	26%	0.4	9.7	2.5	20.1	17.7	17.5	0.0%	$2.05	4.0%	$56
Boulder Brands	61	961.5	$301.1	$31.7	$822	56%	1.6	15.5	4.1	44.7	46.1	36.1	0.0%	$0.29	3.2%	$7
Hain Celestial	**103**	**1103.3**	$812.6	$166.9	**$6,601**	**32%**	**2.4**	**17.8**	**1.7**	**36.7**	**31.0**	**26.2**	**0.0%**	**$0.56**	**1.0%**	**$72**
Inventure Foods	**20**	**189.1**	$78.0	$0.5	**$252**	**52%**	**0.8**	**14.5**	**3.7**	**18.4**	**33.4**	**15.5**	**0.0%**	**($0.77)**	**-8.7%**	**$13**
Keurig Green Mountain	154	2919.3	$257.2	$761.2	$8,237	4%	1.8	7.5	-3.3	14.5	16.4	16.0	2.0%	$2.89	5.1%	$67
Lancaster Colony	27	86.6	$0.0	$182.2	$2,531	0%	2.3	14.3	5.6	26.8	26.3	24.5	1.9%	$2.08	2.1%	$93
Landec	27	76.6	$34.2	$14.1	$373	12%	0.7	13.8	3.8	18.4	26.1	16.1	0.0%	$0.20	1.5%	-
Treehouse Foods	43	476.1	$1,445.5	$52.0	$4,860	45%	1.4	11.9	4.6	22.8	23.3	20.6	0.0%	$4.48	5.6%	-
WhiteWave Foods	**176**	**1752.5**	$1,495.8	$50.2	**$9,567**	**58%**	**2.5**	**19.6**	**2.0**	**46.9**	**40.2**	**32.6**	**0.0%**	**($0.05)**	**-0.1%**	**$56**
Average	***76***	***945.6***	***553***	***157.4***	***$4,155***	*32.4%*	*1.7*	*14.4*	*2.8*	*28.6*	*30.4*	*23.5*	*0.5%*	*$1.21*	*1.2%*	

Spruce Point Capital Management

Easy To Refute the Bull Case on Planet Fitness

Analysts' and PLNT Investment Highlights	Spruce Point's Rebuttal
"Differentiated Concept and Consumer Proposition"	Early low cost value proposition advantages have declined as significant new entrants into the marketplace have replicated PLNT's business model advantages (low cost and convenience for the casual fitness member)
"Opaque Pricing, Relatively Low Churn, No COGS, and Significant Private Equity ("PE") Ownership"	Absurd justification to buy PLNT's stock. To the contrary, pricing in the fitness industry is very transparent and negotiable! Analysts cannot claim PLNT has low churn because the company won't even disclose it!
"While we are admittedly unsure what majority-share holder TSG will do with its stake, which could act as a modest overhang to stock"	What do you think they'll do...SELL! We estimate PLNT accounts for 20% of TSG's portfolio, which amounts to a large investment concentration. TSG sold shares at the IPO, and in our opinion, will seek to unload more shares at this inflated price to lock in a 3x gain
"We believe PLNT's advertising spending is superior to peers. PLNT's growth and brand equity has been aided by continued company focus on advertising. Last year, the company spent $21 million+ on national advertising and has spent over $150 million on national and local advertising since 2011."	We find it hard to believe PLNT has a superior advertising spending model given the traditional tools of internet/social media/TV that all fitness clubs have available. We also find it hard to believe that PLNT is better able to differentiate its message with advertising slogans like "no judgment zone" "no gymtimidation" etc
"Franchisees are starting to recognize the benefit of re-equipping stores (& thus are more compliant) plus mgmt is being stricter in enforcement, which should drive significant top-line growth as the backlog catches up &the store base matures & younger stores enter the re-equipment phase"	We believe there is limited benefit to franchisees having to replace cardio and other equipment starting every 4 years other than to enrich PLNT. Stricter enforcement implies franchisees are resisting the requirement, which speaks to the onerous financial burden in places on their potential profitability. Unhappy franchisees is a clear negative for PLNT
"With >1,000 store commitments already in place, we have clear visibility into the growth trajectory. Plus, the fact that >80% of new growth is coming from existing franchisees demonstrates the power & profitability of the model & gives us confidence that PLNT can ultimately reach 4,000 stores	PLNT was founded in 1992 and it took 23 yrs to achieve 1,000 clubs. The market has simply become more saturated and competitive with regional, and national competition, along with growing alternative fitness methods gaining in popularity (eg. Boot camp, Soul Cycle). Furthermore, its model is already prevalent in Canada, making an int'l expansion plan tougher
Our target price of $19 is based on a peer multiple analysis, which includes other best-in-class franchisors and high-growth retailers	Analysts justify extreme price targets based on comparisons to other franchises and retailers exposed to entirely different business and industry risk. We think investors should look to the recent Life Time Fitness LBO and Cybex deals as better valuation guideposts

Spruce Point Capital Management

Recent M&A Deals Suggest 9.0x - 10.5x EBITDA

Life Time Fitness Go-Private @ 9.0x '16E EBITDA

On March 16, 2015 Life Time Fitness (NYSE: LTM) entered into a deal to be acquired by TPG / Leonard Green for $72.10/sh or $4.0bn. The deal valued the company around 3x Sales, 10x EBITDA and 23x P/E. LTM's 3yr Revenue and EPS CAGR was 8% and 5%, respectively

Furthermore, a fairness opinion conducted by Guggenheim showed precedent M&A deals in the healthy living, leisure and retail space averaging 9.0x

Figures in $mm except per share amounts

Metric	Period	Value	Multiple
Sales	LTM	$1,313	3.1x
	2015E	$1,404	2.9x
	2016E	$1,516	2.7x
EBITDA	LTM	$379	10.7x
	2015E	$411	9.9x
	2016E	$447	9.1x
EPS	2015E	$3.11	23.2x
	2016E	$3.39	21.3x

Source: Life Time Fitness Fairness Opinion and Press Release

Cybex Acquisition @ 10.5x '16E EBITDA

On Jan 20, 2016 Brunswick Corp (NYSE: BC) announced it would acquire Cybex International Inc., a leading maker of commercial fitness equipment, for $195m, subject to a working capital adjustment. Cbex's comprehensive strength category includes selectorized, plate-loaded, functional and free weight equipment. Cybex's 2015 sales were estimated at about $169m.

Earlier on October 2012 Cybex was acquired for $2.55 / per share in a going private transaction valued at $67m with the support of its largest shareholder and management. At the time, according to its proxy statement, Cybex had 2015E Sales of $160m and EBITDA estimate of $15.2m (implying a 9.5% EBITDA margin)

We assume Cybex achieved 9.5% EBITDA margins on its $169m of 2015 revenues. Furthermore, we assume 5% revenue growth in 2016 and 10% deal synergies and estimate Brunswick paid approximately 10.5x Adj 2016E EBITDA for Cybex which had a 3yr Revenue and EBITDA CAGR of 5% and 17%, respectively

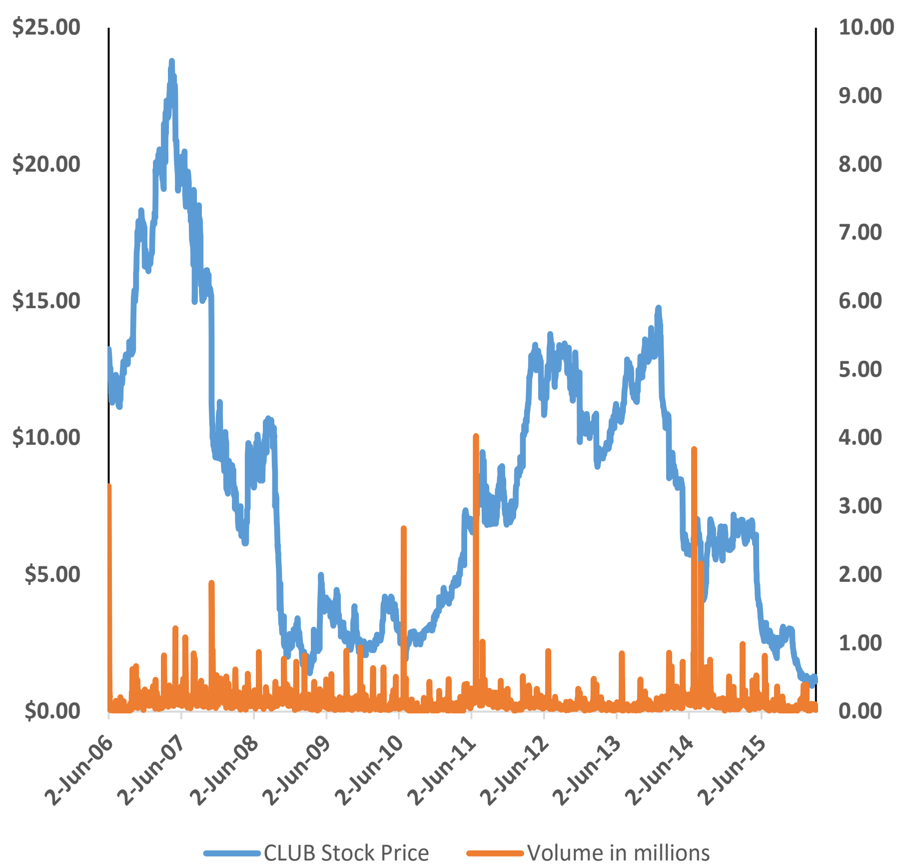
Metric	Value	Multiple
2015 Sales	$169.0	1.1x
2015E Adj EBITDA	$17.6	11.0x
2016E Adj EBITDA	$18.5	10.5x

Source: Brunswick Corp press release and Cybex Go Private Proxy Statement

Town Sports Historical Valuation

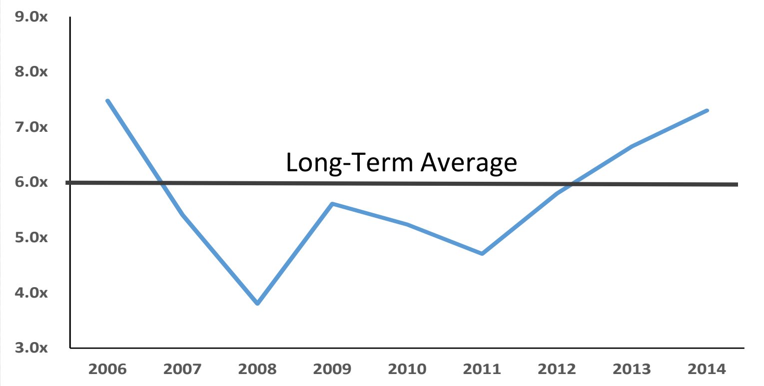
Town Sports Int'l (Nasdaq: CLUB) is a relevant comp for Planet Fitness. It's long-term EBITDA margin averaged approximately 19%. In its first three years after going public, CLUB averaged 9% revenue growth

Historical CLUB Stock Price

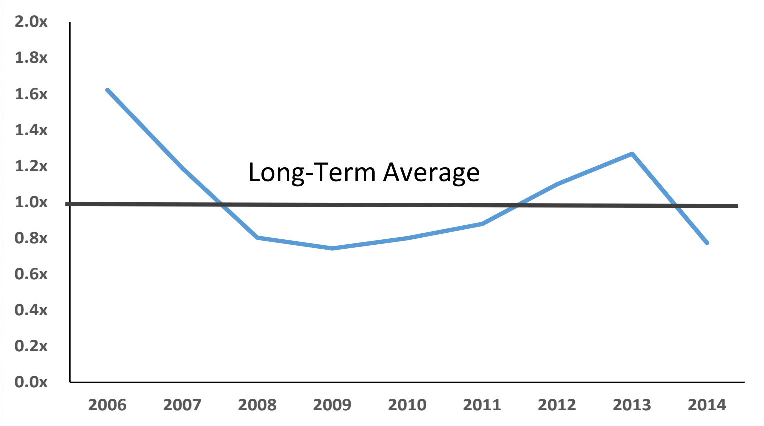


Source: Bloomberg

Historical EV / LTM EBITDA



Historical EV / LTM Sales



Nautilus: A Good Valuation Comp For Exercise Equipment

Spruce Point Capital Management

Given the high % of revenues coming from equipment sales, we believe it's instructive to look at Nautlius (NYSE: NLS), a marketer of exercise equipment, as a valuation benchmark. Planet reports 21% segment EBITDA from equipment revenue, which compares with approximately 25% for Nautilus. Historically, NLS has traded at 1x and 10.5x EV/Sales and EV/EBITDA, respectively

Historical EV / LTM Sales

Historical EV / LTM EBITDA

Source: Bloomberg

Spruce Point's Base Case: $8.00 / share or 50% Downside

Investors have high growth expectations for Planet. We don't believe its growth rate, margins, or 15x 2017E EBITDA multiple are sustainable. We expect that by late 2016 / early 2017 that cracks in the growth story will appear and Planet will be at higher risk of disappointing the Street. At the lower end, we apply a 7x multiple, which is near CLUB's highest multiple ever attained, and at the high end we apply a 10x multiple, slightly less than fitness equipment comps of Nautilus and Cybex. The midpoint of our target range is appox. $8.00 / share, or 50% downside

$ in millions	Enterprise Value / 2017E EBITDA	
	7.0x --	10.0x
Est. Revenue	$368	$368
Est. EBITDA % margin	$148 40.3%	$148 40.3%
Enterprise Value	$1,040	$1,484
(+) Cash	$31.4	$31.4
(+) Minority Interest	$14.3	$14.3
(-) Term Loan	$484.9	$484.9
(-) Tax Liability (1)	$140.1	$140.1
Equity Value	$459.7	$1,185.2
Diluted Shares Outstanding	98.7	98.7
Price Target	$4.65	$12.00
% Downside	70%	25%

(1) We include the $140m book value of the tax payable liability in our valuation, although our interpretation is that it could be upwards of $711m based on Planet's Risk Factor disclosures . Analysts' model fail to incorporate this liability which has actual cash flow implications to shareholders

Sensitivity Analysis to the Substantial Tax Receivable Payment

Planet's analysts appear to completely ignore the valuation impact of the tax receivable payments that benefit pre-IPO owners 85%, and current shareholders 15%. These payments will have real cash flow impact to shareholders going forward. Eleven analysts cover Planet, yet only 1 analyst we found even mentions the risk! The "Termination Case" and "Base Case" are not included in Spruce Point's valuation and target share price analysis, this represents an additional $5.80 - $7.20 per share price downside above and beyond our target range.

Jefferies Analyst: "In addition, we note that there is some risk inherent in the company's Up-C organizational structure. While this corporate structure results in tax benefits for both Planet Fitness and its financial sponsor TSG Consumer Partners, it also saddles the company with a tax receivable agreement, which Planet Fitness is obligated to pay over the course of the next 23 years regardless of their future performance."

Spruce Point also notes: Payments under the tax receivable agreements are not conditioned on the Pre-IPO owners continued ownership of Planet! What a great residual benefit to them, with some potential bad outcomes for new + existing Planet shareholders as illustrated below

$ in millions	Balance Sheet Case	Termination Case	Base Case
Assumed Tax Payable To Related Parties	$140	$576	$711
Diluted shares o/s	98.7	98.7	98.7
Approx. Per Share Impact	$1.40	$5.80	$7.20
% downside	9%	37%	46%

Note: Termination and Base case assume $15.63 share price or approximately the current price. Conditions that could give rise to termination include 1) a material breach of the agreement 2) at the election of the company, or 3) asset sales, mergers, or change of control. Base case assumes no material change in relevant tax law, and that Planet earns sufficient income to realize all the tax benefits of the agreements. All cases assume 23 year time horizon

Spruce Point Capital Management

Downside Catalyst: A Concentrated Owner With A Big Win = Likely Motivated Seller

According to PLNT's IPO prospectus, TSG owns 65.8% of the voting power of the shares. Its investment totaled $479.3m (est. 9.0x EBITDA / $790k per club) and its cost basis is estimated at $3.39/sh Its current investment is valued around $1.0 billion and likely to be monetized through a secondary.

Slam Dunk Home Run for TSG from its Nov 2012 Planet Investment

- TSG has extracted significant value from Planet Fitness through management fees, dividend payments and stock sales
- Direct TSG investors received approximately $61.6m of net proceeds from the IPO offering
- TSG received $4.3m of management fees paid 2012-2015 including a $1.0m termination fee for the management services arrangement
- Refinancing and dividend payments:
  - On March 31, 2014, PLNT consummated a refinancing transaction whereby it borrowed $390.0m in term loans and obtained a new $40.0m revolving credit facility. The proceeds were primarily used to repay $180.9m in outstanding debt, **issue a $173.9 million dividend to members** and acquire eight stores from a franchisee
  - On March 31, 2015, PLNT amended its credit agreement to provide for an increase of $120.0m in term loan borrowings for a total of $506.1m. The full incremental borrowing of $120.0m plus $20.0m from cash on hand was **used to fund a $140.0m dividend to Class T and Class O Unit holders**

Large Investment Concentration Remains To Be Liquidated With IPO Lockup Expired

- The current market value of TSG's investment is estimated at approximately $1.0 billion and it was made in TSG6 which the company says has $1.3 bn of committed capital
- TSG raised a new fund and as of December 2015 reported $5 billion of assets under management
- **The current $1.0 billion valuation of TSG's stake in PLNT represents significant investment concentration risk – 20% of AUM – and is likely to be monetized through additional secondary stock sales issuances**

	Shares purchased		Total consideration		Average price
	Number	Percent	Amount	Percent	per share
Existing stockholders	89,587,083	90.8%	$ 315,000,000	69.7%	$ 3.39
New investors	9,122,657	9.2%	136,832,055	30.3	15.00
Total	98,709,740	100%	$ 451,832,055	100%	

Source: TSG Closes Two New Funds; Wall St. Journal Article; PLNT IPO Prospectus