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Planet Fitness, Inc. (PLNT) Q2 2024 Earnings Call Transcript

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Q2: 2024-08-06 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$0.71 **beats by \$0.05** | Revenue of \$300.94M (5.05% Y/Y) **beats by \$10.21M**Planet Fitness, Inc. (NYSE:[PLNT](#)) Q2 2024 Earnings Conference Call August 6, 2024 8:00 AM ET

Company Participants

Stacey Caravella - Vice President of Investor Relations

Colleen Keating - Chief Executive Officer

Thomas Fitzgerald - Chief Financial Officer

Conference Call Participants

Randy Konik - Jefferies
Simeon Siegel - BMO Capital Markets
Sharon Zackfia - William Blair
Jonathan Komp - Baird
Joseph Altobello - Raymond James
Christopher O'Cull - Stifel Financial Group
Rahul Krotthapalli - JPMorgan
Maksim Rakhlenko - TD Cowen

Operator

Hello and thank you for standing by. This time I would like to welcome you to the Planet Fitness Q2 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Stacey Caravella. Please go ahead.

Stacey Caravella

Thank you, operator and good morning, everyone. Speaking on today's call will be Planet Fitness Chief Executive Officer, Colleen Keating; and Chief Financial Officer, Tom Fitzgerald. Both will be available for questions during the Q&A session following the prepared remarks.

Today's call is being webcast live and recorded for replay. Before I turn the call over to Colleen, I'd like to remind everyone that the language on forward-looking statements included in our earnings release also applies to our comments made during the call. Our release can be found on our investor website along with any reconciliation of non-GAAP financial measures mentioned on the call with their corresponding GAAP measures.

Now, I will turn the call over to Colleen.

Colleen Keating

Thank you, Stacey, and thank you, everyone, for joining us for the Planet Fitness Q2 Earnings Call. I'm thrilled to be here speaking with you. During the second quarter, we eclipsed the 2,600 store mark, grew same-store sales by 4.2%, delivered 5.1% revenue growth and increased adjusted EBITDA by 7.2%.

As I consider the opportunity to join Planet Fitness, I was drawn to 2 things. First, growing businesses is one of my passions. I believe I could not only contribute to the tremendous potential of our next chapter but that I could have a real impact on it. With 30-plus years of experience in franchise businesses, real estate, operations and marketing, I've led high-growth consumer businesses at scale. I believe that I have a unique perspective on our growth opportunities and the actions we need to take to capitalize on them.

And second was the franchise model and the opportunity to continue to work with franchisees. Throughout my career, I've worked extensively in franchise businesses within the hospitality industry. There are many similarities between hospitality and fitness. Foundationally, both are focused on bringing an experience to life for guests or members and that they leave feeling better than when they came.

Since joining in early June, I've hit the ground running. I've already visited more than a dozen clubs across 6 states plus Spain, meeting with franchisees and interacting with team members, all with the purpose of listening, engaging and seeing how our members are experiencing our clubs. We are a 30-plus-year-old brand with a solid base of about 100 franchisees and more than 19 million members. I'm proud to lead this special business and build on this foundation.

As CEO, my near-term focus areas are, first, defining our growth ambition. This includes all facets of growth, from stores to members to profit to increasing shareholder value. We are building out our longer-term strategy and how we're going to enable and accelerate healthy growth.

On the store growth side, as shown by 2 third-party studies last year, we believe we can double our footprint domestically to approximately 5,000 locations, up from the 4,000 target we set at our IPO in 2015. Importantly, we are 70% larger by store count than the next 15 high-value low-price competitors combined and we have nearly 7x the membership of the next largest competitor.

And we're in the early innings of international store growth as further evidenced by our first European club in Barcelona, Spain. I visited the club last week and saw first-hand our brand being brought to life in an authentic way. I also visited a number of other fitness brands operating in Spain today and this furthered my confidence that we have a highly differentiated offering and tremendous runway to grow to real scale and density in the Spanish market, where today, only roughly 10% of the population belongs to a gym.

I also toured our pipeline sites, visited 2 clubs under construction and a number of sites currently under consideration. These were thoughtfully selected sites in areas with strong population density and population growth. I had an opportunity to spend time with our team in Spain, who have the right skill set, market knowledge and depth of experience to lead our growth on the ground.

At the same time, we're ensuring that we're strategic and disciplined in our ambitions, prioritizing sustainable, profitable growth and the member experience. I see our growth ambition as an ongoing journey. I'm committed to continuously exploring and identifying new opportunities to accelerate our efforts while continuing to deliver value across our stakeholders.

To that end, my second priority is delivering an unparalleled member experience. We hold a highly differentiated position in the high-value, low-price sector of the fitness industry. We are about bringing an experience to life and sharing a deep emotional connection with our members. We take care of people so they can improve their lives and well-being.

I've been truly impressed by the interactions I've witnessed between our team and members during my many club visits to date. I experienced first-hand what's so special about this brand: the sense of belonging in a community you're proud to be a part of. You immediately feel the positive energy when you walk into one of our clubs.

I've always been very passionate about having feet on the street, meaning spending time in our clubs and staying close to our members and our team members who deliver on our brand values every day. We strive to ensure that there is no gymtimidation in our clubs. We also need to make sure our current members have exceptional experiences, both inside and outside our clubs, so they choose to stay with us.

My third priority is to evolve our brand messaging. In 2023, along with our franchisees, we estimate that we spent more than \$300 million on marketing and advertising. Looking forward, we have an opportunity to further sharpen our brand promise and mission in our marketing efforts as we encourage members to choose us as they embark on their fitness journeys. We need to increase our emphasis on the high-value part of HVLP by communicating the unique selling points of being a Planet Fitness member.

Our clubs break away from the cheap gym perception by offering unparalleled experience and a sense of belonging. There are about 140 million people who live within close proximity of an existing Planet Fitness location today who don't currently belong to a gym. That's who we're looking to reach in addition to our current and former members.

There are more than 4 million Gen Zs who become eligible for membership each year as they age. Gen Zs continue to make up the majority of our net new joins each quarter. To this end, we launched our fourth year of the High School Summer Pass Program in June and have more than 2.6 million teen participants to date, which is slightly less than we had last year at this time but is highly encouraging, given that we shortened this year's program. This has been an incredibly successful relatively low-cost program that yields at a 5.5% conversion rate to paying members last year. Across all demographic segments, we will be evolving our messaging of why Planet Fitness and what differentiates us from the competition. Our new brand messaging will start to show up later this year and, importantly, in the first quarter of 2025.

And the fourth area of focus is underscoring that franchisee profit drives franchisor profit through product refinement and operational efficiency. I believe in creating a culture of accountability and in having a shared goal with our franchisees. A coach versus cop mentality allows us to continuously iterate on our fantastic model by working together with our franchisees as a team. If franchisees are successful, we will be successful. This will include refining our product offering and operational efficiencies to maximize the economic value proposition of our franchisees while delivering the most relevant on-brand experience for our members.

In my interactions with investors since I joined Planet Fitness, there has been a focus on when we will get back to prepandemic new store opening levels. It's a very different macro environment than before COVID and the cost to build a new location was up by more than 30% in 2023 versus 2019. The new growth model aimed at the biggest opportunities to further enhance the attractiveness of our returns is a key lever that we pulled to address unit economics. Additionally, on June 28, the \$15 pricing for new classic card members took effect. Just a reminder, current classic card members who joined prior to June 28 are locked in at the \$10 monthly membership fee. We expect that after 1 year of the price being in effect, existing stores will see a low- to mid-single-digit percentage increase to AUVs, with an even greater impact to new stores as the majority of their classic card members will be paying \$15.

We also launched 2 Black Card pricing tests in select markets, one at \$27.99 and the other at \$29.99. If either of these tests prove successful, this increase could also further enhance store returns. We look forward to continuing to collaborate with our franchisees and we're excited to join them at our annual franchisee conference in September as we begin the next chapter of growth for Planet Fitness. And to capitalize on these opportunities, we need a great team that competes and wins.

I keep a hard hat in my office to remind me that being a builder of blue-ribbon teams is what drives the business forward. As such, a top priority for me is the CFO search and I've been working closely with the team to identify the best candidate for the future of our brand. The search process we are running is thorough and comprehensive and we're encouraged by the quality of candidates and the enthusiasm toward the role.

The search process we are running is thorough and comprehensive and we're encouraged by the quality of candidates and the enthusiasm toward the role. As the search progresses, Tom has agreed to stay on as CFO until the end of the year. We believe this timing will provide for thorough onboarding and as smooth a transition as possible. We're grateful for Tom's ongoing support and commitment to Planet Fitness.

Now, I will turn it over to Tom.

Thomas Fitzgerald

Thanks, Colleen. Before I get to our second quarter results, I'd like to address the debt transaction that we completed in June. The beauty of our asset-light franchise model is that it generates significant free cash flow. This enables us to continuously assess the best use of our cash and how we can leverage our balance sheet to enhance shareholder value. Over the last 2.5 years, we have completed 2 debt transactions, one that enabled us to acquire a top-tier operator in the system as well as this most recent one that funded and accelerated share repurchase.

Since 2018, we've returned more than \$1.3 billion to shareholders via share repurchases. As part of this transaction, we refinanced approximately \$600 million that was due next year and we upsized the deal to \$800 million given the favorable rates compared to what we were anticipating. This included a \$425 million 5-year tranche with a fixed interest rate of just under 5.8% and a \$375 million 10-year tranche with a fixed interest rate of just over 6.2%. Our total long-term debt, excluding deferred financing costs, now has 5 tranches of fixed-rate securitized debt of approximately \$2.2 billion. We'll use the proceeds to repay the tranche due next year which had the highest rate of our existing debt. And as a result, our blended interest rate only increased 50 basis points from 4.0% to approximately 4.5%.

We were more conservative compared to historical refinancing levels this time given the current rate environment and the existing amount of liquidity already available on our balance sheet in the form of cash and marketable securities. We want to ensure that we have a sizable amount of cash on our balance sheet to weather any storm that may come along which benefited us greatly when all of our stores temporarily shut down due to the pandemic. Additionally, we used the proceeds to pay costs associated with the transaction and also to fund the majority of the \$280 million accelerated share repurchase agreement that we entered into on June 12. The Board also approved a new \$500 million share repurchase authorization to replace the previous one upon completion of the ASR which will occur before the end of the third quarter.

Importantly, we have made changes over the past year to our underlying business to reduce the cost of owning and operating a Planet Fitness location as well as our recent classic card price increase, both of which enhanced what were already very attractive store-level returns. We believe the combination of our franchise model and strong unit economics sets us up to continue to take advantage of our long-term growth opportunities.

Now to our second quarter results. All of my comments regarding our quarter performance will be comparing Q2 2024 to Q2 of last year, unless otherwise noted. We opened 18 new stores compared to 26. We delivered system-wide same-store sales growth of 4.2% in the second quarter. Franchisee same-store sales increased 4.3% and corporate same-store sales increased 4.0%. The classic card price increase which went into effect on June 28, did not have any impact on our Q2 same-store sales. Approximately 60% of our Q2 comp increase was driven by net member growth, with the balance being rate growth. Black Card penetration was 62.4%, flat to the prior year.

For the second quarter, total revenue was \$300.9 million compared to \$286.5 million. This increase was driven by revenue growth across the franchise and corporate-owned segments. The 9.1% increase in franchise segment revenue was primarily due to increases in royalties, new stores and national ad fund revenue. For the second quarter, the average royalty rate was 6.6%, up from 6.5%. The 10.3% increase in revenue in the corporate-owned store segment was primarily driven by same-store sales growth as well as new and acquired stores.

Equipment segment revenue decreased 8.4%. The decrease was primarily driven by lower revenue from equipment sales to new and existing franchisee-owned stores which was driven by fewer new store placements as well as the shift to more strength equipment versus cardio. As we noted last quarter, the shift in the equipment mix brings down overall sales on a per store basis. We completed 18 new store placements this quarter compared to 26 last year. For the quarter, replacement equipment accounted for 84% of total equipment revenue compared to 79%.

Our cost of revenue which primarily relates to the cost of equipment sales to franchisee-owned stores, was \$51.9 million compared to \$59.5 million. Store operation expenses which relate to our corporate-owned store segment, increased to \$70.2 million from \$58.9 million due to higher operating expenses in existing stores, primarily due to a timing shift in marketing spend from Q1 to Q2 of this year as well as the impact of new and acquired stores.

SG&A for the quarter was \$31.6 million compared to \$32.6 million. Adjusted SG&A was \$30.1 million which includes a \$1.3 million adjustment for CEO transition-related expenses, compared to \$31.4 million which included a \$1.2 million adjustment for severance-related expenses. National advertising fund expense was \$20.1 million compared to \$17.9 million.

Net income was \$43.9 million [ph]. Adjusted net income was \$62.2 million and adjusted net income per diluted share was \$0.71. Adjusted EBITDA was \$127.5 million and adjusted EBITDA margin was 42.4% compared to \$118.9 million with adjusted EBITDA margin of 41.5%. By segment, franchise adjusted EBITDA was \$77.5 million and adjusted EBITDA margin was 71.9%. Corporate store adjusted EBITDA was \$49.6 million and adjusted EBITDA margin was 39.5%. Equipment adjusted EBITDA was \$18.6 million and adjusted EBITDA margin was 27.4%.

Now turning to the balance sheet. As of June 30, 2024, we had total cash, cash equivalents and marketable securities of \$447.7 million compared to \$447.9 million on December 31, 2023 which included \$47.8 million and \$46.3 million of restricted cash, respectively, in each period. In Q2 2024, we used \$280 million to repurchase and retire approximately 3.1 million shares to date which is approximately 80% of the stock that we expect to repurchase under the ASR, with any remainder to occur as part of the completion of the agreement in the third quarter.

Finally, we are reiterating our outlook for 2024, including the targets we updated in June as part of the announcement of our accelerated share repurchase program. We continue to expect between 140 and 150 new stores which includes both franchise and corporate locations. We also continue to expect between 120 and 130 equipment placements in new franchise stores. For the full year, we continue to expect that reequip sales will make up approximately high 60% of total equipment segment revenue.

Let me address the quarterly timing of both replacement equipment sales to existing franchise locations and equipment placements in new franchise clubs. During Q2, we sold more replacement equipment to existing franchise stores than we expected which shifted those sales into the second quarter and therefore, we do not expect those sales in the second half of the year, particularly not in the fourth quarter. In terms of timing for placements in new franchise stores, we continue to expect them to be weighted to the second half, with a significant skew to Q4.

As a reminder, we are maintaining our equipment segment profit dollars for new placements. With the mix shift to more strength and less cardio, therefore, we expect that margin rate will continue to be higher in the second half of the year versus last year.

We continue to expect the following targets that represent growth over fiscal 2023 results. Same-store sales growth to be between 3% and 5%. Revenue to grow in the 4% to 6% range. Adjusted EBITDA will grow in the 7% to 9% range. Adjusted net income to increase in the 4% to 6% range. And adjusted earnings per diluted share to grow in the 7% to 9% range based on adjusted diluted weighted average shares outstanding of approximately 86.5 million, inclusive of the shares expected to be repurchased as part of the ASR agreement.

We also continue to expect net interest expense of approximately \$75.0 million excluding the write-off of deferred financing costs associated with our debt refinancing transaction. Lastly, we continue to expect CapEx to be up approximately 25% and D&A to be up between 11% to 12%.

Now, I'll turn the call back over to the operator to open it up for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Randy Konik with Jefferies.

Randy Konik

Yes. I guess, Colleen, what would be really helpful for us is maybe give us some perspective on your prior leadership roles and different industry experiences and talk about some of those and how you're going to apply some of those learnings to strategies at Planet. And something also that would be really helpful is you highlighted in the script the kind of emphasis on the HV over the LP in HVLP. Maybe kind of give us added kind of thoughts around what that means to you and how do you want to accentuate that part of the business.

Colleen Keating

Randy, nice to hear from you. Sure, happy to. So I think to the first part of your question about kind of background and prior roles. As you know, I spent most of my career in the hospitality space and the hospitality industry and really brand-led organizations. A large part of my career with Starwood and then several years with InterContinental Hotels Group. And then more recently, in the real estate space in the single-family home rental space.

And at the end of the day, there's a lot of -- there are a lot of similarities between my prior experience and the fitness space. We're really bringing to life experiences for our members here at Planet Fitness. And I often say, in hospitality, we were the home away from home for weary travelers and wanted our guests to leave feeling better than when they came.

And I think what we're offering in at Planet Fitness is quite similar. Our members enjoy a great high-value experience in our clubs. And let's face it, who doesn't feel better after a great workout or when you have a great workout in the rear-view mirror? So we welcome people into our clubs in a bright, friendly, engaging and very clean environment with a plethora of equipment and really able to help them wherever they're at in their fitness journey, their wellness journey and then have them leave our clubs feeling better than when they came.

One of the other things, I think, that's relevant in the hospitality background versus what we're endeavouring to do at Planet Fitness is the opportunity to extend the experience outside the 4 walls of the club through our app, through loyalty programs and partnerships and even our perks program. We just had a great month in June with perks utilization. So there's an opportunity for us to really leverage our very broad membership base and our high app utilization through partnerships and bringing additional offerings to our members that they value even outside the 4 walls of the gym.

And when I think about high value, low price, certainly, our pricing does make fitness accessible to most. At the same time, I really think about leaning into the HV of HVLP and I often say to the team here, I think about the HV in capital letters and the LP in lowercase letters and that really is about the value offering that we're bringing to our members.

Randy Konik

Super helpful. I guess just lastly for Tom. I think it was mentioned that there's a test going on for the Black Card, \$27.99 and \$29.99. Can you just elaborate a little bit on when would we potentially hear about any fruits of that labor, those tests in terms of potentially implementing a price change on the Black Card? And then back on the White Card with that \$15 now price versus \$10, should we be thinking about an incremental impact being -- or like a noticeable impact occurring in, let's say, the front half of next year or the back half of next year? Just kind of thought process of when that kind of would flow through the numbers would be super helpful.

Thomas Fitzgerald

Yes. Sure thing, Randy. So on the first part, we have 2 Black Card tests running. We actually rolled those tests into new markets where we weren't testing the classic card changes prior, right at the time that we raised the classic card price from \$10 to \$15. So that's like June 28 is when those were effective. So they've only been in place about a month. And as you know, with our business, we need to let them run for a while.

So we expect to run them through the better part of Q3 and maybe even into Q4 before we determine whether or not we have enough information to make a call. And if one of those beats what we're testing them up against, we're pretty thorough in how we do all that with the control stores matched up, et cetera, then we'll make a change. If it doesn't beat, then we'll stick with what we've got. So time will tell, but it takes a few months to let those run.

In terms of the classic card, yes, that's effective for new members. As you know, it doesn't apply retro. So as new classic card members join, they're joining at \$15 and they'll feather in over time. Now that they're only about 40-ish percent of our membership base, so they're the minority of our members. But it will affect each quarter more so than the prior quarter and we'll talk about more what that means for 2025 when we get there. But you're kind of thinking about it right in terms of how it feathers in.

Operator

Our next question comes from the line of Simeon Siegel with BMO Capital Markets.

Simeon Siegel

Congrats and welcome, Colleen. Obviously early, recognizing it would be a small sample size so far but just any initial learnings you're seeing from the price hikes on the rest of the business? Curious if there's any benefit to churn and maybe how is the Black Card penetration for new members that face that higher price? And then, Tom, nice to see the higher-margin equipment come through. Can you elaborate a bit going forward in terms of the trade-off between revenues versus profit dollars because you're now showing us that you're realizing the benefits you were talking about earlier on? Any color there would be really helpful.

Thomas Fitzgerald

Yes, sure. Thanks, Simeon. So on the classic card impact, we're really only talking about Q2 here. So given that it happened at the very end, we'll have more to say on that next time. So I appreciate your patience on that but we want to stick to only talking about the prior quarter.

In terms of the equipment, yes. So as we talked about the Q1 results, we didn't see the full margin increase or saw very little margin increase because some of those orders were placed before the pricing changed. And really, what we're trying to do here is we remixed into having less cardio in any new store and more strength equipment based on what folks want to do in terms of their workout and just rebalancing our mix in the stores. That lowers the cost of the equipment for the franchisee or the revenue for our segment.

So we raised our prices so that the margin dollars that we get on a per placement basis would be equivalent to before we made the mix change to more strength, less cardio. So you're seeing that. The short answer is the cost per placement for our franchisee is down high single-digit, low double-digit, and the margin improvement is around about 300 basis points when it's all said and done.

Simeon Siegel

That's great. And then just lastly, Colleen, any higher-level thoughts on the right corporate versus franchisee ratios from your perspective?

Colleen Keating

Yes. I think we believe strongly in our asset-light model, Our corporate clubs, corporate-owned clubs give us a great test opportunity, test-and-learn opportunity and we think that the 10% or ish about 10% is the right ratio. That said, as you're aware, we just launched Spain and opened our first club in Barcelona earlier this month, and we are leveraging our balance sheet to enter the market. We think there's an opportunity to get a market started using our balance sheet there and then recycle that capital with our franchise partner as we continue to grow the market.

Operator

Our next question comes from Sharon Zackfia from William Blair.

Sharon Zackfia

I guess, Colleen, a question for you, just given your background. I mean, clearly, everybody would love to see Planet grow its franchise unit development at a faster pace, I'm sure, including yourselves. What kind of time line have you seen historically in your prior experience on kind of what lag would incur to see that kind of growth start to accelerate?

Colleen Keating

Yes. I think what I'll say first and foremost is having the right team and the right infrastructure to position ourselves to accelerate growth. And with that in mind, we're about to go out to search for a Chief Development Officer. So I think first and foremost and you've heard me touch on the importance of having, I call it, a blue-ribbon team and I use blue ribbon because blue ribbon means you're winning.

So really getting the right infrastructure so that we're set up for growth and we're developing the relationships to be able to accelerate our growth. So, I think first step is we're about to go out to search for a Chief Development Officer. And then as I indicated in my remarks, really helping to refine and define our growth ambition is work that's begun and that we'll do in partnership with that Chief Development Officer when they are named. I think it's an opportunity for us to accelerate growth, I guess, is what I would say.

Sharon Zackfia

Tom, just a quick question on G&A. I mean I know you guys have been really good with cost control but it's kind of been, I think, better than most people have expected over the last few quarters. I mean how are you thinking about full year G&A? And what's the long-term kind of dollar growth rate that you look to beyond this year for G&A?

Thomas Fitzgerald

Yes, Sharon. It's a good question. I think for this year, what we saw happening in the early part of the year that we talked about on our last call, we knew it's going to provide some headwinds for the top line. So we wanted to make sure we were appropriately tightening our belt and offsetting that. While we couldn't offset it all, we wanted to be prudent how we thought about our investments and really prioritizing and making some changes.

I think as we evolve the strategy that Colleen has the team working on, I think that will determine where we want to make investments and where we maybe have some opportunities to redirect where we've spent money before and that will shake out. But we're -- this is a growth business, as you know. It's got a lot of opportunity ahead of it. And I think we want to be thoughtful about -- or continue to be thoughtful about our investments but not -- we're not trying to save our way here.

This is about funding the journey to grow the business where we want to accelerate the growth and questioning where we have investments that maybe we thought were important before, maybe aren't anymore and just really sort of re-evaluating everything and stack the chips where the growth opportunities are but not really talking about what that means for 2025 and beyond. I think we'll cross that bridge when we get to that outlook early part of next year.

Operator

Our next question comes from Jonathan Komp from Baird.

Jonathan Komp

Colleen, welcome. I want to ask a question to you, Colleen. You clearly sound excited by the opportunity to leverage Planet's scale. But the business certainly is showing some of the slowest unit growth and member growth in its history here. So I'm curious maybe if you could share more of your early views on the opportunities. I don't know if that's marketing or other areas. And really the feedback that you're hearing from franchisees in terms of leveraging the scale for new growth opportunities.

Colleen Keating

Absolutely. So yes, I'll touch on 2 things. So when it comes to unit growth, we're really just getting our sea legs with the new growth plan that was rolled out earlier this year with our franchisees and then also the new pricing that is certainly going to factor into their economics. So I think some of what we've identified in the new growth plan as well as the infrastructure that we're building and as I mentioned a few minutes ago, a Chief Development Officer, someone who wakes up every day and thinks only and exclusively about unit growth, I think that will help fuel the unit growth.

And also expanding into new geographies, as I mentioned, going into Spain. And I will say with the international growth, what we're not about is flag planting. What we are about is getting to real scale, identifying markets where we believe we can get to real scale and real density. And that is the case with Spain. So I think both of those things, new markets and accelerated growth with our franchisees by keenly focusing on their unit economics will be the key to unit growth and then making sure that we're resourced appropriately here to drive that growth.

And then on the member growth side, I think it's really -- it's multipronged but I'll start with 2 things. And first and foremost is the member experience. You've heard me talk about that. We need to make sure that we're continuing to refine and modernize our brand for today's customer and deliver on their fitness expectations, particularly as we're seeing Gen Zs as the fastest-growing segment of our member population. So member experience is at the core of that.

And then also our marketing. And I touched on it a little bit but we're doing some work on kind of refining our brand and our brand promise, again, to make sure that we're staying relevant and current and that our marketing is really landing. So the brand work that we're doing now will help inform the marketing that you'll start to see at the end of 2024 really going into Q1 of 2025.

Thomas Fitzgerald

And I think, Jon, maybe just to add one thing to that is what -- you mentioned scale. I mean our marketing spend for the system is roughly \$300 million a year annually. That dwarfs, based on our measurement, what our next largest competitor spend combined, still dwarfs it. So I think it's a matter of what have we not said to get more people to start their fitness journey and continuing to target the 80% who do not have a gym membership in the U.S.

Colleen Keating

I'll also just add that in addition to the CDO, another role, I think, is critically important for which we'll be going out to search is a Chief Marketing Officer. I very much believe in an integrated approach to top line strategy and making sure that as we do our brand work and the brand positioning work and refine the brand promise that we're pulling that through in an effective way in our marketing to really reach our target customers. So Tom talked a little bit about it. He touched on it, kind of, we call it, funding the journey but making sure that we're looking at our resource allocation and have the right leadership roles to help fuel our growth in these critical areas for our business.

Jonathan Komp

That's great. Certainly looking forward to seeing progress on those fronts. If I could just ask one follow-up to Tom. The adjusted EBITDA outlook for the year implies further deceleration in the back half after the first half was very strong, up 12%. So could you maybe just review the factors that you're looking forward in the back half and whether there's any conservatism in that outlook?

Thomas Fitzgerald

Yes, Jon. So I think part of the beat in -- the big part of the beat in Q2 was the timing of some of the replacement of equipment that we had projected in our original outlook to be in the back half of the year. The promotion that we ran, we always run a promotion twice a year with our franchisees to do the reequips. We did that. It had better uptake than we thought and more of it came into Q2 than we expected; so that was the big part of the beat. So it's really that equipment segment can really move around in terms of timing and that's really what's affecting the change in the growth rates on a year-to-date basis versus the rest of the year that you're referring to. But we feel good about the full year outlook and, therefore, felt good about reiterating it. But that timing does affect what you're getting at. But I appreciate the question.

Operator

Our next question comes from Joe Altobello from Raymond James.

Joseph Altobello

Welcome, Colleen. In terms of the new growth model, what's the timing on when we start to see the impact of that? I think it takes, correct me if I'm wrong, 12 to 14 months to open up a new store these days. So if you launch it late '23, is the impact more early '25?

Thomas Fitzgerald

Joe, it's Tom. Yes, so I think you may recall, we always sort of labelled this year as a transition year. Franchisees were able to opt into this new growth model which I think all but 2 of them did and they each own 1 or 2 stores. So it's pretty much systematically a resounding yes to opt into this. But they had to work through the documents and ultimately sign them through Q1. So we always thought it would have an impact on subsequent years less so than it did in 2024 for the reasons you're mentioning in terms of development cycles being longer than they were pre-COVID. But having said that, we feel really good about what it's done to the economics of the business and improving what were already pretty strong returns. The changes in the growth model where we targeted a 10% reduction in the cost to build a new Planet plus some other changes we made on timing of replacing equipment helped to improve the unlevered IRR. If it was pre-COVID in the 30-ish percent range with higher cost to build and other changes, that probably got down to the low 20s.

So the changes in the growth model kind of close half that gap. And then we believe that once there is a full year of the classic card price increase at \$15 feathered in, that adds a couple of hundred basis points more to that unlevered IRR. So now between the growth model and the classic card price, we're pretty much back to pre-COVID IRR. So there's certainly great incentive for franchisees to build the stores because they produce great margins and unlevered IRRs. It's just a matter of all that working its way through and people cranking up their pipelines. So we'll talk more about '25 when the time is right but we always thought this year would not have a big impact from the changes.

Joseph Altobello

Understood. Very helpful. And then maybe just a follow-up on that. I was curious how you guys view the member growth in Q2. It's a bit below what you've historically done in the second quarter. I know it's a relatively small quarter and I recall it got off to a slow start. But how did you guys see trends throughout the quarter? And maybe more importantly, what are you seeing in July after the classic card impact?

Thomas Fitzgerald

Joe, so I think you're right. This year, while we don't project membership growth, kind of where we sit today is below where we thought we would be and I think it's for a couple of reasons. One, we talked about Q1 being kind of soft. It seems like forever ago but in the early part of January there, there was still some noise about COVID and flus and RSVs and all that. So we really had a softer early January than we expected. And then, we had that incident that impacted us for a short period of time on joins in March in the back of the quarter. That had a longer -- or had a bigger impact on cancels. So that has improved across the quarter and still elevated but definitely better. Those cancel rates are definitely better than what we were seeing and got better across the quarter.

And we're really not talking about Q3 at all. But I think based on where we are and how the team managed all of that, I think we came through. We're happy where we came through. We were just talking to some of our big franchisees recently. They're happy with how all that played out and how the team handled it. But it definitely impacted -- those 2 things really impacted our membership levels compared to where we thought. But I think we have the time now to gear up for the back half of the year, particularly December leading into January and cranking up for what should be a great Q1.

Colleen Keating

Yes. I'll just add to that. We saw some increase in joins in late June. Now granted some of that was driven by the last-chance sale, right, that \$10. And then I think the branding work that we're doing now to help inform the marketing is really -- our goal is to have that ready to be in flight by December and then going into Q4 -- going into Q1. So the marketing really lands and affects our joins going into the important first quarter.

Operator

Our next question comes from Chris O'Cull from Stifel Financial Group.

Christopher O'Cull

Welcome, Colleen. I have a question about the ADA requirements. I know Tom at one point, the company had communicated that franchisees would need to open roughly 500 units, I think, between '23 and '25 to comply with the minimum specified in their ADAs. I'm just curious, could you give us an update on that? Or at least do you expect franchisees to still kind of meet that minimum ADA requirement?

Thomas Fitzgerald

Yes, Chris. So yes, so the one change from what we said a while ago at our Investor Day in late '22, I think that was - is by changing the growth model, we went from what was somewhat of an idiosyncratic mechanism called cure periods for any delays within your ADA development to what is a more common practice of cure periods. The primary difference being the duration of the window to fix it and also the number of development opportunities that it applied to. So with the cure periods as part of the new growth model, all stores in the pipeline have the ability to extend by 6 months if there's a delay in something that is beyond the franchisees' control, permitting or landlord, work that gets delayed for reasons outside of their control. So that does affect the timing.

All of that is factored in as we see our pipeline for the year and the reaffirmation of our outlook of 140 to 150 new stores this year. And I think when we get to our February call for Q4 and provide the outlook for 2025, we can talk more about how we see that pipeline for next year. But it is kind of a big change. But the ADA requirements that you're describing have not changed. We have not altered those. It's just a matter of the timing and the new mechanisms we have versus what we had before.

Christopher O'Cull

So it's kind of been pushed out 6 months, I guess. Is that the way to think about it?

Thomas Fitzgerald

Not comprehensively but it could be for some stores.

Christopher O'Cull

Okay. And just one other question. I was hoping you can maybe -- I know you talked a little bit about the classic -- or the Black Card membership pricing test. But can you give a little more color as to how you decide whether to implement that price increase for the Black Card? I'm just trying to understand what KPIs you're looking at to determine whether or not it's a go or no go. Is it just come down to whether or not it raises the monthly membership or raises your average monthly ticket or average dues? Or is there some other mechanism or KPIs you're looking at to determine whether this is a good idea to make this change?

Thomas Fitzgerald

Yes, it's a good question and somewhat unique to our business compared to the typical multiunit QSR-like business, where it's traffic, transactions, ticket. With ours, we have to measure -- there's no one single metric. As you can appreciate, Chris, we have to look at a bunch of them. One of which is the cancel rate. Do people sign up for the higher-priced Black Cards in these tests and then cancel sooner? That's something that we don't want to have happen. We also look at the mix between the Black Card and the classic card at the time of join and we still want the majority of our members to sign up as they do today for the Black Card because it's such a great value even though it's priced higher. So -- and then also the impact on classic card.

So there's a lot to look at. But ultimately, what we're trying to do is raise the AUV of the units once more members feather in at the higher prices, where we're confident that it's a sustainable increase in AUV. And by that, we mean it's not all rate driven but there's still member growth. We want to have a good balance, always want to have a good balance of more member growth and rate growth. I describe it from an old life of more of a fast-nickels than a slow-dimes business. We like volume. We like member growth. That's what we think is the sustainable way to continue to grow the business and has been. It's typically been 70-plus percent of our member -- of our same-store sales growth is member growth. And so we want these tests to be accretive but in a sustainable way. So hopefully, that helps.

Operator

Our next question comes from Rahul Krotthapalli with JPMorgan.

Rahul Krotthapalli

Colleen, good to meet you here. Can you discuss your philosophy on the marketing for the brand? I wanted to specifically dig on your comment regarding sharpening the \$300 million spend given the importance of this for not only the gross adds but also improve the churn. Any preliminary thoughts or specific steps, or probably I shouldn't be calling low-hanging fruit but in that context, how do you also view the current 2-7 national-local structure split? And if you think this is optimal for the new growth model?

Colleen Keating

Yes. So let me touch on a couple of things. First, you mentioned churn and I think I'm going to take that one first, just because I really think churn is really indicative of member experience. And that's why we're really doubling down on the experience that we're providing for our members, both inside and outside the 4 walls of our club. When our members see a tremendous value for the low price of entry point of \$15 a month, that reduces churn. So we believe member experience is what's going to enhance our stickiness and continue to further our relationship with our members.

And now to the marketing. I think we work very closely with our franchisee partners and their marketing teams to make sure that we've got an integrated strategy. And I think first and foremost is getting our brand promise and the brand positioning right. And this is not a wholesale change. It's really, it's a refinement and evolution and really modernizing our messaging so that it lands. I think we shared, perhaps it was the last earnings call, that we didn't -- that our Q1 marketing didn't land as effectively as we had hoped. So refining that brand promise and then making sure that we're pulling it through the marketing and we're clear about what we stand for and who we're targeting, that's first and foremost to make sure that we -- that what we're marketing is really effective and is going to generate the joins that we're anticipating.

And then I think there are some things inside the club and I think we're not ready to share what those are yet but you'll start to see them emerge in late fourth quarter and early first quarter, really the signals of change in how we're modernizing and evolving our brand and then pulling that through both in the club experience and in the marketing.

As for the 2-7 split, the thing I think that's most important is that we're taking an integrated approach with our franchisees and that there's alignment between our national marketing and our local marketing and that we're helping our franchisees have access to the marketing products that can be used in the local spend to really bring our brand to life in an effective way. And I think about this, this is all products, all mediums of marketing, including our digital marketing which is a focus area for us as well, especially as Gen Z is our fastest-growing segment of membership.

So as for the 2-7 split, I think the thing that's most important right now, first and foremost, is that we have an integrated approach and that we're able to really highlight the value proposition that really differentiates Planet Fitness, makes us different and special and attractive to a very broad base of customers and prospective customers who could consider joining Planet.

Rahul Krotthapalli

That's really a great update, Colleen. I wanted to also pick up on the real estate side of the business, given your background and then also the kind of the elevated constraints in retail space availability we have been seeing in the past few quarters. I'm just curious about how you think about the lay of the land. There has been -- I mean there have been a bunch of like bankruptcies, closures among retail brands. How do you think you can flex Planet's scale to basically take advantage of some of these openings and then also working with franchise communities when it comes to the real estate planning?

Colleen Keating

Thank you for that question, Rahul. I'm glad you asked it. I think I touched on a little bit of it when I made my remarks about Spain but I think -- and I think this is relevant across all of our geographies. When I walked the sites we're considering as well as the sites we have under agreement in Spain, we looked at things like population density, population growth in those markets. And I'll stop there because I don't want to signal all the secret sauce of our playbook but I will say, we do have a playbook when we're looking at opening new sites.

And as it relates to retail space availability, I think there are 2 things to consider. One is the space availability and then one is the price per square foot. The price per square foot gets to kind of the unit economics of our franchisees and Tom has touched on that a lot. So I won't repeat all of that. But we are really focused on unit economics so that even with a recent, over the last couple of years, price escalation in real estate, the economic model still works and we can get back to pre-COVID IRRs for our franchisees. At the same time, you appropriately noted that there have been many retail tenants, anchor tenants that occupy space that has square footage very similar to what we would look for that have had bankruptcies and that could and should be an opportunity for us.

The other thing that I think about is the fact that throughout the pandemic, we did not have one club permanently closed for financial or economic reasons. So if I'm a developer, if I'm a landlord and I look at some of the retail bankruptcies that have been experienced with some of the big box retailers or midsized box retailers over the last couple of years and then I look at Planet with no club closures throughout the pandemic, we should be in the pole position when space becomes available in -- for retail space. And I think the durability of our cash flows and the resilience of our business is something that we have an opportunity to further promote when we're seeking space -- when we're seeking retail space for new clubs.

Operator

Our next question comes from Max Rakhlenko from TD Cowen.

Maksim Rakhlenko

Congrats, Colleen. So with the Black Card pilot now taking memberships to \$30 in some markets, how are you thinking about the ceiling to where prices can go? Seemingly maybe tough to get above mid-30s in the construct of HVLP 1.0 box. So just, Colleen, if you can touch on a focus that you discussed earlier of having an unparalleled member experience, what can be done and what can be tweaked in a capital-light way to improve it which would allow for a bit more pricing power?

Colleen Keating

Yes. I think a couple of things. So we touched already a little bit on the mix of equipment. We're seeing a greater demand for space for strength. We still want our members to walk into a Planet Fitness and see that beautiful bright sea of equipment and know that they're not going to have to wait. At the same time, we are optimizing the mix. So HVLP maybe 2.0 is really what we should be talking about and how we are evolving the equipment mix for today's consumer. I will also say, we're continuing to look at low-cost amenities to continue to offer the greatest value, whether it be for a classic card member or a Black Card member. And I touched on this a little bit and that is some of the amenities and the value proposition that we can bring to life through the app, adding value for our members, both in-the-gym experience or in-the-club experience and outside the 4 walls of the club.

I often talk about my AAA membership. And my car comes with roadside assistance but I don't cancel my AAA membership because even if I don't immediately need to tow, I know that I'm getting so many more amenities for that relationship. And I think leveraging our nearly 20 million member base, we saw one of our greatest participation rates with the perks program in June. I think there's an opportunity to continue to leverage our member base to bring additional offerings that add value for that membership. And as we think about Black Card pricing, we're also thinking about the Black Card experience and what we're delivering for our Black Card members.

Maksim Rakhlenko

That's very helpful. And then just a quick one but can you provide an update to progress in rolling out the Media Network? If you could speak to the opportunity conceptually with where you are in the medium-term path? And then just how should we think about the revenue opportunity as well as margins because it has historically been quite a high-margin business for others?

Thomas Fitzgerald

Max, it's Tom. I'll take that one. I would say we're still in the sussing-out stage on that one. I think we see it as a potential opportunity. We want to make sure we do it the right way. So I think we're not yet at a position where we're going to go full throttle on that nor sort of project what we think the impact could be. We think it's a nice opportunity to make to enhance the broader economic model but we're still working our way through that one.

Maksim Rakhlenko

Great. Thanks a lot and best regards.

Thomas Fitzgerald

Thanks, Max [ph].

Colleen Keating

Well, thank you for all the thoughtful questions and thank you for the warm welcome. I'm about 8 weeks in and continue to be just so excited about the opportunity to lead this brand as we enter our next chapter of growth.

As you heard from us today, our team and I are very committed to further defining our growth ambition and to capitalizing on really meaningful opportunities across the industry, both in the U.S. and internationally. We'll maintain a clear-eyed focus on delivering an unparalleled member experience, evolving our brand messaging and operating under the principle that we can enhance the economic value proposition for all stakeholders, from the franchisor to the franchisees, to ultimately deliver significant value for our shareholders.

So, thank you for your time today.

Operator

The meeting has now concluded. You may now disconnect.

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