

Seeking Alpha^α

Transcripts

Planet Fitness (PLNT) Q4 2024 Earnings Call Transcript

Feb. 25, 2025 11:38 AM ET | Planet Fitness, Inc. (PLNT) Stock | PLNT

**SA Transcripts**

152.47K Followers

Q4: 2025-02-25 Earnings Summary

Transcript Insights



Play Call

EPS of \$0.70 **beats by \$0.08** | Revenue of \$340.45M (19.42% Y/Y) **beats by \$15.88M**Planet Fitness Inc. (NYSE:[PLNT](#)) Q4 2024 Earnings Conference Call February 25, 2025 8:00 AM ET

Company Participants

Colleen Keating - Chief Executive Officer

Jay Stasz - Chief Financial Officer

Stacey Caravella - Vice President, Investor Relations

Conference Call Participants

Simeon Siegel - BMO Capital Markets
Randal Konik - Jefferies
Sharon Zackfia - William Blair
Joe Altobello - Raymond James
Rahul Krotthapalli - JP Morgan
John Heinbockel - Guggenheim Partners
Max Rakhlenko - TD Cowen
Jonathan Komp - Baird
Megan Clapp - Morgan Stanley
Korinne Wolfmeyer - Piper Sandler
Alex Perry - Bank of America
Unknown Analyst - BNP Paribas

Operator

Thank you for standing by. My name is Karen and I will be your conference Operator today. At this time, I would like to welcome everyone to the Q4 Planet Fitness earnings call.

All lines have been placed on mute to prevent any background noise. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star followed by the number one on your telephone keypad. To withdraw your question, you may press star followed by the number one again.

I will now turn the call over to Stacey Caravella, Vice President of Investor Relations. 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, Jay Stasz. They 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'll turn the call over to Colleen.

Colleen Keating

Thank you Stacey, and thank you everyone for joining us for the Planet Fitness Q4 earnings call.

We have previously referred to 2024 as the year of transition for our organization, and I see it as a year of transition and foundation building, starting with our leadership team. I now have two quarters under my belt, having started in mid-June. We welcome Jay Stasz to the CFO role in mid-Q4 and more recently Chip Ohlsson as Chief Development Officer and Brian Povinelli as Chief Marketing Officer over the past month or so. We all came to Planet Fitness with the same goals in mind: furthering our welcoming atmosphere for members of all fitness levels at an unbeatable value and at the same time accelerating growth to deliver increased shareholder value.

We are incredibly proud of the progress we made in 2024 and in particular during the fourth quarter, during which we grew system-wide same club sales by 5.5%, delivered 19.4% revenue growth, and increased adjusted EBITDA by 14.4%. We added 86 new Planet Fitness clubs system-wide during the quarter for a total of 150 for the year, bringing our global club count to more than 2,700 clubs. We also grew our membership by 1 million members in 2024 to approximately 19.7 million members.

We made significant progress in 2024 on improving club level returns. We rolled out an enhanced economic model for opening and operating a Planet Fitness club that included reductions in build cost, extensions of capital investment timelines, and the elimination of certain fees. We received an enthusiastic response with nearly all of our franchisees signing our new growth model franchise agreement.

We also took a significant step to support top line growth. We hadn't raised the monthly price of the classic card membership in more than 25 years, which represents nearly 40% of our membership roster. After extensive market testing, we raised the classic card price from \$10 to \$15 at the end of June. Between the changes to the build cost, franchise agreement and the classic card rate increase, we believe that a new club's unlevered IRR is moving closer to pre-pandemic levels. We're encouraged by the green shoots that we're starting to see from these changes and remain committed to our focus on franchisee economics to fuel growth.

Turning to 2025, we have a strong foundation in place to continue making meaningful progress on our four strategic imperatives: redefining our brand, enhancing member experience, refining our product and optimizing our format, and accelerating new club openings. Let me start with redefining our brand.

We're excited about our new brand promise to grow stronger together and our new creative with the We're All Strong on This Planet campaign that launched in late 2024. These support our shift to a more balanced complement of strength equipment in our clubs to meet consumers' evolving needs. At the same time, our brand promise and our marketing communicate that we are welcoming to all, whether someone is beginning their fitness journey or a seasoned athlete, and that Planet Fitness is a supportive community where all members belong.

I attended my first New Years Eve in Time Square, which marked our tenth year of supporting the celebration. The energy was amazing, and it's a great way to put Planet Fitness on a global stage at the right time to kick off our money quarter. As I mentioned earlier, we expanded our leadership team with the addition of our new Chief Marketing Officer, Brian Povinelli. Brian is responsible for overseeing our marketing initiatives to strengthen our leadership position and expand access to fitness and wellness for all. He has extensive experience in the hospitality and apparel industries, a track record of leveraging data and insights to drive breakthrough results, and has spent much of his career partnering with franchisees. While Brian has only been here a few weeks, he is already building on the work we've done to date.

Now to member experience and format optimization, which I really think go hand-in-glove. Our shift to more strength equipment resulted from extensive consumer research and observing our members using our clubs, which will enhance member experience and give our members the equipment mix and format to achieve their desired workouts their way. As we discussed last quarter, more than 60% of our franchisees opted into adding the three additional pieces of strength equipment. The new equipment is called out in our clubs with signage and floor clings and has been featured throughout our Q1 marketing creative. We expect that all our domestic clubs will have the additional pieces by the end of the year.

Format optimization goes beyond equipment mix. It includes getting the floor plan right and opening up spaces within the clubs for members to do more functional training. We are seeing a great response to the changes from member feedback and social sentiment postings online. We believe this is a winning formula to increase our membership, which is the best enhancement to unit economics to ultimately accelerate new club growth.

We feel great about the work we've done in 2024 to improve unit economics and reduce capital investments at the club level, [indiscernible] on our strategic imperatives and believe that we can get back to opening 200 new clubs per year in a few years. With that in mind, I recognized early in my time at Planet Fitness that to achieve our growth ambitions, we needed someone on our senior leadership team dedicated to growing our global club footprint. Chip Ohlsson joined us in January as Chief Development Officer to spearhead our accelerated club growth. Chip is charged with growing our footprint both domestically and internationally for corporate and franchise clubs, as well as strengthening our franchisee network. He will also support our efforts to optimize the build cost for franchisees with a thoughtful eye toward member experience.

While Jay will cover our 2025 outlook in detail, I'd like to note that our overarching goal is healthy, sustainable long term growth. This means we're aiming to achieve consistent increases in year-over-year growth in new club openings to establish a reliable pattern of expansion. Finally, we recently announced the realignment of our leadership team to support our strategic imperatives. To best position our team to execute in 2025 and beyond, we're shifting from a divisional structure to a fit-for-strategy operating model, which integrates functional capabilities across the organization and strengthens accountability for our leaders and our team members.

Evolving our organizational structure will enable us to be more integrated, agile and faster in responding to the needs of our members and our franchisees. I'm excited about our strengthened and realigned team and what we can do to continue to drive this powerful brand forward into its next chapter of growth.

Now I will turn it over to Jay to share more details on our metric performance for year-end 2024 and our 2025 guidance. Jay?

Jay Stasz

Thanks Colleen. When I joined, I knew that Planet Fitness is a great company with a great brand and an industry leader with a tremendous long term opportunity. Now four months in, I'm even more excited to be here as we execute on our strategy and enter the next phase of growth.

Additionally, Planet Fitness has a compelling business model. Our asset-lite structure doesn't require a significant amount of capital, allowing us more flexibility in terms of the level of debt that the business can support. To this end, we refinanced a portion of our debt in 2024 and completed an accelerated share repurchase, which is one of the ways that we've delivered shareholder value since our IPO nearly a decade ago.

We also used our balance sheet to enter a new international market, Spain, last year and ended 2024 with five clubs in that country. This is an example of using our balance sheet to demonstrate that the concept works in a new market, so that future franchisees will have an easier time accessing local capital to step in as owners and fuel our growth plans. We're off to a great start in Spain and look forward to other opportunities to use our financial strength to drive growth. We continue to believe in our asset-lite, highly franchised model and reiterate our plans to own approximately 10% of the fleet.

Before I get to our 2024 results and our 2025 outlook, I'm going to start by discussing the performance of our classic card price increase and member trends. We felt it was important to implement the price increase before Q1 of 2025 to leave time for the market to absorb the impact ahead of what has historically been our highest net member growth quarter.

Our fourth quarter net membership growth was slightly better than we expected. This favorability along with a lower than expected cancel rate drove an increase in our net membership growth during Q4, and we ended the year with 5% same club sales growth. We also continued to see a year-over-year increase in black card membership and ended the year with approximately 54% penetration. We believe that new members are recognizing the great value that black card membership offers, considering it's only \$10 more than the classic card.

We're also seeing that our members were more engaged in '24 versus '23 as they visited a Planet club nearly 6.5 times per month versus just over 6 times last year, which is a great sign for retention. Gen Zs continue to lead our joins and have been the fastest growing demographic group of our membership since 2021, bringing our share of that generation over the age of 14 to nearly 10% domestically. This has the added benefit of continuing to drive down the average age of our member. At the end of 2024, approximately 7% of the U.S. population over the age of 14 are now members of Planet Fitness.

Now to our fourth quarter results, all of my comments regarding our quarter performance will be comparing Q4 2024 to Q4 2023, unless otherwise noted. We opened 86 new clubs compared to 77. We delivered system-wide same club sales growth of 5.5% in the fourth quarter. Franchisee same club sales increased 5.7% and corporate same club sales increased 4.4%. Approximately 70% of our Q4 comp increase was driven by rate growth, with the balance being new membership growth. Black card penetration was approximately 64% at the end of the quarter, an increase of approximately 200 basis points from the prior year.

For the fourth quarter, total revenue was \$340.5 million compared to \$285.1 million. The increase was driven by revenue growth across all three segments. The 11% increase in franchise segment revenue was primarily due to an increase in royalty revenue, new club placement revenue, and national ad fund revenue. For the fourth quarter, the average royalty rate was 6.7%, up from 6.6%.

The 8.5% increase in revenue in the corporate-owned club segment was primarily driven by new clubs as well as revenue growth from clubs in the same club sales base. Equipment segment revenue increased 49.2%. The increase was primarily driven by higher revenue from equipment sales to existing franchisee owned clubs, including the additional pieces of strength equipment that we delivered in Q4 as well as higher revenue from sales of replacement equipment. We completed 77 new club placements this quarter compared to 67 last year. For the quarter, replacement equipment accounted for 57.8% of total equipment revenue compared to 43.1%.

Our cost of revenue, which primarily relates to the cost of equipment sales to franchisee-owned clubs, was \$80.5 million compared to \$57.5 million. Club operations expenses, which relate to our corporate-owned club segment, increased to \$74.4 million from \$65.6 million due to higher payroll and occupancy costs primarily due to increased new club openings.

SG&A for the quarter was \$35.7 million compared to \$31.2 million. Adjusted SG&A was \$34.4 million, which includes a \$1.2 million adjustment for CEO transition-related expenses compared to \$29.5 million, which also included a \$1.2 million adjustment for CEO transition-related expenses. The increase was driven by incremental marketing spend in the quarter and higher CEO payroll expense. National advertising fund expense was \$19.4 million compared to \$17.6 million.

Net income was \$47.6 million. Adjusted net income was \$59.7 million, and adjusted net income per diluted share was \$0.70 per share. Adjusted EBITDA was \$130.8 million, and adjusted EBITDA margin was 38.4% compared to \$114.3 million with adjusted EBITDA margin of 40.1%. Fourth quarter adjusted EBITDA margin decreased compared to the prior year period primarily because of our marketing investment, along with the increase in re-equip sales that flowed through our equipment segment, which is our lowest margin segment. For the full year, adjusted EBITDA margin increased to 41.3% compared to 40.6% in the prior year period.

By segment, franchise adjusted EBITDA was \$74.7 million and adjusted EBITDA margin was 68.6%. Corporate club adjusted EBITDA was \$46.4 million and adjusted EBITDA margin was 36.7%. Equipment adjusted EBITDA was \$29.9 million and adjusted EBITDA margin was 28.5%.

Now turning to the balance sheet, as of December 31, 2024, we had total cash, cash equivalents and marketable securities of \$529.5 million compared to \$447.9 million on December 31, 2023, which included \$56.5 million and \$46.3 million of restricted cash respectively in each period.

Moving onto our '25 outlook which we've provided in our press release this morning, as Colleen noted, we believe that 200 new club openings per year is achievable, but it will take a few years before we get there. This year, we expect to open between 160 and 170 new clubs, which includes both franchise and corporate locations. We expect between 130 and 140 equipment placements in new franchise clubs, and again we expect that the quarterly cadence will be weighted like '24.

We expect that re-equip sales will make up approximately 70% of total equipment segment for the full year. This is largely driven by the expectation that the clubs that did not purchase the additional pieces of strength equipment last year will do so in '25. We expect the sales of the replacement equipment to be more evenly spread throughout the year compared to '24, when the franchisees purchased the incremental strength pieces in Q4. As a reminder, we are maintaining our equipment segment profit dollars for new placements and re-equip sales with a mix shift to more strength, therefore we expect that margin rate will be approximately 28% to 29%.

We expect the following targets that represent growth over fiscal year '24 results. System-wide same club sales growth to be between 5% and 6%, revenue to grow approximately 10%, adjusted EBITDA to grow approximately 10%, adjusted net income to increase in the 8% to 9% range, and adjusted net income per diluted share to grow in the 11% to 12% range based on adjusted diluted weighted average shares outstanding of approximately 84.5 million, inclusive of approximately 1 million shares we expect to repurchase in '25, in line with what we'd previously communicated.

We also expect '25 net interest expense of approximately \$86 million, inclusive of the annualized impact of our '24 refinancing. Lastly, we expect capex to be up approximately 25% and D&A to be flat to '24. While depreciation expense will increase year-over-year, amortization will be down as certain intangible assets related to our purchase by TSG in 2012 fully amortized at the end of '24.

Let me address why we expect revenue and adjusted EBITDA to grow at approximately the same rate this year. In 2025, we have expenses related to our blue ribbon team, including our recent CDO and CMO hires, and we have a full year of CEO compensation expense. We also want to ensure that we have the ability to invest appropriately in our strategic imperatives. With these investments, we believe that we're setting ourselves up to drive long term sustainable growth and deliver increased shareholder value.

I'll now turn the call back to the Operator to open it up for Q&A.

Question-and-Answer Session

Operator

[Operator instructions]

Your first question comes from Simeon Siegel from BMO Capital Markets. Your line is open.

Simeon Siegel

Thanks. Hey, good morning everyone.

Any way to help us think about how much the price hike is embedded into your full year comp and revenue guidance versus expected member progression over the year, and then maybe Colleen or Jay, what are you seeing in terms of- you mention the churn, I think is improving. What are you seeing here post the price hike? I'm just curious if you're seeing any people not wanting to lose the grandfathered \$10 and any thoughts you have around that. Thank you.

Jay Stasz

Yes Simeon, this is Jay. I'll start, and Colleen or others may chime in.

As far as the price hike, the classic card increase, you know we did that in June and we really--we will anniversary that in June of '25. The way we think about that and what we've talked about is that we expected a low to mid single digit comp lift on an annual basis once we get through that first 12 months. We don't guide to membership, but that is embedded in our guidance, and then as we get past this June, that tailwind we're getting from a rate standpoint will step down a little bit because then we'll have a fair amount of people that are signed up at the \$15 price point. This really does impact the new clubs, because all those new members are coming in at the classic card price point; and the old clubs, those people are anniversaried.

To your question about churn, what we've talked about is we've continued to see good cancel rates. A little bit of stickiness, to your point, with people hanging onto that \$10 classic card price, and what we talked about at the Q3 call was that those attrition rates really came in line year-over-year, which is a good sign - it's something we hadn't really seen post the spring incident, but those trends have continued Q3 and into Q4, so we're very pleased with that.

Simeon Siegel

Great, thanks. Then just recognizing the impressive Q4 equipment sales beat, any color we should keep in mind for Q1 equipment? I know you gave the full year and you gave also cadence. Just wanted to make sure there wasn't anything we should think about vis-à-vis timing.

Jay Stasz

No, we did the play loaded in Q4 and we had some nice re-equipments there as well, so obviously strong quarter for Q4. When we think about cadence of next year, the placements we've outlined consistent, and then the re-equipments we've said will be about 70% of the total equipment revenue, and consistent--I mean, more consistent over the course of the year than this year because of that spike, but Q1 is going to be pretty consistent year-over-year and then I would spread it pretty ratably for the remaining quarters.

Operator

Your next question comes from Randy Konik from Jefferies. Your line is open.

Randal Konik

Yes, thanks a lot. Good morning everyone. Colleen, I liked the word that you used, foundation - you've set the foundation for the future. I guess what I want to understand is thinking about unit growth long term and just how you're thinking about--you know, on the international side, you've added Spain with, I think, five units, you've talked about in the past good strength in Mexico and other areas. Just maybe give us some vision on when we could see even more--I don't know, more builds and potentially franchising in international markets as it pertains to Europe.

Then back to the United States on the franchisee side, you gave us a good punch list of the changes you made to make the IRRs improve, to make them more attractive for the franchisees. In the past, the franchisees back in the day, let's say eight, 10 years ago, franchisees used to build ahead of their mandated programs. I'm sure during COVID they did not, obviously. Where are we now in that build cycle with the franchisee base? How hungry are they to get those builds starting to re-accelerate? You obviously gave us really good guidance for an accelerated unit development or openings in 2025 from 2024, but it feels like we're just beginning and we should get to that 200 units fairly quickly ahead, so just want to get your color on the franchisees and then the international, wondering if we could see more progress in Europe markets and beyond. Thanks.

Colleen Keating

Sure. Hey Randy, good morning and thanks for the question, so first international and then U.S., and then accelerated growth is what I heard.

I'll start with international. We were very pleased with the performance in Spain and the way our clubs are ramping there. We are also quite pleased to have five clubs opened in Spain by the end of the year last year. What we've said is we're going to take a thoughtful approach to international expansion and go into a market where we can achieve real scale and real density and not flag plans. Again, pleased with the progress in Spain. We'll continue to have Spain openings. We've got a strong pipeline there going into 2025, and at the same time, as you know, we built Spain on balance sheet which gave us the ability to really have--you know, to have a strong hand in getting off the ground in a really healthy way there and building a very good team on the ground.

At the same time, we will transition Spain to a franchise model as we get the market established, and then we'll look to recycle that capital and look at other market opportunities for expansion. We've said one to two new international markets a year, and that's still our anticipation.

As it relates to domestic growth and the IRRs for our franchisees, we've made good progress, as I noted, with the new growth plan and reducing the build costs, as well as some of the ongoing capital costs with pushing out the re-equip timelines and addressing some fees domestically with the new growth plan, and then we had almost 40% of the top line lever that was really off the table for more than 25 years, and with the change in classic card pricing - you know, Jay touched on that and how that will impact unit economics.

At the same time, we remain committed to continuing to enhance the unit economics for our franchisees and continue to try to drive towards the pre-COVID IRRs. We've made good progress; however, we'll never stop at looking at ways to continue to enhance the model in a way that benefits our members and benefits our franchisees.

While we're really guiding for 2025 today, we have said we'll have an investor day with some longer range targets later this year. We want to give Chip Ohlsson, the new Chief Development Officer, who's only been on-board for a few weeks, we want to give him an opportunity to get his arms around the business, and he's out talking with our franchisees and will give some longer range guidance. But we, like you, endeavor to get back to that starting with a 2 new club growth every year. We think it will just take a couple, few years, so we say not five years but not this year. Somewhere in the middle.

Randal Konik

Very helpful, thank you.

Colleen Keating

Absolutely, thank you.

Operator

The next question comes from Sharon Zackfia from William Blair. Your line is open.

Sharon Zackfia

Hi, good morning. I guess--and I apologize if I missed this, but I wanted to double-click on the increase and the mix of black card this quarter. Are you seeing, just with the compression between price with the basic membership and the black card, more trade-up, and is that something we should expect to continue into 2025? Then did you comment on the black card pricing test and what you're thinking along those lines?

Jay Stasz

Yes, so this is Jay, and I can start on this. In terms of the black card test, we did not comment - that is in flight, and we expect for that test to continue through at least Q1, and we don't typically speak to a test while it's going on.

To your point on the black card penetration, yes, we are seeing a nice lift in that - we're at roughly 64% at the end of the year, which is a two-point lift. At the end of the third quarter, I believe we were about a one-point lift, so we're seeing some nice acceleration there. You're right - because there is such value and it's only a \$10 spread between the classic card price and the black card price, we think more members are joining into that black card, which is a nice trend.

Sharon Zackfia

I guess just following up, you changed your marketing messaging pretty significantly at the beginning of this year. How do you feel the response has been from consumers to the more, what I'll call inclusive marketing message?

Colleen Keating

We just launched the marketing really at the very tail end of December, and as you know, that marketing is in flight and we'll talk about that in our Q1 earnings call in a few more months. But what we will say is even on social sentiment, we're seeing very favorable response, a lot of online postings, a lot of social sentiment about the shift to a more balanced complement of strength equipment, and we know one of the things that makes our brand so unique and special and a highly differentiated brand is the sense of community, and we believe we're conveying that in the marketing messaging around growing stronger together.

Operator

Your next question comes from Joe Altobello from Raymond James. Your line is open.

Joe Altobello

Thanks. Hey guys, good morning. I wanted to circle back on the new openings for 2025. If I use placement as a proxy for new franchisee openings, I guess your guidance implies, call it 130 to 140 new franchisee clubs this year - that's flat to up modestly year-over-year and it's actually down a little bit from '23. Is the new growth model offering franchisees enough incentives to open new clubs, or is it taking them longer to respond to it?

Jay Stasz

This is Jay, and I'll start with that. I think--I mean, we've done--Colleen mentioned the work the team has done on the new growth model. I think the franchisees are appreciative and I think they're engaged and on board. That is not something that turns on a dime as far as planning and development, but I think we've got a good relationship there and they understand the levers we pulled with the new growth model as well as with the price increase. Like Colleen said, they always and we will always want to strive for more, so that will continue and it's an evolution.

I think--to your question, I think part of the delta in that mix, right--I mean, we continue to build corporate clubs, but we also in that number from a corporate standpoint include Spain, which continues to build out this year, which we're doing on our balance sheet and considering that it's not a placement, so--it's part of the corporate build, so that's part of the delta between those two numbers.

Joe Altobello

Got it. Just to follow up on that, is there a number you can give us in terms of the percentage of franchisees that are currently not on track with their build obligations, and what recourse you might have to get them back on track?

Jay Stasz

Yes, the vast majority are on track. It's been consistent, so that has not changed. We just continue to work with franchisees, and now with Chip here, he's building those relationships with them as well.

Colleen Keating

I'll just chime in on that too. It is--certainly the build cost and the unit economics are a key factor in the growth. It's also our real estate team partnering with our franchisees to find--help them find available space. We see some tailwinds there with retail vacancies increasing. Space still remains fairly tight with about 4% or--Co-Star just reported about 4% vacancies, so we're partnering--our real estate team is partnering with our franchisees to help them find great sites for which to develop their new clubs.

Operator

The next question comes from Rahul Krotthapalli from JP Morgan. Your line is open.

Rahul Krotthapalli

Good morning guys. Great to see the C-suite fully ramped up and kicking the tires here.

Colleen, I wanted to ask how has the brand refresh campaign this new year hit the targeted demographics? How did it perform related to your expectations? Where do you think the opportunity is going forward based on learnings, on mainstream versus social media, or even effectiveness of spend across national and local campaigns? Have you had a chance to discuss this with Brian on revisiting, or is it too early? I have a follow-up.

Colleen Keating

Sure Rahul, good morning. Thanks for the question.

I would love to talk to you about how that campaign is performing; however, it's a Q1 campaign and we're just about the midpoint of Q1, so we'll talk more about how it's performing when we have our Q1 earnings call in a few months.

As far as Brian's engagement, Brian was engaged a bit even before he started, and he's got his sleeves rolled up and he's very much engaged in the campaign as its rolling out today, as well as our brand strategy work. He's been on board for, I think about three weeks now, and his sleeves are rolled up and we look forward to talking more about that at the end of the quarter.

Rahul Krotthapalli

Great. On the churn levels, how are you guys thinking about that as the click to cancel comes into play through the remainder of the year, given two-thirds of the club biz is still not on it, and what do you think is the best overall optimal approach to roll out based on the recent developments?

Colleen Keating

I'll start maybe. We've talked about this a little bit before as well - where we have had click to cancel in place, so in about 11 states right now as well as 100% of our corporate clubs, even where it's not municipally required, what we see is a fairly short term impact, so maybe eight to 12 weeks of a little bit of an elevated churn rate and then a moderation in churn after that. I think the important thing to think about is the value proposition that we're offering our members and the fact that we really are in a golden age of fitness, fitness and wellness and wellbeing, and as we talked about, Jay touched on Gen Z is our fastest growing proportion of our membership, very fitness minded generation, so we believe the value proposition is what's going to be compelling for members to join and to stay.

With click to cancel roll-out, again with one exception, and I don't want to overplay it, one exception with the State of Tennessee, in almost all other geographies we see a very short term increase in churn and then a moderation back to a normal churn rate.

I'll also maybe touch on the fact that our re-join rate, I think we've talked about that too, our re-join rate has been pretty high. We were in the high 30s - 38%, 37% the last couple of quarters, so that also speaks to even in the event that a member leaves Planet Fitness, we still remained top of mind and have a very high re-join rate as well.

Operator

The next question comes from John Heinbockel from Guggenheim Partners. Your line is open.

John Heinbockel

Hey Colleen. I wanted to ask you--you know, you talked about, at least for this year, right, reinvestment in strategic imperatives. What do you think are the one or two things that are high priorities for you on that list? I also wonder when you think about marketing cadence, it's always going to Q1-driven; but do you think about doing something different beyond the first quarter? Do you think about how you'd like to do high school pass differently? I just wonder if--particularly with Gen Z, if joins can be stronger in Q2 and '4 maybe than they'd been historically.

Colleen Keating

Yes, so I'll touch on the strategic imperatives and the priorities. I think--gosh, there's four of them, so I'd say--and this is not a cop-out, they're all important. That said, when you think about how we've added some very key resources to support the strategic imperatives, bringing on a chief marketing officer is very much focused on top line, right? That's marketing and branding and also making sure that we have kind of a branded member experience and that we continue to refine that, so certainly leaning into top line with our brand positioning and having that inform our marketing is a very high priority.

Then with the establishment and bringing in a chief development officer, we're highly focused on unit growth in all of the things that we've touched on that go into unit growth, like the unit economics helping with site selection and reducing build costs, all of that. I'd call those out as two big priorities.

Then as it relates to the marketing, I think I've said this a couple of times - I joined in mid-June, and when I came aboard in mid-June, it felt like first quarter was tomorrow and I wished I'd had a little bit more time on the brand strategy and marketing work. It was a bit of a sprint, and wish we'd had the opportunity to have our CMO in place to help inform it. The beautiful thing is that Brian joined very early in the year and he will have an opportunity to put his imprint on the brand strategy and the marketing going forward.

John Heinbockel

Maybe as a follow-up, your current thoughts on perks and the development of that, and particularly black card perks, which I think has been a much smaller number than number of offers in white card.

Colleen Keating

I've talked a little bit about perks before, and I'll just share that for the year, year-end number 2024, we had over \$10 million in redemptions by our members through our perks program. We see that as a way to continue to add value for our members and enhance our relationship with our members, even when they're not inside the club, and also continue to increase the engagement with our app. As you know, we're the most downloaded fitness app on the App Store with more than 80% utilization, and the more we can embed programs like perks in the app, we increase the engagement with our members. That remains a focus, and Brian coming from a consumer business - Marriott, the Bonvoy program, he's got deep experience in building loyalty and marketing partnerships.

Jay Stasz

John, this is Jay. Just to go back on the membership and the joins, it's a great comment and, like Colleen said, give Brian a beat to get in and potentially impact those other quarters as well. But we also--the other thing we talk about besides joins is attrition, right - you know, net member growth and making sure we're focused on attrition and having a good experience around all of that, so we hold onto those members.

Operator

Your next question comes from Max Rakhlenko from TD Cowen. Your line is open.

Max Rakhlenko

Great, thanks a lot. Colleen, as you continue to spend more time with franchisees, what part of your plan do you have more conviction in versus parts that may take longer to implement, and what's the most surprising to you from the conversations with operators and sponsors and how does it inform your view of the pace of the turnaround?

Colleen Keating

As it relates to confidence in the plan, I think we've got the strategic imperative in place to achieve our plan and our longer term growth ambitions, and we've resourced those strategic imperatives to support our focus on accelerated growth.

As it relates to our operator and franchisee conversations, gosh, coming into the business last year, one of the things that really stood out is how much pride there is in the Planet Fitness brand, and one of the other things is we've got a pretty narrow band of quality, unlike a lot of brands. Our franchisees are committed to investing in their clubs, they're committed to delivering our unique and differentiated member experience. At the same time, we want to continue to deliver even greater value for our franchisees, which is why the focus on continuing to drive top line growth and continuing to look at build cost and unit economics.

I think our franchisees are also quite excited when you think about nearly 65% of the estate opting in to put the plate-loaded equipment in their clubs in fourth quarter of last year, an unbudgeted expense. That also speaks to their confidence in our strategy and our brand promise of growing stronger together. That's an incredibly high opt-in rate when we rolled out the program at the start of Q4 and had, again, 65% participation before the end of the year, so great partnership with our franchisees.

Max Rakhlenko

That's helpful. Then Jay, anything that you can share on how to think about comps, just the cadence potentially throughout the year, maybe versus membership, and then how does click to cancel play into it, because the compares are sort of volatile throughout the year and there's just many moving pieces.

Jay Stasz

Yes Max, for sure. As we've talked about, right now from a comp standpoint, we're seeing that comp is being driven 70% roughly by rate and 30% by membership. As we think about this next year, we do think that we'll continue to be largely rate driven, certainly though the end of June until we anniversary the classic card price increase. Then even beyond that, the way we've modeled it is a comp that's driven by both rate and transaction or membership trends.

Then I think beyond that, in terms of click to cancel, we haven't built in or really made a decision yet on how we're going to approach that. We've got the 35% today at our 100% corporate clubs, and as Colleen stated on click to cancel, we do see an initial spike in cancellations, but then we see that level out and return to normal trends.

Colleen Keating

Yes, maybe not even quite a spike, it's an initial elevation, right?

Operator

Your next question comes from Jonathan Komp from Baird. Your line is open.

Jonathan Komp

Yes, good morning. Thank you. Maybe just one last follow-up on the comps. Are you seeing any changes in behavior? I know Q4, you highlighted was slightly better on ending member levels, but at the midpoint for '25 here, you're not assuming any change in the comps compared to the Q4 run rate, even though pricing could step up a little further, so just wondering if you're seeing any changes in behavior.

Jay Stasz

No, we're not. We're seeing good, consistent trends.

Colleen Keating

I think you spoke about that with the balance of rate versus membership, right, and as we see the \$15, we will continue to see rate favorability over the life cycle of membership which is longer than 12 months.

Jonathan Komp

Okay, great. Then one follow-up, Jay, if I could ask--I'm trying to get a better sense of the underlying earnings model, if you will, or the leverage potential. Any way to quantify some of the step-up investments you're making in personnel and other initiatives, or maybe differently, more what type of earnings growth you would view as possible for roughly a 10% top line growth rate? Any more perspective there in a more normalized year?

Jay Stasz

Yes, sure, and we're not--you know, we're not guiding beyond '25 at this point. We will come out, like Colleen said, later in the year and have more of a long term algorithm and discussion around that. I mean, ultimately we want to--typically we would want to plan our SG&A below the top line growth so, to your point, we would get leverage exactly that, right, and we would have some growth and we'd have EBITDA margin expansion. This year is a bit of a unique year, as we've talked about we are investing in the blue ribbon team, including adding the CDO and the CMO, and we also--we've touched on this, right, Colleen is lapping against the interim CEO, who did not have CEO compensation, so that's a chunk of that.

Then the other component is continuing to have dollars so that we can invest in the strategic imperatives as well, so to your point, this year is a bit of an anomaly, making sure we're building that foundation, and then we would expect to get leverage in the out years.

Operator

Your next question comes from Megan Clapp from Morgan Stanley. Your line is open.

Megan Clapp

Hi, good morning. Thanks for squeezing me in.

Colleen, I wanted to just circle back and follow up on some of the comments that you've made about development, just in the prepared remarks and the earlier questions. Up until today, I think the message on getting back to 200 units in terms of the gating factors have been a bit more external in nature, things like interest rates, real estate availability which you've continued to talk about. I guess your comments in the prepared remarks about aiming to achieve consistent increases would seem to me maybe the message is shifting a bit in terms of just saying, hey, we don't want to grow too quickly. I think you mentioned establishing a reliable pattern of expansion, so you know, understand Chip hasn't gotten in his seat and we'll hopefully hear from him later this year, but just to put a finer point on it, is the strategy in terms of unit development and the pace of that changing at all, or you're just saying there's a lot of moving pieces and we want to make sure Chip can look at everything, and then we'll come back to you later this year?

Colleen Keating

I think it's a little bit of both, Megan. I think certainly we've had questions recently about when will we get back to 200 or start printing something that starts with a 2, so I think in endeavoring to answer that question, even though we're not guiding longer term than 2025, I wanted to kind of cede that it's not five years but it's not this year, and that we're looking to ramp our cadence of growth. Building the foundation with the right team, the right resources, and then also looking at the build cost--and when I say team and resources, it's not solely a CDO, it's also a CDO and team, and the resources that we've put in our real estate team to build relationships with brokers and developers to help our franchisees identify great locations to fulfill their development opportunities.

Megan Clapp

Okay, great. That's helpful.

Then maybe just a quick follow-up for Jay on capex, looking at your guide for '25, you've had two years of sizeable increases in capex and as a percent of sales well above where we were kind of versus pre-COVID, so understand a lot of that's driven by the accelerating international expansion, but I guess beyond '25, how should we be thinking about future increases in capex? Should that rate start to moderate as you become more established in these international markets and can shift a little bit more to a franchise model?

Jay Stasz

Yes, I think that's a fair lens to put on it. I mean, we're not guiding beyond '25, and we're going to continue to leverage our financial strength on our balance sheet to recycle capital, so the intent is to re-franchise Spain this year and then there could be another opportunity here to do the same thing, so we're not forecasting out what that capex could be in the future.

Colleen Keating

While at the same time remaining committed to -ish 90/10 franchise complement.

Operator

Your next question comes from Korinne Wolfmeyer from Piper Sandler. Your line is open.

Korinne Wolfmeyer

Hey, good morning. Thanks for taking the question.

I do want to touch a little bit more on the marketing spend and some of your marketing plans for the year. I mean, you had some new initiatives in place. How should we be thinking about the cadence in spend throughout the next four quarters and how that spend this year should be comparing to prior years in terms of market and brand awareness? Thank you.

Colleen Keating

Yes, I'll touch on that. As you know, the NAF and LAF funds are a percentage of revenue, therefore as revenue grows, so too does the funding in both LAF and NAF, both the local and the national ad funds, so you'll see increased spend on an annualized basis. We're always going to come out of the gate strong with a fair proportion of the marketing spend in Q1 - that will be both at the national level and the local level, and as you know, for competitive reasons we don't really disclose where we're going to be spending more or where we're going to be on promo, but know that we'll have coverage throughout the year and that there will be promo periods in other quarters as well.

Korinne Wolfmeyer

Great, thank you. Then just as a follow-up, as we think about the equipment upgrades that a lot of the franchisees are making, but also some of their unit build plans, is there any chance that maybe they're being faced with having to prioritize equipment over new unit growth, and is that a choice that they've been having to make or is that not a consideration that they're having right now? Thanks.

Colleen Keating

What I can say to that is that the vast majority of our franchisees are on pace with their development opportunities, and at the same time, as I mentioned, we've got a narrow band of quality in a good way, right - our franchisees are investing in their clubs, meeting their re-equip timelines, made the discretionary decision to add additional strength equipment at the tail end of last year, and we expect that those additional few pieces of strength equipment will be in virtually all of our clubs by the end of the year this year. We're seeing it in balance and not trading development for re-equipments, or vice versa.

Operator

Your next question comes from Alex Perry from Bank of America. Your line is open.

Alex Perry

Hi, thanks for taking my questions here. I guess just two for me. First, are you seeing any differences in black card penetration by age demographic? I think you had spoken in the past about some differences in terms of age cohorts to the black card penetration. Are you starting to see better uptake in the younger demographics?

Then my second question is it seems like the customer reception has been strong the new strength equipment. Are you planning any more changes to optimize the box format? Is there other equipment or black card perks that you think members desire, and what informs your decision to repurpose the box and with the addition of the strength equipment, is that something you're getting from customer surveys, or what has informed some of that work? Thanks.

Jay Stasz

I can start on the black card penetration by demographic. We do see differences by age group - I mean, Gen Z is typically lower than some of the other generations, but it's been consistent year-over-year, so no major change other than we've had a little bit of creep up, obviously, so the 64%, but that has not necessarily been driven by the Gen Z.

Colleen Keating

Yes, and I'll touch on--I'll also say that as they age, as Gen Z ages, we see increases in black card penetration as well.

Then to answer your question on the decision around the model and the strength equipment and how we arrived at those decisions, it is really a balance of both consumer survey data that helped inform stronger preference for strength, and how we've observed our members utilizing our clubs. Both data inputs, or both pieces of input inform the decision, and as we've tested and tried new formats and survey our members and capture member feedback, we've had very favorable feedback about the increased complement of strength.

It is important to recognize that the additional pieces of strength equipment and the format optimization is in balance with the cardio, so we know that across generational cohorts, there is a greater utilization of strength equipment in our members, or prospective members' workout routines. At the same time, we continue to refine and optimize the cardio mix. As an example, we look at utilization and we've pulled back on ellipticals and arc trainers but increased the complement of stair climbers and maintained a strong complement of treadmills, so we use both data and consumer feedback to help inform the format optimization decisions, and we're constantly testing.

One of the beautiful things about having 10% of our fleet as corporate clubs, we've got a great test lab to constantly be testing format optimizations and seeing what resonates most with our members.

Alex Perry

Perfect, that's very helpful. Best of luck going forward.

Colleen Keating

Thank you.

Operator

Your next question comes from [indiscernible] from BNP Paribas. Your line is open.

Unknown Analyst

Hi guys, thanks for the question. Could you maybe give us a little bit more color on how January went in terms of the New Year's event at Times Square and the response to the pricing during that key period?

Jay Stasz

Yes, this is Jay. We're not commenting on Q1. We'll do that when we have our next earnings call, which will be early May.

Unknown Analyst

Okay, got it. Then when you mentioned consistent growth on the store openings over the next couple of years, is '25 an example of that consistent growth or is it that the cadence could actually potentially change from here a little bit better? I think you mentioned potentially cadence ramping from here, I think on the answer to one question. Just curious how to think about '25.

Colleen Keating

I would think about '25 and our go-forward plan--again, we're not guiding beyond '25 yet, and I know everybody is looking for some longer range numbers. We are very committed to providing those a little bit later in the year. I think what you could read into some of the comments is that we've talked about a healthy, sustained pace for growth, and you've also heard us talk about getting back to an annualized openings number that starts with a 2, so that you can infer--I'll let you infer from that.

Again, as it relates to the strategic imperatives, when we talk about accelerating growth, we have talked about accelerating new club growth, so we're very growth focused. We want to do it in the right and healthy way. I've also said we don't want to print one year that's the year of the bumper crop and then have to lap that, so again a healthy, steady pace of growth.

Unknown Analyst

Very helpful, thank you guys.

Colleen Keating

And more numbers later this year!

Operator

This concludes our Q&A session. I will turn the call over to Colleen Keating, CEO for closing remarks.

Operator

Colleen Keating

Well, thank you for all the questions. I am excited about the progress that we've made in 2024 against our four strategic imperatives, which will enable us to accelerate healthy and sustainable growth and propel the brand forward. We continue to be focused on boosting the economic value proposition for all stakeholders - franchisor, franchisee, and member - to ultimately deliver even more value for our shareholders.

Thank you everyone.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining, and you may now disconnect.

Read more current PLNT [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Sort by

Newest

