

Planet Fitness, Inc.
Form 10-K
March 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 FOR THE TRANSITION PERIOD FROM TO
Commission File Number 001-37534

PLANET FITNESS, INC.

(Exact name of Registrant as specified in its Charter)

Delaware 38-3942097
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

26 Fox Run Road, Newington, NH 03801

(Address of Principal Executive Offices and Zip Code)

(603) 750-0001

(Registrant's Telephone Number, Including Area Code)

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Securities registered pursuant to Section 12(b) of the Act: Class A common stock, par value \$.0001 per share; Traded on the New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☐

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☐ NO ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

☐ Large accelerated filer

☐ Accelerated filer

☐ Non-accelerated filer (Do not check if a small reporting company) ☐ Small reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☐

The aggregate market value of the registrant's Class A common stock held by non-affiliates, computed by reference to the last reported sale price of the Class A common stock as reported on the New York Stock Exchange on June 30, 2016 was approximately \$510.2 million.

The number of outstanding shares of the registrant's Class A common stock, par value \$0.0001 per share, and Class B common stock, par value \$0.0001 per share, as of March 1, 2017 was 62,182,791 shares and 36,315,932 shares, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the registrant's 2017 Annual Meeting of Stockholders to be held May 9, 2017, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements reflect, among other things, our current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, market trends, or industry results to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “project,” “should,” “targets,” “will” and the negative thereof and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in “Item 1A. – Risk Factors,” of this report. Unless legally required, we assume

no obligation to update any such forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information.

PART I

Item 1. Business.

Planet Fitness, Inc. is a Delaware corporation formed on March 16, 2015. Planet Fitness, Inc. Class A common stock trades on the New York Stock Exchange under the symbol “PLNT.” See Note 1 to the consolidated financial statements included in Part II, Item 8 for additional information about our business organization, our initial public offering (“IPO”) and transactions completed in connection with our IPO.

Our Company

Fitness for everyone

We are one of the largest and fastest-growing franchisors and operators of fitness centers in the United States by number of members and locations, with a highly recognized national brand. Our mission is to enhance people’s lives by providing a high-quality fitness experience in a welcoming, non-intimidating environment, which we call the Judgement Free Zone, where anyone—and we mean anyone—can feel they belong. Our bright, clean stores are typically 20,000 square feet, with a large selection of high-quality, purple and yellow Planet Fitness-branded cardio, circuit- and weight-training equipment and friendly staff trainers who offer unlimited free fitness instruction to all our members in small groups through our PE@PF program. We offer this differentiated fitness experience at only \$10 per month for our standard membership. This exceptional value proposition is designed to appeal to a broad population, including occasional gym users and the approximately 80% of the U.S. and Canadian populations over age 14 who are not gym members, particularly those who find the traditional fitness club setting intimidating and expensive. We and our franchisees fiercely protect Planet Fitness’ community atmosphere—a place where you do not need to be fit before joining and where progress toward achieving your fitness goals (big or small) is supported and applauded by our staff and fellow members.

Our judgement-free approach to fitness and exceptional value proposition have enabled us to grow our revenues to \$378.2 million in 2016 and to become an industry leader with \$1.9 billion in system-wide sales during 2016 (which we define as monthly dues and annual fees billed by us and our franchisees), and approximately 8.9 million members and 1,313 stores in 48 states, the District of Columbia, Puerto Rico, Canada and the Dominican Republic as of December 31, 2016. System-wide sales for 2016 include \$1.8 billion attributable to franchisee-owned stores, from which we generate royalty revenue, and \$102.0 million attributable to our corporate-owned stores. Of our 1,313 stores, 1,255 are franchised and 58 are corporate-owned. Our stores are successful in a wide range of geographies and demographics. According to internal and third-party analysis, we believe we have the opportunity to grow our store count to over 4,000 stores in the U.S. alone. Under signed area development agreements (“ADAs”) as of December 31, 2016, our franchisees have committed to open more than 1,000 additional stores.

In 2016, our corporate-owned stores had segment EBITDA margin of 39.0% and had average unit volumes (“AUVs”) of approximately \$1.8 million with four-wall EBITDA margins (an assessment of store-level profitability which includes local and national advertising expense) of approximately 40%, or approximately 35% after applying the 5% royalty rate, to be comparable to a franchise store, under our current franchise agreement. Based on a historical survey of franchisees, we believe that, on average, our franchise stores achieve four-wall EBITDA margins in line with these corporate-owned store EBITDA margins. Our strong member value proposition has also driven growth throughout a variety of economic cycles and conditions. For a reconciliation of segment EBITDA margin to four-wall EBITDA margin for corporate-owned stores, see “Management’s Discussion and Analysis of Results of Operations and Financial Condition.”

Our significant growth is reflected in:

1,313 stores as of December 31, 2016, compared to 606 as of December 31, 2012, reflecting a compound annual growth rate (“CAGR”) of 21.3%;

8.9 million members as of December 31, 2016, compared to 3.7 million as of December 31, 2012, reflecting a CAGR of 24.2%;

2016 system-wide sales of \$1.9 billion, reflecting a CAGR of 28.0%, or increase of \$1.2 billion, since 2012

2016 total revenue of \$378.2 million, reflecting a CAGR of 24.1%, or increase of \$218.6 million, since 2012, of which 2.1% is attributable to revenues from corporate-owned stores acquired from franchisees since 2012;

40 consecutive quarters of system-wide same store sales growth (which we define as year-over-year growth solely of monthly dues from stores that have been open and for which membership dues have been billed for longer than 12 months);

2016 net income of \$71.2 million, reflecting a CAGR of 29.4%, or increase of \$45.8 million, since 2012. Our historical results, prior to our initial public offering, benefit from insignificant income taxes due to our status as a pass-through entity for U.S. federal income tax purposes, and we anticipate future results will not be comparable to periods prior to our IPO as our income attributable to Planet Fitness, Inc. is now subject to U.S. federal and state taxes;

2016 Adjusted EBITDA of \$150.6 million, reflecting a CAGR of 30.9%, or increase of \$99.3 million, since 2012; and

2016 Adjusted net income of \$67.6 million compared to \$53.2 million in 2015, an increase of 26.9%.

For a discussion of Adjusted EBITDA and Adjusted net income and a reconciliation of Adjusted EBITDA and Adjusted net income to net income, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” For a discussion of same store sales and the effect of a new point-of-sale and billing system implemented in early 2015, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—How we assess the performance of our business.”

The world judges. We don’t.

We believe our approach to fitness is revolutionizing the industry by bringing fitness to a large, previously underserved segment of the population. Our differentiated member experience is driven by three key elements:

Judgement Free Zone: We believe every member should feel accepted and respected when they walk into a Planet Fitness. Our stores provide a Judgement Free Zone where members of all fitness levels can enjoy a non-intimidating environment. Our “come as you are” approach has fostered a strong sense of community among our members, allowing them not only to feel comfortable as they work toward their fitness goals but also to encourage others to do the same. The removal of heavy free weights reinforces our Judgement Free Zone by discouraging what we call “Lunk” behavior, such as dropping weights and grunting, that can be intimidating to new and occasional gym users. In addition, to help maintain our welcoming, judgement-free environment, each store has a purple and yellow branded “Lunk” alarm on the wall that staff occasionally rings as a light-hearted reminder of our policies.

Distinct store experience: Our bright, clean, large-format stores offer our members a selection of high-quality, purple and yellow Planet Fitness-branded cardio, circuit- and weight-training equipment that is commonly used by first-time and occasional gym users. Because our stores are typically 20,000 square feet and we do not offer non-essential amenities such as group exercise classes, pools, day care centers and juice bars, we have more space for the equipment our members do use, and we have not needed to impose time limits on our cardio machines.

- **Exceptional value for members:** Both our standard and PF Black Card memberships are priced significantly below the industry average of \$54 per month and still provide our members with a high-quality fitness experience. In the U.S., for only \$10 per month, our standard membership includes unlimited access to one Planet Fitness location and unlimited free fitness instruction to all members in small groups through our PE@PF program. And, for approximately \$19.99 per month, our PF Black Card members have access to all of our stores system-wide and can bring a guest on each visit, which provides an additional opportunity

to attract new members. Our PF Black Card members also have access to exclusive areas in our stores that provide amenities such as water massage beds, massage chairs, tanning equipment and more.

Our differentiated approach to fitness has allowed us to create an attractive franchise model that is both profitable and scalable. We recognize that our success depends on a shared passion with our franchisees for providing a distinctive store experience based on a judgement-free environment and an exceptional value for our members. We enhance the attractiveness of our streamlined, easy-to-operate franchise model by providing franchisees with extensive operational support relating to site selection and development, marketing and training. We also take a highly collaborative, teamwork approach to our relationship with franchisees, as captured by our motto “One Team, One Planet.” The strength of our brand and the attractiveness of our franchise model are evidenced by the fact that over 90% of our new stores in 2016 were opened by our existing franchisee base.

Our competitive strengths

We attribute our success to the following strengths:

Market leader with differentiated member experience, nationally recognized brand and scale advantage. We believe we are the largest operator of fitness centers in the U.S. by number of members, with approximately 8.9 million members as of December 31, 2016. Our franchisee-owned and corporate-owned stores generated \$1.9 billion in system-wide sales during 2016. Through our differentiated member experience, nationally recognized brand and scale advantage, we will continue to deliver a compelling value proposition to our members and our franchisees and, we believe, grow our store and total membership base.

Differentiated member experience. We seek to provide our members with a high-quality fitness experience in a non-intimidating, judgement-free environment at an exceptional value. We have a dedicated Brand Excellence team that seeks to ensure that all our franchise stores uphold our brand standards and deliver a consistent Planet Fitness member experience in every store.

Nationally recognized brand. We have developed a highly relatable and recognized brand that emphasizes our focus on providing our members with a judgement-free environment. We do so through fun and memorable marketing campaigns and in-store signage that highlights the judgement people face in their everyday lives and how at Planet Fitness, they can be free to be themselves. As a result, we have among the highest aided and unaided brand awareness scores in the U.S. fitness industry, according to our Brand Health research, an ongoing a third-party consumer study that we have executed bi-annually. Our brand strength also helps our franchisees attract members, with new stores in 2016 signing up an average of more than 1,300 members even before opening their doors.

Scale advantage. Our scale provides several competitive advantages, including enhanced purchasing power with our fitness equipment and other suppliers and the ability to attract high-quality franchisee partners. In addition, we estimate that our large U.S. national advertising fund, funded by franchisees and us, together with our requirement that franchisees generally spend 5 to 7% of their monthly membership dues on local advertising, have enabled us and our franchisees to spend over \$350 million since 2011 on marketing to drive consumer brand awareness.

Exceptional value proposition that appeals to a broad member demographic. We offer a high-quality and consistent fitness experience throughout our entire store base at low monthly membership dues. Combined with our non-intimidating and welcoming environment, we are able to attract a broad member demographic based on age, household income, gender and ethnicity. Our member base is over 50% female and our members come from both high- and low-income households. Our broad appeal and ability to attract occasional and first-time gym users enable us to continue to target a large segment of the population in a variety of markets and geographies across North America, including Puerto Rico and the Dominican Republic.

Strong store-level economics. Our store model is designed to generate attractive four-wall EBITDA margins, strong free cash flow and high returns on invested capital for both our corporate-owned and franchise stores. Average four-wall EBITDA margins for our corporate-owned stores have increased significantly since 2012, driven by higher average members per store as well as a higher percentage of PF Black Card members, which leverage our relatively fixed costs. In 2016, our corporate-owned stores had segment EBITDA margin of 39.0% and had AUVs of approximately \$1.8 million with four-wall EBITDA margins of approximately 40%, or approximately 35% after applying the 5% royalty rate, to be comparable to a franchise store, under our current franchise agreement. Based on a

historical survey of franchisees, we believe that our franchise stores achieve four-wall EBITDA margins in line with these corporate-owned store EBITDA margins. We believe that our strong store-level economics are important to our ability to attract and retain successful franchisees and grow our store base.

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Highly attractive franchise system built for growth. Our easy-to-operate model, strong store-level economics and brand strength have enabled us to attract a team of professional, successful franchisees from a variety of industries. We believe that our franchise model enables us to scale more rapidly than a company-owned model. Our streamlined model features relatively fixed labor costs, minimal inventory, automatic billing and limited cash transactions. Our franchisees enjoy recurring monthly member dues, regardless of member use, weather or other factors. Based on historical survey data and management estimates, we believe our franchisees can earn, in their second year of operations, on average, a cash-on-cash return on initial investment greater than 25% after royalties and advertising, which is in line with our corporate-owned stores. The attractiveness of our franchise model is further evidenced by the fact that our franchisees re-invest their capital with us, with over 90% of our new stores in 2016 opened by our existing franchisee base, as well as 40 consecutive quarters of same store sales growth, including system-wide same store sales growth of 8.8% in 2016. We view our franchisees as strategic partners in expanding the Planet Fitness store base and brand.

Predictable and recurring revenue streams with high cash flow conversion. Our business model provides us with predictable and recurring revenue streams. In 2016, over 90% of both our corporate-owned store and franchise revenues consisted of recurring revenue streams, which include royalties, vendor commissions, monthly dues and annual fees. In addition, our franchisees are obligated to purchase fitness equipment from us or our required vendor for their new stores and to replace this equipment every four to seven years. As a result, these “equip” and “re-equip” requirements create a predictable and growing revenue stream as our franchisees open new stores under their ADAs. By re-investing in stores, we and our franchisees maintain and enhance our member experience. Our predictable and recurring revenue streams, combined with our attractive margins and minimal capital requirements, result in high cash flow conversion and increased capacity to invest in future growth initiatives.

Proven, experienced management team driving a strong culture. Our strategic vision and unique culture have been developed and fostered by our senior management team under the stewardship of Chief Executive Officer, Chris Rondeau. Mr. Rondeau has been with Planet Fitness for over 20 years and helped develop the Planet Fitness business model and brand elements that give us our distinct personality and spirited culture. Dorvin Lively, our Chief Financial Officer, brings valuable expertise from over 35 years of corporate finance experience with companies such as RadioShack and Ace Hardware, and from the initial public offering of Maidenform Brands. We have assembled a management team that shares our passion for “fitness for everyone” and has extensive experience across a broad range of disciplines, including retail, franchising, finance, consumer marketing, brand development and information technology. We believe our senior management team is a key driver of our success and has positioned us well to execute our long-term growth strategy.

Our growth strategies

We believe there are significant opportunities to grow our brand awareness, increase our revenues and profitability and deliver shareholder value by executing on the following strategies:

Continue to grow our store base across a broad range of markets. We have grown our store count over the last five years, expanding from 606 stores as of December 31, 2012 to 1,313 stores as of December 31, 2016. As of December 31, 2016, our franchisees have signed ADAs to open more than 1,000 additional stores over the next five years, including approximately 500 over the next three years. Because our stores are successful across a wide range of geographies and demographics with varying population densities, we believe that our high level of brand awareness and low per capita penetration outside of our original Northeast market create a significant opportunity to open new Planet Fitness stores. Based on our internal and third-party analysis, we believe we have the potential to grow our store base to over 4,000 stores in the U.S. alone.

Drive revenue growth and system-wide same store sales. Because we provide a high-quality, affordable, non-intimidating fitness experience that is designed for first-time and occasional gym users, we have achieved positive system-wide same store sales growth in each of the past 40 quarters. We expect to continue to grow system-wide same store sales primarily by:

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Attracting new members to existing Planet Fitness stores. As the U.S. and Canadian populations continue to focus on health and wellness, we believe we are well-positioned to capture a disproportionate share of the population given our appeal to first-time and occasional gym users. In addition, because our stores offer a large, focused selection of equipment geared toward first-time and occasional gym users, we are able to service higher member volumes without sacrificing the member experience. We have also continued to evolve our offerings to appeal to our target member base, such as the introduction of our 30-minute express workout area, as well as new functional accessories (e.g., medicine balls, stability balls, kettlebells, etc.) and fitness programming to accompany our equipment.

Increasing mix of PF Black Card memberships by enhancing value and member experience. We expect to drive sales by continuing to convert our existing members with standard membership dues at \$10 per month to our premium PF Black Card membership with dues at approximately \$19.99 per month as well as attracting new members to join at the PF Black Card level. We encourage this upgrade by continuing to enhance the value of our PF Black Card benefits through additional in-store amenities, such as hydro-massage beds, and affinity partnerships for discounts and promotions. Since 2012, our PF Black Card members as a percentage of total membership has increased from 45% in 2012 to 59% in 2016, and our average monthly dues per member have increased from \$14.49 to \$15.79 over the same period.

We may also explore other future revenue opportunities, such as optimizing member pricing and fees, offering new merchandise and services inside and outside our stores, and securing affinity and other corporate partnerships.

Increase brand awareness to drive growth. We plan to continue to increase our strong brand awareness by leveraging significant marketing expenditures by our franchisees and us, which we believe will result in increasing membership in new and existing stores and continue to attract high-quality franchisee partners. Under our current franchise agreement, franchisees are required to contribute 2% of their monthly membership dues to our National Advertising Fund (“NAF”), from which we spent over \$31 million in 2016 alone to support our national marketing campaigns, our social media platforms and the development of local advertising materials. Under our current franchise agreement, franchisees are also required to spend 7% of their monthly membership dues on local advertising. We expect both our NAF and local advertising spending to grow as our membership grows.

Continue to expand royalties from increases in average royalty rate and new franchisees. While our current franchise agreement stipulates monthly royalty rates of 5% of monthly dues and annual membership fees, only 52% of our stores are paying royalties at the current franchise agreement rate, primarily due to lower rates in historical agreements. As new franchisees enter our system and, generally, as current franchisees open new stores or renew their existing franchise agreements at the current royalty rate, our average system-wide royalty rate will increase. In 2016, our average royalty rate was 3.66% compared to 2.05% in 2012. In addition to rising average royalty rates, total royalty revenue will continue to grow as we expand our franchise store base and increase franchise same store sales.

Grow sales from fitness equipment and related services. Our franchisees are contractually obligated to purchase fitness equipment from us, and in international markets, from our required vendors. Due to our scale and negotiating power, we believe we offer competitive pricing for high-quality, purple and yellow Planet Fitness-branded fitness equipment. We expect our equipment sales to grow as our U.S. franchisees open new stores. In international markets, we earn a commission on the sale of equipment by our required vendors to franchisee-owned stores. Additionally, all franchisees are required to replace their existing equipment with new equipment every four to seven years. As the number of franchise stores continues to increase and existing franchise stores continue to mature, we anticipate incremental growth in revenue related to the sale of equipment to U.S. franchisees and commissions on the sale of equipment to international franchisees. In addition, we believe that regularly refreshing equipment helps our franchise stores maintain a consistent, high-quality fitness experience and is one of the contributing factors that drives new member growth.

Our industry

Due to our unique positioning to a broader demographic, we believe Planet Fitness has an addressable market that is significantly larger than the traditional health club industry. We view our addressable market as approximately 255 million people, representing the U.S. population over 14 years of age. We compete broadly for consumer discretionary spending related to leisure, sports, entertainment and other non-fitness activities in addition to the traditional health club market.

According to the International Health, Racquet & Sportsclub Association (“IHRSA”), the U.S. health club industry generated approximately \$25.8 billion in revenue in 2015. The industry is highly fragmented, with 36,130 clubs across the U.S. serving approximately 55 million members, according to IHRSA. In 2015, the U.S. health club industry grew by 4.8% in number of units and 2.2% in number of members compared to Planet Fitness, which grew by 22.4% and 20.0%, respectively. IHRSA data is not yet available for 2016, but Planet Fitness grew its number of stores by 16.8% and its number of members by 22.3% in 2016. Over the next five years, industry sources project that U.S. health club industry revenues will grow at an annualized rate of approximately 3%, primarily attributed to an increase in discretionary spending coupled with continued consumer awareness and public initiatives on the health benefits of exercise. We believe we are well-positioned to capitalize on these trends, and our impressive growth reinforces our distinct approach to fitness and broad demographic appeal.

Our brand philosophy

We are a brand built on passion and the belief that first-time gym users and casual fitness members can achieve their personal wellness goals in a non-intimidating, judgement-free environment. We have become a nationally recognized consumer brand that stands for the environment, value and quality we provide our members.

The Judgement Free Zone. Planet Fitness is the home of the Judgement Free Zone. It is a place where people of all fitness levels can feel comfortable working out at their own pace, feel supported in their efforts and not feel intimidated by pushy salespeople or other members who may ruin their fitness experience.

All This for Only That. Planet Fitness monthly membership dues typically range from only \$10 to \$19.99 in the U.S. We pride ourselves on providing a high-quality experience at an exceptional value, not an “economy” fitness experience.

No Gymtimidation. Gymtimidation is any behavior that makes others feel intimidated or uncomfortable in our stores. Our policy is simple: Planet Fitness is an environment where members can relax, go at their own pace and be themselves without ever having to worry about being judged. Behaviors such as grunting, dropping weights or judging others are not allowed in our stores.

No Lunks. Lunks are people who Gymtimidate. To help maintain our judgement-free environment, each store has a purple and yellow branded “Lunk” alarm on the wall that our staff occasionally rings as a light-hearted, gentle reminder of our policies.

You Belong. We do a lot of little things to make members feel like part of our community—like saying hello and goodbye to everyone who enters our stores, providing Tootsie Rolls at the front desk so that our staff has another opportunity to engage with members, and other membership appreciation gestures such as monthly Pizza Mondays and Bagel Tuesdays at no cost to our members.

Planet of Triumphs. All of our members are working toward their goals—from a single push-up to making it to Planet Fitness twice in a week to losing hundreds of pounds. No matter what size the goal, we believe that all of these accomplishments deserve to be celebrated. Planet of Triumphs (www.PlanetofTriumphs.com) is an elevating, inspiring, 100% Judgement Free social community of real members where all stories are welcome. Planet of Triumphs provides an online platform for members to recognize their triumphs (big and small), share their stories and encourage others, while spotlighting our unique brand belief that everyone belongs.

Membership

We make it simple for members to join, whether online or in-store—no pushy sales tactics, no pressure and no complicated rate structures. Our corporate store staff is not paid commissions based on membership sales but rather have the opportunity to earn a monthly bonus based primarily on store cleanliness, and we urge our franchisees to follow our lead. Our regional managers review our corporate stores multiple times per month for quality control, including generally one visit per month during which they evaluate store cleanliness based upon internally established criteria from which the monthly bonus is derived. Our members generally pay the following amounts (or an equivalent amount in the store’s local currency):

- monthly membership dues of only \$10 for our standard membership or, approximately \$19.99 for PF Black Card members;
- current standard annual fees of approximately \$39; and
- enrollment fees of approximately \$0 to \$59.

Belonging to a Planet Fitness store has perks whether members select the standard membership or the premium PF Black Card membership. Every member gets to take part in Pizza Mondays and Bagel Tuesdays and gets free, unlimited fitness instruction, plus a T-shirt or other Planet Fitness items. Our PF Black Card members also have the right to reciprocal use of all Planet Fitness stores, can bring a friend with them each time they work out, and have access to massage beds and chairs and tanning, among other benefits. PF Black Card benefits extend beyond our store as well, with exclusive specials and discount offers from third-party retail partners. While some of our memberships require a cancellation fee, we offer, and require our franchisees to offer, a non-committal membership option.

As of December 31, 2016, we had approximately 8.9 million members. We utilize electronic funds transfer (“EFT”) as our primary method of collecting monthly dues and annual membership fees. Over 80% of membership fee payments to our corporate-owned and franchise stores are collected via Automated Clearing House (“ACH”) direct debit. We believe there are certain advantages to receiving a higher concentration of ACH payments, as compared to credit cards payments, including less frequent expiration of billing information and reduced exposure to subjective chargeback or dispute claims and fees. Due to our scale and negotiating power, we believe that our third party payment processors offer a competitive bundle of transaction pricing and support services to our franchisees while facilitating revenue collection by us.

Our stores

We had 1,313 stores system-wide as of December 31, 2016, of which 1,255 were franchised and 58 were corporate-owned, located in 48 states, the District of Columbia, Puerto Rico, Canada and the Dominican Republic. The map below shows our franchisee-owned stores by location, and the accompanying table shows our corporate-owned stores by location. Under signed ADAs, as of December 31, 2016, franchisees have committed to open more than 1,000 additional stores.

Franchisee-owned store count by location

Our format

Many traditional gyms include expensive add-ons such as pools, group exercise rooms, daycare facilities and juice bars that require additional maintenance expense and staffing. We have removed these unnecessary and expense-adding facilities and services and replaced them with additional cardio and strength equipment, which we believe allows us to serve more members without imposing time limits on equipment use. We believe our streamlined offerings appeal to the core needs of most gym users, especially first-time or occasional gym users.

Our stores are designed and outfitted to match our brand philosophy, with bright, bold purple and yellow color schemes and purple and yellow Planet Fitness-branded equipment and amenities. Our typical store is 20,000 square feet in single or multi-level retail space. Our stores generally include at least 75 to 100 pieces of co-branded cardio equipment, free weights, strength machines, a 30-minute circuit workout area, a small retail area and a drink cooler. For our PF Black Card members, our stores also generally feature a PF Black Card spa area with total body enhancement machines, massage beds or chairs and tanning.

Store model

Our store model is designed to generate attractive four-wall EBITDA margins, strong free cash flow and high returns on invested capital for both our corporate-owned and franchise stores. Based on a historical survey of franchisees and management estimates, we believe that our franchise stores achieve store-level profitability in line with our corporate-owned store base. The stores included in this survey represent those stores that voluntarily disclosed such information in response to our request, and we believe this information reflects a representative sample of franchisees based on the franchisee groups and geographic areas represented by these stores. Our average four-wall EBITDA margins for our corporate-owned stores have increased significantly since 2012, driven by higher average members per store as well as a higher percentage of PF Black Card members, which leverages our fixed costs. In 2016, our corporate-owned stores had segment EBITDA margin of 39.0% and had AUVs of approximately \$1.8 million with four-wall EBITDA margins of approximately 40%, or approximately 35% after applying the 5% royalty rate, to be comparable to a franchise store, under our current franchise agreement. Based on survey data and management analysis, franchisees have historically earned, and we believe can continue to earn, in their second year of operations, on average, a cash-on-cash return on unlevered (i.e., not

debt-financed) initial investment greater than 25% after royalties and advertising, which is in line with our corporate-owned stores. A franchisee's initial investment includes fitness equipment purchased from us (or from our required vendors in the case of our franchisees in international markets) as well as costs for non-fitness equipment and leasehold improvements. The attractiveness of our franchise model is further evidenced by the fact that over 90% of our new stores in 2016 were opened by our existing franchisee base. We believe that our strong store-level economics are important to our ability to attract and retain successful franchisees and grow our store base.

Fitness equipment

We provide our members with high-quality, Planet Fitness-branded fitness equipment from leading suppliers. In order to maintain a consistent experience across our store base, we stipulate specific pieces and quantities of cardio and strength-training equipment and provide general guidelines for layout and placement. Due to our scale, we are able to negotiate competitive pricing and secure extended warranties from our suppliers. As a result, we believe we offer equipment at more attractive pricing than franchisees could otherwise secure on their own.

Leases

We lease all of our corporate-owned stores and our corporate headquarters. Our store leases typically have initial terms of 10 years with two five-year renewal options, exercisable in our discretion. Our corporate headquarters is currently located at 26 Fox Run Road, Newington, New Hampshire and serve as our base of operations for substantially all of our executive management and employees who provide our primary corporate support functions, including finance, legal, marketing, technology, real estate, development and human resources. On October 18, 2016, we executed a lease for our new corporate headquarters at 4 Liberty Lane West, Hampton, New Hampshire, for an initial term of 15 years with one five-year renewal option, exercisable in our discretion. We anticipate moving into our new location prior to July 2017. We have the right to sublease our current corporate headquarters and are marketing the property actively. In the event we do not agree to a sublease, we will have to negotiate a buyout with our current landlord for the remaining term of our lease.

Franchisees own or directly lease from a third-party each Planet Fitness franchise location. We do not own or enter into leases for Planet Fitness franchise stores and generally do not guarantee franchisees' lease agreements, although we have done so in a few isolated instances.

Franchising

Franchising strategy

We rely heavily on our franchising strategy to develop new Planet Fitness stores, leveraging the ownership of entrepreneurs with specific local market expertise and requiring a relatively minimal capital commitment by us. As of December 31, 2016, there were 1,255 franchised Planet Fitness stores operated by approximately 180 franchisee groups. The majority of our existing franchise operators are multi-unit operators. As of December 31, 2016, 93% of all franchise stores were owned and operated by a franchisee group that owns at least three stores. However, while our largest franchisee owns 63 stores, only 18% of our franchisee groups own more than ten stores. When considering a potential franchisee, we generally evaluate the potential franchisee's prior experience in franchising or other multi-unit businesses, history in managing profit and loss operations, financial history and available capital and financing. We generally do not permit franchisees to borrow more than 80% of the initial investment for their Planet Fitness business.

Area development agreements

An ADA specifies the number of Planet Fitness stores to be developed by the franchisee in a designated geographic area, and requires the franchisee to meet certain scheduled deadlines for the development and opening of each Planet

Fitness store authorized by the ADA. If the franchisee meets those obligations and otherwise complies with the terms of the ADA, we agree not to, during the term of the ADA, operate or franchise new Planet Fitness stores in the designated geographic area. The franchisee must sign a separate franchise agreement with us for each Planet Fitness store developed under an ADA and that franchise agreement governs the franchisee's right to own and operate the Planet Fitness store.

Franchise agreements

For each franchised Planet Fitness store, we enter into a franchise agreement covering standard terms and conditions. Planet Fitness franchisees are not granted an exclusive area or territory under the franchise agreement. The franchise agreement requires that the franchisee operate the Planet Fitness store at a specific location and in compliance with our standard methods of operation, including providing the services, using the vendors and selling the merchandise that we require (or our required vendors in the case of our franchisees located in international markets). The typical franchise agreement has a 10-year term. Additionally, franchisees must purchase equipment from us and replace the fitness equipment in their stores every four to seven years and periodically refurbish and remodel their stores.

We currently require each franchisee to designate a responsible owner and an approved operator for each Planet Fitness store that will have primary management authority for that store. We require these franchisees to complete our initial and ongoing training programs, including minimum periods of classroom and on-the-job training.

Site selection and approval

Our stores are generally located in free-standing retail buildings or neighborhood shopping centers, and we consider locations in both high- and low-density markets. We seek out locations with (i) high visibility and accessibility, (ii) favorable traffic counts and patterns, (iii) availability of signage, (iv) ample parking or access to public transportation and (v) our targeted demographics. Our site analytics tools provide us with extensive demographic data and analysis that we use to review new and existing sites and markets for our corporate-owned stores and franchisees. We assess population density and drive time, current tenant mix, layout, potential competition and impact on existing Planet Fitness stores and comparative data based upon existing stores—all the way down to optimal ceiling heights and HVAC requirements. Our real estate team meets regularly to review sites for future development and follows a detailed review process to ensure each site aligns with our strategic growth objectives and critical success factors.

We help franchisees select sites and develop facilities in these stores that conform to the physical specifications for a Planet Fitness store. Each franchisee is responsible for selecting a site, but must obtain site approval from us. We primarily learn of new sites in two ways. First, we have a formal site-approval submission process for landlords and franchisees. Each site submitted to us is reviewed by a subcommittee of our real estate team for brand qualifications. Second, we proactively review real estate portfolios for appropriate sites that we may consider for corporate-owned stores or franchisee development, depending upon location. In 2016, we identified and evaluated a total of more than 2,000 sites on this basis.

We are also involved in real estate organizations such as the International Council of Shopping Centers (ICSC), a trade organization for the international shopping center industry. Our membership in ICSC allows us to gather data, meet prospective landlords and further enhance our reputation as a desired tenant for shopping centers.

Design and construction

Once we have approved a franchisee's site selection, we assist in the design and layout of the store and track the franchisee's progress from lease signing to grand opening. Franchisees work directly with our franchise support team to track key milestones, coordinate with vendors and make equipment purchases. Certain Planet Fitness brand elements are required to be incorporated into every new store, and we strive for a consistent appearance across all of our stores, emphasizing clean, attractive facilities, including full-size locker rooms, and modern equipment. Franchisees must abide by our standards related to fixtures, finishes and design elements, including distinctive touches such as our "Lunk" alarm. We believe these elements are critical to ensure brand consistency and member experience system-wide.

In 2016, based on a sample of U.S. franchisee data, we believe construction of franchise stores averaged approximately 14 weeks. In addition, based upon this sample of 50 stores across a wide range of U.S. geographies, we

estimate that franchisees' typical unlevered (i.e., not debt-financed) investment in 2016 to open a new store was approximately \$1.6 million. This amount includes fitness equipment purchased from us as well as costs for non-fitness equipment and leasehold improvements and is based in part upon data we received from two general contractors that oversaw the construction of the 50 stores in the sample set. Additionally, this amount includes an estimate of other costs that are typically paid by the franchisee and not managed by the general contractor. These amounts can vary significantly depending on a number of factors, including landlord allowances for tenant improvements and construction costs from different geographies.

Franchisee support

We live and breathe the motto One Team, One Planet in our daily interactions with franchisees. Our franchise model is streamlined and easy-to-operate, with efficient staffing and minimal inventory, and is supported by an active, engaged franchise operations system. We provide our franchisees with operational support, marketing materials and training resources. Our strong and long-lasting partnership with our franchisees is reflected in the fact that over 90% of our new stores in 2016 were opened by our existing franchisee base.

Training. In 2014, we developed, and continue to update and expand, Planet Fitness University, a comprehensive training resource to help franchisees operate successful stores. Courses are delivered online, and content focuses on customer service, operational policies, brand standards, cleanliness, security awareness, crisis management and vendor product information. We are continually adding and improving the content available on Planet Fitness University as a no-cost service to help enhance training programs for franchisees. Additional training opportunities offered to our franchisees include new owner orientation, operations training and workshops held at Planet Fitness headquarters and in stores across the country as well as through webinars.

Operational support and communication. We believe spending quality time with our franchisees in person is an important opportunity to further strengthen our relationships and share best practices. We have dedicated operations and marketing teams providing ongoing support to franchisees. We are hands on—we often attend franchisees’ presales and grand openings, and we host franchisee meetings each year, known as “PF Huddles.” We also communicate regularly with our entire franchisee base to keep them informed, and we have hosted an Annual Franchise Conference every year that is geared towards franchisees and their operations teams.

We regularly communicate with the franchisee advisory groups described below and send a weekly email communication to all franchisees with timely “news you can use” information related to operations, marketing, financing and equipment. Every month, a franchisee newsletter is sent to all franchisees, which includes a personal letter from our Chief Executive Officer, important updates on the business and benchmarking reports.

Franchisee relations. Because our ability to execute our strategy is dependent upon the strength of our relationships with our franchisees, we maintain an ongoing dialogue and strong relationship with two franchise advisory groups, the Franchise Advisory Council (“FAC”) and the Planet Fitness Independent Franchise Association (“PFIFA”). The FAC includes seven franchisees elected by the franchisee base and numerous committees consisting of approximately 40 franchisees. The FAC and its committees provide feedback and input on major brand initiatives, new product and service introductions, technology initiatives, marketing programs and advertising campaigns. FAC leaders have regular dialogue with our executive team and work closely with us to advise on major initiatives impacting the brand. Our strong culture of working together is the driving force behind all we do, and we refer to our franchisees as “raving FANchisees.” In 2014, in cooperation with us, our franchisees also organized PFIFA. PFIFA assists our franchisees and us in working together to develop brand ideas, streamline legal agreements and provide advice on related topics to franchisees on issues such as succession and estate planning.

Compliance with brand standards—Brand Excellence

We have dedicated Brand Excellence and franchise operations teams focused on ensuring that our franchise stores adhere to brand standards and providing ongoing assistance, training and monitoring to those franchisees that have difficulty meeting those standards. We generally perform a detailed Brand Excellence review on each franchise store within 30 to 60 days of opening, and each franchise store is generally reviewed at least once per year thereafter. In 2016, our teams performed approximately 1,000 franchise store reviews covering all franchise ownership groups.

We review stores based on a wide range of criteria ranging from cleanliness to compliance with signage and layout requirements and operational standards. We record the results of each review in a third-party Planet Fitness-branded software system, which automatically sends a Brand Excellence report to the appropriate franchisee. Results are also available to the franchisee through the Brand Excellence software system, which provides access to regional and international benchmarking data, allowing franchisees to compare overall results among their peers as well as results based upon each criterion. Stores that do not receive a passing score are automatically flagged for follow-up by our team and will generally be reevaluated within 30 to 60 days to ensure all identified issues have been addressed. Our Brand Excellence system also enables franchisees to perform, track and benchmark self-assessments and online member surveys through the Brand Excellence software system.

We also use mystery shoppers to perform anonymous Brand Excellence reviews of franchise stores. We generally select franchise stores for review randomly but also target underperforming stores and stores that have not performed well in Brand Excellence reviews.

Marketing

Marketing strategy

Our marketing strategy is anchored by our key brand differentiators—the Judgement Free Zone, our exceptional value and our high-quality experience. We are well known for our memorable and creative advertising, which not only drives membership sales, but also showcases our brand philosophy, humor and innovation in the industry. We see Planet Fitness as a community gathering place, and the heart of our marketing strategy is to create a welcoming community for our members.

Marketing spending

National advertising. We support our franchisees both at a national and local level. We manage the U.S. NAF and Canadian advertising fund for franchisees and corporate-owned stores, with the goals of generating national awareness through national advertising and media partnerships, developing and maintaining creative assets to support local sale periods throughout the year, and building and supporting the Planet Fitness community via digital and social media. Our current U.S. and Canadian franchise agreement requires franchisees to contribute 2% of their monthly EFT to the NAF and Canadian advertising fund, respectively. Since the NAF was founded in September 2011, it has enabled us to spend approximately \$107 million to increase national brand awareness, including over \$31 million in 2016. We believe this is a powerful marketing tool as it allows us to increase brand awareness in new and existing markets.

Local marketing. Our current franchise agreement requires franchisees to spend 7% of their monthly EFT on local marketing to support branding efforts and promotional sale periods throughout the year. In situations where multiple ownership groups exist in a geographic area, we have the ability to require franchisees to form or join regional marketing cooperatives to maximize the impact of their marketing spending. Our corporate-owned stores contribute to, and participate in, regional marketing cooperatives with franchisees where practical. All franchise stores are supported by our dedicated franchisee marketing team, which provides guidance, tracking, measurement and advice on best practices. Franchisees spend their marketing dollars in a variety of ways to promote business at their stores on a local level. These methods typically include media vehicles that are effective on a local level, including direct mail, outdoor (including billboards), television, radio and digital advertisements and local partnerships and sponsorships.

Media partnerships

Given our scale and marketing resources through our national advertising fund, we have aligned ourselves with high-profile media partners who have helped to extend the reach of our brand. We recognized the value of these media partnerships through our five-year partnership with “The Biggest Loser,” a popular television show running on NBC where competitors strive to lose weight and learn to live a healthier lifestyle. We showcased the power of our Judgement Free Zone by enabling everyday people (including those who may have never considered joining a gym before) to achieve healthier lifestyles. For the past two years, we have been the presenting sponsor of “Dick Clark’s New Year’s Rockin’ Eve with Ryan Seacrest.” This has allowed us to showcase the Planet Fitness brand and our judgement-free philosophy to over a billion people worldwide each year.

Judgement Free Generation

The Judgement Free Generation is Planet Fitness’ philanthropic initiative designed to combat the judgement and bullying faced by today’s youth by creating a culture of kindness and encouragement. With our Judgement Free Zone and No Gymtimidation principles as a solid foundation, The Judgement Free Generation aims to empower a generation to grow up contributing to a more judgement free planet—a place where everyone feels accepted and like they belong.

We have partnered with Boys & Girls Clubs of America and STOMP Out Bullying, to make a meaningful impact on the lives of today’s youth. Together with our franchisees, Planet Fitness has donated more than \$1.4 million to support anti-bullying, pro-kindness initiatives.

Competition

In a broad sense, because many of our members are first-time or occasional gym users, we believe we compete with both fitness and non-fitness consumer discretionary spending alternatives for members’ and prospective members’ time and discretionary resources.

To a great extent, we also compete with other industry participants, including:

• other fitness centers;
• recreational facilities established by non-profit organizations such as YMCAs and by businesses for their employees;
• private studios and other boutique fitness offerings;
• racquet, tennis and other athletic clubs;
• amenity and condominium/apartment clubs;
• country clubs;
• online personal training and fitness coaching;
• the home-use fitness equipment industry;
• local tanning salons; and
• businesses offering similar services.

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The health club industry is highly competitive and fragmented, and the number, size and strength of competitors vary by region. Some of our competitors have name recognition in their respective countries or an established presence in local markets, and some are established in markets in which we have existing stores or intend to locate new stores. These risks are more significant internationally, where we have a limited number of stores and limited brand recognition.

We compete primarily based upon the membership value proposition we are able to offer due to our significant economies of scale, high-quality fitness experience, judgement-free atmosphere and superior customer service, all at an exceptional value, which we believe differentiates us from our competitors.

Our competition continues to increase as we continue to expand into new markets and add stores in existing markets. See also “Risk Factors—Risks related to our business and industry—The high level of competition in the health and fitness industry could materially and adversely affect our business.”

Suppliers

Franchisees are required to purchase fitness equipment from us (or our required vendors in the case of franchisees located in international markets) and are required to purchase various other items from vendors that we approve. We sell equipment purchased from third-party equipment manufacturers to franchise stores in the U.S. We also have one approved supplier of tanning beds, one approved supplier of massage beds and chairs, and various approved suppliers of non-fitness equipment and miscellaneous items such as paper towels and t-shirts. These vendors arrange for delivery of products and services directly to franchise stores. From time to time, we re-evaluate our supply relationships to ensure we obtain competitive pricing and high-quality equipment and other items.

Employees

As of December 31, 2016, we employed 754 employees at our corporate-owned stores and 209 employees at our corporate headquarters located at 26 Fox Run Road, Newington, New Hampshire. None of our employees are represented by labor unions, and we believe we have an excellent relationship with our employees.

Planet Fitness franchises are independently owned and operated businesses. As such, employees of our franchisees are not employees of the Company.

Information technology and systems

All stores use a computerized, third-party hosted store management system to process new in-store memberships, bill members, update member information, check-in members, process point of sale transactions as well as track and analyze sales, membership statistics, cross-store utilization, member tenure, amenity usage, billing performance and demographic profiles by member. Our websites are hosted by third parties, and we also rely on third-party vendors for related functions such as our system for processing and integrating new online memberships, updating member information and making online payments. We believe these systems are scalable to support our growth plans.

Our back-office computer systems are comprised of a variety of technologies designed to assist in the management and analysis of our revenues, costs and key operational metrics as well as support the daily operations of our headquarters. These include third-party hosted systems that support our real estate and construction processes, a third-party hosted financial system, a third-party hosted data warehouse and business intelligence system to consolidate multiple data sources for reporting, advanced analysis, and financial analysis and forecasting, a third-party hosted payroll system, on premise telephony systems and a third-party hosted call center software solution to manage and track member-related requests.

We also provide our franchisees access to a web-based, third-party hosted custom franchise management system to receive informational notices, operational resources and updates, training materials and other franchisee communications. In 2016, we continued our multi-phased project that we started in 2015 to replace our existing franchise management system and consolidate several back-office systems, onto a third-party hosted platform to drive greater cross-system integration and efficiency and provide a scalable platform to support our growth plans. We made substantial progress throughout 2016 on this project, further automating and consolidating franchise support processes, and expect to continue investing resources to complete the initial phase of this project in 2017. We expect that we will continue to have smaller, focused projects for our franchise management system to support the changing needs of our business.

We recognize the value of enhancing and extending the uses of information technology in virtually every area of our business. Our information technology strategy is aligned to support our business strategy and operating plans. We maintain an ongoing comprehensive multi-year program to replace or upgrade key systems, enhance security and optimize their performance.

Intellectual property

We own many registered trademarks and service marks in the U.S. and in other countries, including “Planet Fitness,” “Judgement Free Zone,” “PE@PF,” “No Lunks,” “PF Black Card,” “No Gymtimidation,” “You Belong,” “Judgement Free Generation” and various other marks. We believe the Planet Fitness name and the many distinctive marks associated with it are of significant value and are very important to our business. Accordingly, as a general policy, we pursue registration of our marks in select international jurisdictions, monitor the use of our marks in the U.S. and internationally and vigorously oppose any unauthorized use of the marks.

We license the use of our marks to franchisees, third-party vendors and others through franchise agreements, vendor agreements and licensing agreements. These agreements restrict third parties’ activities with respect to use of the marks and impose brand standards requirements. We require licensees to inform us of any potential infringement of the marks.

We register some of our copyrighted material and otherwise rely on common law protection of our copyrighted works. Such copyrighted materials are not material to our business.

We also license some intellectual property from third parties for use in our stores but such licenses are not material to our business.

Government regulation

We and our franchisees are subject to various federal, state, provincial and local laws and regulations affecting our business.

We are subject to the FTC Franchise Rule promulgated by the FTC that regulates the offer and sale of franchises in the U.S. and its territories (including Puerto Rico) and requires us to provide to all prospective franchisees certain mandatory disclosure in a franchise disclosure document (“FDD”). In addition, we are subject to state franchise sales laws in approximately 14 states that regulate the offer and sale of franchises by requiring us to make a franchise filing or obtain franchise registration prior to our making any offer or sale of a franchise in those states and to provide a FDD to prospective franchisees in accordance with such laws.

We are subject to franchise sales laws in six provinces in Canada that regulate the offer and sale of franchises by requiring us to provide a FDD in a prescribed format to prospective franchisees in accordance with such laws, and that regulate certain aspects of the franchise relationship. We are also subject to franchise relationship laws in over 20 states that regulate many aspects of the franchisor-franchisee relationship, including renewals and terminations of franchise agreements, franchise transfers, the applicable law and venue in which franchise disputes must be resolved, discrimination, and franchisees’ right to associate, among others. In addition, we and our franchisees may also be subject to laws in other foreign countries (including the Dominican Republic) where we or they do business.

We and our franchisees are also subject to the U.S. Fair Labor Standards Act of 1938, as amended, similar state laws in certain jurisdictions, and various other laws in the U.S. and Canada governing such matters as minimum-wage requirements, overtime and other working conditions. A significant number of our and our franchisees’ employees are paid at rates related to the U.S. federal or state minimum wage, and past increases in the U.S. federal and/or state minimum wage have increased labor costs, as would future increases.

Our and our franchisees’ operations and properties are subject to extensive U.S. and Canadian federal, state, provincial and local laws and regulations, including those relating to environmental, building and zoning requirements. Our and our franchisees’ development of properties depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements.

We and our franchisees are responsible at stores we each operate for compliance with U.S. state laws and Canadian provincial laws that regulate the relationship between health clubs and their members. Nearly all states and provinces have consumer protection regulations that limit the collection of monthly membership dues prior to opening, require certain disclosures of pricing information, mandate the maximum length of contracts and “cooling off” periods for members (after the purchase of a membership), set escrow and bond requirements for health clubs, govern member rights in the event of a member relocation or disability, provide for specific member rights when a health club closes or relocates, or preclude automatic membership renewals.

We and our franchisees primarily accept payments for our memberships through electronic fund transfers from members’ bank accounts, and, therefore, we and our franchisees are subject to federal, state and provincial laws legislation and certification requirements, including the Electronic Funds Transfer Act. Some states, such as New York, Massachusetts and Tennessee, have passed or have considered legislation requiring gyms and health clubs to offer a prepaid membership option at all times and/or limit the duration for which gym memberships can auto-renew through EFT payments, if at all. Our business relies heavily on the fact that our memberships continue on a month-to-month basis after the completion of any initial term requirements, and compliance with these laws, regulations, and similar requirements may be onerous and expensive, and variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. States that have such health club statutes provide harsh penalties for violations, including membership contracts being void or voidable.

Additionally, the collection, maintenance, use, disclosure and disposal of individually identifiable data by our, or our franchisees', businesses are regulated at the federal, state and provincial levels as well as by certain financial industry groups, such as the Payment Card Industry, Security Standards Council, the National Automated Clearing House Association ("NACHA") and the Canadian Payments Association. Federal, state, provincial and financial industry groups may also consider from time to time new privacy and security requirements that may apply to our businesses and may impose further restrictions on our collection, disclosure and use of individually identifiable information that are housed in one or more of our databases.

Many of the states and provinces where we and our franchisees operate stores have health and safety regulations that apply to health clubs and other facilities that offer indoor tanning services. In addition, U.S. federal healthcare legislation signed into law in March 2010 contains a 10% excise tax on indoor tanning services. Under the rule promulgated by the IRS imposing the tax, a portion of the cost of memberships that include access to our tanning services are subject to the tax.

Our organizational structure

Planet Fitness, Inc. is a holding company, and its principal asset is an equity interest in the membership units ("Holdings Units") in Pla-Fit Holdings, LLC ("Pla-Fit Holdings").

We are the sole managing member of Pla-Fit Holdings. We operate and control all of the business and affairs of Pla-Fit Holdings, and we hold 100% of the voting interest in Pla-Fit Holdings. As a result, we consolidate Pla-Fit Holdings' financial results and report a non-controlling interest related to the Holdings Units not owned by us. See Note 1 to the consolidated financial statements included in Part II, Item 8 for more information.

Available information

Our website address is www.planetfitness.com, and our investor relations website is located at <http://investor.planetfitness.com>. Information on our website is not incorporated by reference herein. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our Proxy Statements for our annual meetings of shareholders, and any amendments to those reports, as well as Section 16 reports filed by our insiders, are available free of charge on our website as soon as reasonably practicable after we file the reports with, or furnish the reports to, the Securities and Exchange Commission (the "SEC"). Our SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (<http://www.sec.gov>) containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

We could be adversely impacted by various risks and uncertainties. If any of these risks actually occur, our business, financial condition, operating results, cash flow and prospects may be materially and adversely affected. As a result, the trading price of our Class A common stock could decline.

Risks related to our business and industry

Our financial results are affected by the operating and financial results of and our relationships with our franchisees.

A substantial portion of our revenues come from royalties, which are generally based on a percentage of monthly membership dues and annual fees at our franchise stores, other fees and commissions generated from activities associated with our franchisees and equipment sales to our franchisees. As a result, our financial results are largely dependent upon the operational and financial results of our franchisees. As of December 31, 2016, we had approximately 180 franchisee groups operating 1,255 stores. Negative economic conditions, including inflation, increased unemployment levels and the effect of decreased consumer confidence or changes in consumer behavior, could materially harm our franchisees' financial condition, which would cause our royalty and other revenues to decline and materially and adversely affect our results of operations and financial condition as a result. In addition, if our franchisees fail to renew their franchise agreements, these revenues may decrease, which in turn could materially and adversely affect our results of operations and financial condition.

Our franchisees could take actions that harm our business.

Our franchisees are contractually obligated to operate their stores in accordance with the operational, safety and health standards set forth in our agreements with them. However, franchisees are independent third parties, and their actions are outside of our control. In addition, we cannot be certain that our franchisees will have the business acumen or financial resources necessary to operate successful franchises in their approved locations, and certain state franchise laws may limit our ability to terminate or modify these franchise agreements. The franchisees own, operate and oversee the daily operations of their stores. As a result, the ultimate success and quality of any franchise store rests with the franchisee. If franchisees do not successfully operate stores in a manner consistent with required standards and comply with local laws and regulations, franchise fees and royalties paid to us may be adversely affected, and our brand image and reputation could be harmed, which in turn could adversely affect our results of operations and financial condition.

Moreover, although we believe we generally maintain positive working relationships with our franchisees, disputes with franchisees could damage our brand image and reputation and our relationships with our franchisees, generally.

Our success depends substantially on the value of our brand.

Our success is dependent in large part upon our ability to maintain and enhance the value of our brand, our store members' connection to our brand and a positive relationship with our franchisees. Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to our policies, the way we manage our relationships with our franchisees, our growth strategies, our development efforts or the ordinary course of our, or our franchisees', businesses. Other incidents that could be damaging to our brand may arise from events that are or may be beyond our ability to control, such as:

actions taken (or not taken) by one or more franchisees or their employees relating to health, safety, welfare or otherwise;

data security breaches or fraudulent activities associated with our and our franchisees' electronic payment systems;
litigation and legal claims;
third-party misappropriation, dilution or infringement of our intellectual property;
regulatory, investigative or other actions relating to our and our franchisees' provision of indoor tanning services; and
illegal activity targeted at us or others.

Consumer demand for our stores and our brand's value could diminish significantly if any such incidents or other matters erode consumer confidence in us or our stores, which would likely result in fewer memberships sold or renewed and, ultimately, lower royalty revenue, which in turn could materially and adversely affect our results of operations and financial condition.

If we fail to successfully implement our growth strategy, which includes new store development by existing and new franchisees, our ability to increase our revenues and operating profits could be adversely affected.

Our growth strategy relies in large part upon new store development by existing and new franchisees. Our franchisees face many challenges in opening new stores, including:

- availability and cost of financing;
- selection and availability of suitable store locations;
- competition for store sites;
- negotiation of acceptable lease and financing terms;
- securing required domestic or foreign governmental permits and approvals;
- health and fitness trends in new geographic regions and acceptance of our offerings;
- employment, training and retention of qualified personnel;
- ability to open new stores during the timeframes we and our franchisees expect; and
- general economic and business conditions.

In particular, because the majority of our new store development is funded by franchisee investment, our growth strategy is dependent on our franchisees' (or prospective franchisees') ability to access funds to finance such development. If our franchisees (or prospective franchisees) are not able to obtain financing at commercially reasonable rates, or at all, they may be unwilling or unable to invest in the development of new stores, and our future growth could be adversely affected.

Our growth strategy also relies on our ability to identify, recruit and enter into agreements with a sufficient number of franchisees. In addition, our ability and the ability of our franchisees to successfully open and operate new stores in new markets may be adversely affected by a lack of awareness or acceptance of our brand as well as a lack of existing marketing efforts and operational execution in these new markets. To the extent that we are unable to implement effective marketing and promotional programs and foster recognition and affinity for our brand in new markets, our and our franchisees' new stores may not perform as expected and our growth may be significantly delayed or impaired. In addition, franchisees of new stores may have difficulty securing adequate financing, particularly in new markets, where there may be a lack of adequate history and brand familiarity. New stores may not be successful or our average store membership sales may not increase at historical rates, which could materially and adversely affect our business, results of operations and financial condition.

To the extent our franchisees are unable to open new stores as we anticipate, we will not realize the revenue growth that we hope or expect. Our failure to add a significant number of new stores would adversely affect our ability to increase our revenues and operating income and could materially and adversely affect our business, results of operations and financial condition.

Our planned growth could place strains on our management, employees, information systems and internal controls, which may adversely impact our business.

Over the past several years, we have experienced growth in our business activities and operations, including a significant increase in the number of system-wide stores. Our past expansion has placed, and our planned future expansion may place, significant demands on our administrative, operational, financial and other resources. Any failure to manage growth effectively could seriously harm our business. To be successful, we will need to continue to implement management information systems and improve our operating, administrative, financial and accounting systems and controls. We will also need to train new employees and maintain close coordination among our executive, accounting, finance, legal, human resources, risk management, marketing, technology, sales and operations functions. These processes are time-consuming and expensive, increase management responsibilities and divert management attention, and we may not realize a return on our investment in these processes. In addition, we believe the culture we

foster at our and our franchisees' stores is an important contributor to our success. However, as we expand we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. These risks may be heightened as our growth accelerates. In 2016, our franchisees opened 195 stores, compared to 206 stores in 2015, 169 stores in 2014 and 148 stores in 2013. Our failure to successfully execute on our planned expansion of stores could materially and adversely affect our results of operations and financial condition.

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

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

We and our franchisees rely heavily on information systems, and any material failure, interruption or weakness may prevent us from effectively operating our business and damage our reputation.

We and our franchisees increasingly rely on information systems, including point-of-sale processing systems in our stores and other information systems managed by third parties, to interact with our franchisees and members and collect, maintain and store member information, billing information and other personally identifiable information, including for the operation of stores, collection of cash, legal and regulatory compliance, management of our supply chain, accounting, staffing, payment of obligations, ACH transactions, credit and debit card transactions and other processes and procedures. Furthermore, in 2015, we migrated our point-of-sale system from a proprietary, third-party hosted system to a commercially available, third-party hosted system. Although the migration is complete, in the future there may be unforeseen issues, bugs, data inconsistencies, outages, changes in business processes, and other interruptions that could impact our business. If we need to move to a different third-party system, our operations, including EFT drafting, could be interrupted. Our ability to efficiently and effectively manage our franchisee and corporate-owned stores depends significantly on the reliability and capacity of these systems, and any potential failure of these third parties to provide quality uninterrupted service is beyond our control.

Our and our franchisees' operations depend upon our ability, and the ability of our franchisees and third-party service providers (as well as their third-party service providers), to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, denial-of-service attacks and other disruptions. The failure of these systems to operate effectively, stemming from maintenance problems, upgrading or transitioning to new platforms, expanding our systems as we grow, a breach in security or other unanticipated problems could result in interruptions to or delays in our business and member service and reduce efficiency in our operations. In addition, the implementation of technology changes and upgrades to maintain current and integrate new systems may also cause service interruptions, operational delays due to the learning curve associated with using a new system, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. If our information systems, or those of our franchisees and third-party service providers (as well as their third-party service providers), fail and our or our partners' third-party back-up or disaster recovery plans are not adequate to address such failures, our revenues and profits could be reduced and the reputation of our brand and our business could be materially adversely affected.

If we fail to properly maintain the confidentiality and integrity of our data, including member credit card, debit card and bank account information, our reputation and business could be materially and adversely affected.

In the ordinary course of business, we and our franchisees collect, transmit and store member and employee data, including credit and debit card numbers, bank account information, driver's license numbers, dates of birth and other highly sensitive personally identifiable information, in information systems that we maintain and in those maintained by franchisees and third parties with whom we contract to provide services. Some of this data is sensitive and could be an attractive target of a criminal attack by malicious third parties with a wide range of motives and expertise, including lone wolves, organized criminal groups, "hacktivists," disgruntled current or former employees, and others. The integrity and protection of member and employee data is critical to us.

Despite the security measures we have in place to comply with applicable laws and rules, our facilities and systems, and those of our franchisees and third-party service providers (as well as their third-party service providers), may be vulnerable to security breaches, acts of cyber terrorism or sabotage, vandalism or theft, computer viruses, loss or corruption of data, programming or human errors or other similar events. Furthermore, the size and complexity of our information systems, and those of our franchisees and our third-party vendors (as well as their third-party service providers), make such systems potentially vulnerable to security breaches from inadvertent or intentional actions by our employees, franchisees or vendors, or from attacks by malicious third parties. Because such attacks are increasing in sophistication and change frequently in nature, we, our franchisees and our third-party service providers may be unable to anticipate these attacks or implement adequate preventative measures, and any compromise of our systems,

or those of our franchisees and third-party vendors (as well as their third-party service providers), may not be discovered and remediated promptly. Changes in consumer behavior following a security breach, act of cyber terrorism or sabotage, vandalism or theft, computer viruses, loss or corruption of data or programming or human error or other similar event affecting a competitor, large retailer or financial institution may materially and adversely affect our business.

Additionally, the collection, maintenance, use, disclosure and disposal of personally identifiable information by our, or our franchisees', businesses are regulated at the federal, state and provincial levels as well as by certain industry groups, such as the Payment Card Industry Security Standards Council, NACHA, Canadian Payments Association and individual credit card issuers. Federal, state, provincial and industry groups may also consider and implement from time to time new privacy and security requirements that apply to our businesses. Compliance with evolving privacy and security laws, requirements and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on our business models and the development of new administrative processes. They also may impose further restrictions on our collection, disclosure and use of personally identifiable information that are housed in one or more of our franchisees' databases or those of our third-party service providers. Noncompliance with privacy laws or industry group requirements or a security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive or confidential information, whether by us or by one of our franchisees or vendors, could have material adverse effects on our and our franchisees' business, operations, brand, reputation and financial condition,

including decreased revenue, material fines and penalties, litigation, increased financial processing fees, compensatory, statutory, punitive or other damages, adverse actions against our licenses to do business and injunctive relief by court or consent order. We maintain and we require our franchisees to maintain cyber risk insurance, but in the event of a significant data security breach, this insurance may not cover all of the losses that we would be likely to suffer.

Changes in legislation or requirements related to electronic fund transfer, or our failure to comply with existing or future regulations, may adversely impact our business.

We primarily accept payments for our memberships through electronic fund transfers from members' bank accounts and, therefore, we are subject to federal, state and provincial legislation and certification requirements governing EFT, including the Electronic Funds Transfer Act. Some states, such as New York, Massachusetts and Tennessee, have passed or have considered legislation requiring gyms and health clubs to offer a prepaid membership option at all times and/or limit the duration for which gym memberships can auto-renew through EFT payments, if at all. Our business relies heavily on the fact that our memberships continue on a month-to-month basis after the completion of any initial term requirements, and compliance with these laws and regulations and similar requirements may be onerous and expensive. In addition, variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. States that have such health club statutes provide harsh penalties for violations, including membership contracts being void or voidable. Our failure to comply fully with these rules or requirements may subject us to fines, higher transaction fees, penalties, damages and civil liability and may result in the loss of our ability to accept EFT payments, which would have a material adverse effect on our business, results of operations and financial condition. In addition, any such costs, which may arise in the future as a result of changes to the legislation and regulations or in their interpretation, could individually or in the aggregate cause us to change or limit our business practice, which may make our business model less attractive to our franchisees and our and their members.

We are subject to a number of risks related to ACH, credit card and debit card payments we accept.

We accept payments through ACH, credit card and debit card transactions. For ACH, credit card and debit card payments, we pay interchange and other fees, which may increase over time. An increase in those fees would require us to either increase the prices we charge for our memberships, which could cause us to lose members or suffer an increase in our operating expenses, either of which could harm our operating results.

If we or any of our processing vendors have problems with our billing software, or the billing software malfunctions, it could have an adverse effect on our member satisfaction and could cause one or more of the major credit card companies to disallow our continued use of their payment products. In addition, if our billing software fails to work properly and, as a result, we do not automatically charge our members' credit cards, debit cards or bank accounts on a timely basis or at all, we could lose membership revenue, which would harm our operating results.

If we fail to adequately control fraudulent ACH, credit card and debit card transactions, we may face civil liability, diminished public perception of our security measures and significantly higher ACH, credit card and debit card related costs, each of which could adversely affect our business, financial condition and results of operations. The termination of our ability to process payments through ACH transactions or on any major credit or debit card would significantly impair our ability to operate our business.

Our and our franchisees' stores may be unable to attract and retain members, which would materially and adversely affect our business, results of operations and financial condition.

Our target market is average people seeking regular exercise and people who are new to fitness. The success of our business depends on our and our franchisees' ability to attract and retain members. Our and our franchisees' marketing efforts may not be successful in attracting members to stores, and membership levels may materially decline over

time, especially at stores in operation for an extended period of time. Members may cancel their memberships at any time after giving proper advance written notice, subject to an initial minimum term applicable to certain memberships. We may also cancel or suspend memberships if a member fails to provide payment for an extended period of time. In addition, we experience attrition and must continually engage existing members and attract new members in order to maintain membership levels. A portion of our member base does not regularly use our stores and may be more likely to cancel their membership. Some of the factors that could lead to a decline in membership levels include changing desires and behaviors of consumers or their perception of our brand, changes in discretionary spending trends and general economic conditions, market maturity or saturation, a decline in our ability to deliver quality service at a competitive price, an increase in monthly membership dues due to inflation, direct and indirect competition in our industry, and a decline in the public's interest in health and fitness, among other factors. In order to increase membership levels, we may from time to time offer promotions or lower monthly dues or annual fees. If we and our franchisees are not successful in optimizing price or in adding new memberships in new and existing stores, growth in monthly membership dues or annual fees may suffer. Any decrease in our average dues or fees or higher membership costs may adversely impact our results of operations and financial condition.

If we and our franchisees are unable to identify and secure suitable sites for new franchise stores, our revenue growth rate and profits may be negatively impacted.

To successfully expand our business, we and our franchisees must identify and secure sites for new franchise stores and, to a lesser extent, new corporate-owned stores that meet our established criteria. In addition to finding sites with the right demographic and other measures we employ in our selection process, we also need to evaluate the penetration of our competitors in the market. We face significant competition for sites that meet our criteria, and as a result we may lose those sites, our competitors could copy our format or we could be forced to pay significantly higher prices for those sites. If we and our franchisees are unable to identify and secure sites for new stores, our revenue growth rate and profits may be negatively impacted. Additionally, if our or our franchisees' analysis of the suitability of a store site is incorrect, we or our franchisees may not be able to recover the capital investment in developing and building the new store.

As we increase our number of stores, we and our franchisees may also open stores in higher-cost geographies, which could entail greater lease payments and construction costs, among others. The higher level of invested capital at these stores may require higher operating margins and higher net income per store to produce the level of return we or our franchisees and potential franchisees expect. Failure to provide this level of return could adversely affect our results of operations and financial condition.

Opening new stores in close proximity may negatively impact our existing stores' revenues and profitability.

We and our franchisees currently operate stores in 48 states, Puerto Rico, Canada and the Dominican Republic, and we and our franchisees plan to open many new stores in the future, some of which will be in existing markets. We intend to continue opening new franchise stores in our existing markets as part of our growth strategy, some of which may be located in close proximity to stores already in those markets. Opening new stores in close proximity to existing stores may attract some memberships away from those existing stores, which may lead to diminished revenues and profitability for us and our franchisees rather than increased market share. In addition, as a result of new stores opening in existing markets and because older stores will represent an increasing proportion of our store base over time, our same store sales increases may be lower in future periods than they have been historically.

We are subject to a variety of additional risks associated with our franchisees.

Our franchise business model subjects us to a number of risks, any one of which may impact our royalty revenues collected from our franchisees, may harm the goodwill associated with our brand, and may materially and adversely impact our business and results of operations.

Bankruptcy of franchisees. A franchisee bankruptcy could have a substantial negative impact on our ability to collect payments due under such franchisee's franchise agreement(s). In a franchisee bankruptcy, the bankruptcy trustee may reject its franchise agreement(s), ADA(s) and/or franchisee lease/sublease pursuant to Section 365 under the U.S. bankruptcy code, in which case there would be no further royalty payments from such franchisee, and we may not ultimately recover those payments in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.

Franchisee changes in control. Our franchises are operated by independent business owners. Although we have the right to approve franchise owners, and any transferee owners, it can be difficult to predict in advance whether a particular franchise owner will be successful. If an individual franchise owner is unable to successfully establish, manage and operate the store, the performance and quality of service of the store could be adversely affected, which could reduce memberships and negatively affect our royalty revenues and brand image. Although our agreements prohibit "changes in control" of a franchisee without our prior consent as the franchisor, a franchise owner may desire to transfer a store to a transferee franchisee. In addition, in the event of the death or disability of a franchisee (if a natural person) or a principal of a franchisee entity, the executors and representatives of the franchisee are required to transfer

the relevant franchise agreements to a successor franchisee approved by the franchisor. In any transfer situation, the transferee may not be able to perform the former franchisee's obligations under such franchise agreements and successfully operate the store. In such a case the performance and quality of service of the store could be adversely affected, which could also reduce memberships and negatively affect our royalty revenues and brand image.

Franchisee insurance. Our franchise agreements require each franchisee to maintain certain insurance types and levels. Losses arising from certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material adverse effect on a franchisee's ability to satisfy its obligations under its franchise agreement or other contractual obligations, which could cause a franchisee to terminate its franchise agreement and, in turn, negatively affect our operating and financial results.

Some of our franchisees are operating entities. Franchisees may be natural persons or legal entities. Our franchisees that are operating companies (as opposed to limited purpose entities) are subject to business, credit, financial and other risks, which may be unrelated to the operation of their stores. These unrelated risks could materially and adversely affect a franchisee that is an operating company and its ability to service its members and maintain store operations while making royalty payments, which in turn may materially and adversely affect our business and operating results.

Franchise agreement termination; nonrenewal. Each franchise agreement is subject to termination by us as the franchisor in the event of a default, generally after expiration of applicable cure periods, although under certain circumstances a franchise agreement may be terminated by us upon notice without an opportunity to cure. The default provisions under the franchise agreements are drafted broadly and include, among other things, any failure to meet operating standards and actions that may threaten the licensed intellectual property. Moreover, a franchisee may have a right to terminate its franchise agreement in certain circumstances.

In addition, each franchise agreement has an expiration date. Upon the expiration of a franchise agreement, we or the franchisee may, or may not, elect to renew the franchise agreement. If the franchise agreement is renewed, the franchisee will receive a “successor” franchise agreement for an additional term. Such option, however, is contingent on the franchisee’s execution of the then-current form of franchise agreement (which may include increased royalty revenues, advertising fees and other fees and costs), the satisfaction of certain conditions (including re-equipment and remodeling of the store and other requirements) and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of the foregoing conditions, the expiring franchise agreement will terminate upon expiration of its term.

Franchisee litigation; effects of regulatory efforts. We and our franchisees are subject to a variety of litigation risks, including, but not limited to, member claims, personal injury claims, vicarious liability claims, litigation with or involving our relationship with franchisees, litigation alleging that the franchisees are our employees or that we are the co-employer of our franchisees’ employees, employee allegations against the franchisee or us of improper termination and discrimination, landlord/tenant disputes and intellectual property claims, among others. Each of these claims may increase costs, reduce the execution of new franchise agreements and affect the scope and terms of insurance or indemnifications we and our franchisees may have. In addition, we and our franchisees are subject to various regulatory efforts to enforce employment laws, such as efforts to categorize franchisors as the co-employers of their franchisees’ employees; legislation to categorize individual franchised businesses as large employers for the purposes of various employment benefits; and other legislation or regulations that may have a disproportionate impact on franchisors and/or franchised businesses. These changes may impose greater costs and regulatory burdens on franchising and negatively affect our ability to sell new franchises.

Franchise agreements and franchisee relationships. Our franchisees develop and operate their stores under terms set forth in our ADAs and franchise agreements, respectively. These agreements give rise to long-term relationships that involve a complex set of mutual obligations and mutual cooperation. We have a standard set of agreements that we typically use with our franchisees, but various franchisees have negotiated specific terms in these agreements. Furthermore, we may from time to time negotiate terms of our franchise agreements with individual franchisees or groups of franchisees (e.g., a franchisee association). We seek to have positive relationships with our franchisees, based in part on our common understanding of our mutual rights and obligations under our agreements, to enable both the franchisees’ business and our business to be successful. However, we and our franchisees may not always maintain a positive relationship or always interpret our agreements in the same way. Our failure to have positive relationships with our franchisees could individually or in the aggregate cause us to change or limit our business practices, which may make our business model less attractive to our franchisees or our members.

While our franchisee revenues are not concentrated among one or a small number of parties, the success of our business does depend in large part on our ability to maintain contractual relationships with franchisees in profitable stores. A typical franchise agreement has a ten-year term. Our largest franchisee group accounts for nearly 5% of our total stores and another large franchisee group accounts for over 4% of our total stores. If we fail to maintain or renew our contractual relationships on acceptable terms, or if one or more of these large franchisees were to become insolvent or otherwise were unwilling to pay amounts due to us, our business, reputation, financial condition and results of operations could be materially and adversely affected.

The high level of competition in the health and fitness industry could materially and adversely affect our business.

We compete with the following industry participants: other health and fitness clubs; physical fitness and recreational facilities established by non-profit organizations and businesses for their employees; private studios and other boutique fitness offerings; racquet, tennis and other athletic clubs; amenity and condominium/apartment clubs; country clubs; online personal training and fitness coaching; the home-use fitness equipment industry; local tanning salons; businesses offering similar services; and other businesses that rely on consumer discretionary spending. We may not be able to compete effectively in the markets in which we operate in the future. Competitors may attempt to copy our business model, or portions thereof, which could erode our market share and brand recognition and impair our growth rate and profitability. Competitors, including companies that are larger and have greater resources than us, may compete with us to attract members in our markets. Non-profit organizations in our markets may be able to obtain land and construct stores at a lower cost and collect membership dues and fees without paying taxes, thereby allowing them to charge lower prices. Luxury fitness companies may attempt to enter our market by lowering prices or creating lower price brand alternatives. Furthermore, due to the increased number of low-cost health and fitness club alternatives, we may face increased competition if we increase our price or if discretionary spending declines. This competition may limit our ability to attract and retain existing members and our ability to attract new members, which in each case could materially and adversely affect our results of operations and financial condition.

Our dependence on a limited number of suppliers for equipment and certain products and services could result in disruptions to our business and could adversely affect our revenues and gross profit.

Equipment and certain products and services used in our stores, including our exercise equipment and point-of-sale software and hardware, are sourced from third-party suppliers. In addition, we rely on third-party suppliers to manage and maintain our websites and online join processes, and in 2016 over 20% of our new members joined online through our websites. Although we believe that adequate substitutes are currently available, we depend on these third-party suppliers to operate our business efficiently and consistently meet our business requirements. The ability of these third-party suppliers to successfully provide reliable and high-quality services is subject to technical and operational uncertainties that are beyond our control, including, for our overseas suppliers, vessel availability and port delays or congestion. Any disruption to our suppliers' operations could impact our supply chain and our ability to service our existing stores and open new stores on time or at all and thereby generate revenue. If we lose such suppliers or our suppliers encounter financial hardships unrelated to the demand for our equipment or other products or services, we may not be able to identify or enter into agreements with alternative suppliers on a timely basis on acceptable terms, if at all. Transitioning to new suppliers would be time-consuming and expensive and may result in interruptions in our operations. If we should encounter delays or difficulties in securing the quantity of equipment we or our franchisees require to open new and refurbish existing stores, our suppliers encounter difficulties meeting our and our franchisees' demands for products or services, our websites experience delays or become impaired due to errors in the third-party technology or there is a deficiency, lack or poor quality of products or services provided, our ability to serve our members and grow our brand would be interrupted. If any of these events occur, it could have a material adverse effect on our business and operating results.

Our franchisees may incur rising costs related to construction of new stores and maintenance of existing stores, which could adversely affect the attractiveness of our franchise model, and in turn our business, results of operations and financial condition.

Our stores require significant upfront and ongoing investment, including periodic remodeling and equipment replacement. If our franchisees' costs are greater than expected, franchisees may need to outperform their operational plan to achieve their targeted return. In addition, increased costs may result in lower profits to the franchisees, which may cause them to terminate their franchise agreement or make it harder for us to attract new franchisees, which in turn could materially and adversely affect our business, results of operations and financial condition.

In addition, if a franchisee is unwilling or unable to acquire the necessary financing to invest in the maintenance and upkeep of its stores, including periodic remodeling and replacement of equipment, the quality of its stores could deteriorate, which may have a negative impact on our brand image and our ability to attract and maintain members, which in turn may have a negative impact on our revenues.

We and our franchisees could be subject to claims related to health and safety risks to members that arise while at both our corporate-owned and franchise stores.

Use of our and our franchisees' stores poses some potential health and safety risks to members or guests through physical exertion and use of our services and facilities, including exercise and tanning equipment. Claims might be asserted against us and our franchisees for injuries suffered by or death of members or guests while exercising and using the facilities at a store. We may not be able to successfully defend such claims. We also may not be able to maintain our general liability insurance on acceptable terms in the future or maintain a level of insurance that would provide adequate coverage against potential claims. Depending upon the outcome, these matters may have a material adverse effect on our results of operations, financial condition and cash flows.

If we cannot retain our key employees and hire additional highly qualified employees, we may not be able to successfully manage our businesses and pursue our strategic objectives.

We are highly dependent on the services of our senior management team and other key employees at our corporate headquarters and our corporate-owned stores, and on our and our franchisees' ability to recruit, retain and motivate key employees. Competition for such employees can be intense, and the inability to attract and retain the additional qualified employees required to expand our activities, or the loss of current key employees, could adversely affect our and our franchisees' operating efficiency and financial condition.

Our intellectual property rights, including trademarks and trade names, may be infringed, misappropriated or challenged by others.

We believe our brand and related intellectual property are important to our continued success. We seek to protect our trademarks, trade names, copyrights and other intellectual property by exercising our rights under applicable state, provincial, federal and international laws. Policing unauthorized use and other violations of our intellectual property rights is difficult, and the steps we take may not prevent misappropriation, infringement or other violations of our intellectual property. If we were to fail to successfully protect our intellectual property rights for any reason, or if any third party misappropriates, dilutes or infringes our intellectual property, the value of our brands may be harmed, which could have an adverse effect on our business, results of operations and financial condition. Any damage to our reputation could cause membership levels to decline or make it more difficult to attract new members.

We may also from time to time be required to initiate litigation to enforce our trademarks, service marks and other intellectual property. Third parties may also assert that we have infringed, misappropriated or otherwise violated their intellectual property rights, which could lead to litigation against us. Litigation is inherently uncertain and could divert the attention of management, result in substantial costs and diversion of resources and negatively affect our membership sales and profitability regardless of whether we are able to successfully enforce or defend our rights.

Use of email marketing and social media may adversely impact our reputation or subject us to fines or other penalties.

There has been a substantial increase in the use of email and social media platforms, including blogs, social media websites and other forms of internet-based communication, which allow access to a broad audience of consumers and other interested persons. Negative commentary about us may be posted on social media platforms or similar devices at any time and may harm our reputation or business. Consumers value readily available information about health clubs and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction. In addition, social media platforms provide users with access to such a broad audience that collective action against our stores, such as boycotts, can be more easily organized. If such actions were organized, we could suffer reputational damage as well as physical damage to our stores.

We also use email and social media platforms as marketing tools. For example, we maintain Facebook and Twitter accounts and may occasionally email members to inform them of certain offers or promotions. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees, our franchisees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our and our franchisees' business, financial condition and results of operations or subject us to fines or other penalties.

If we fail to obtain and retain high-profile strategic partnership arrangements, or if the reputation of any of our partners is impaired, our business may suffer.

A principal component of our marketing program has been to partner with high-profile marketing partners, such as our sponsorship of ABC's "Dick Clark's New Year's Rockin' Eve with Ryan Seacrest 2017," to help us extend the reach of our brand. Although we have partnered with several well-known partners in this manner, we may not be able to attract and partner with new marketing partners in the future. In addition, if the actions of our partners were to damage their reputation, our partnerships may be less attractive to our current or prospective members. Any of these failures by us or our partners could adversely affect our business and revenues.

We are subject to risks associated with leasing property subject to long-term non-cancelable leases.

We do not own any real property, and all of our corporate-owned stores are located on leased premises. The leases for our stores generally have initial terms of 10 years and typically provide for two renewal options in five-year increments as well as for rent escalations.

Generally, our leases are net leases that require us to pay our share of the costs of real estate taxes, utilities, building operating expenses, insurance and other charges in addition to rent. We generally cannot terminate these leases before the end of the initial lease term. Additional sites that we lease are likely to be subject to similar long-term, non-terminable leases. If we close a store, we nonetheless may be obligated to perform our monetary obligations under the applicable lease, including, among other things, payment of the base rent for the balance of the lease term. In addition, if we fail to negotiate renewals, either on commercially acceptable terms or at all, as each of our leases expire we could be forced to close stores in desirable locations. We depend on cash flows from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under our senior secured credit facility or other sources, we may not be able to service our lease expenses or fund our other liquidity and capital

needs, which would materially affect our business.

Our business is subject to various laws and regulations and changes in such laws and regulations, or failure to comply with existing or future laws and regulations, could adversely affect our business.

We are subject to the FTC Franchise Rule, which is a trade regulation imposed on franchising promulgated by the Federal Trade Commission (the “FTC”) that regulates the offer and sale of franchises in the United States and that requires us to provide to all prospective franchisees certain mandatory disclosure in FDD. In addition, we are subject to state franchise sales laws in approximately 14 states that regulate the offer and sale of franchises by requiring us to make a franchise filing or obtain franchise registration prior to our making any offer or sale of a franchise in those states and to provide a FDD to prospective franchisees in accordance with such laws. We are subject to franchise sales laws in six provinces in Canada that regulate the offer and sale of franchises by requiring us to provide a FDD in a prescribed format to prospective franchisees in accordance with such laws, and that regulate certain aspects of the franchise relationship. Failure to comply with such laws may result in a franchisee’s right to rescind its franchise agreement and damages, and may result in investigations or actions from federal or state franchise authorities, civil fines or penalties, and stop orders, among other remedies. We are also subject to franchise relationship laws in over 20 states that regulate many aspects of the franchisor-franchisee relationship, including renewals and terminations of franchise agreements, franchise transfers, the applicable law and venue in which franchise disputes must be resolved, discrimination and franchisees’ right to associate, among others. Our failure

to comply with such franchise relationship laws could result in fines, damages and our inability to enforce franchise agreements where we have violated such laws. Although we believe that our FDDs, franchise sales practices and franchise activities comply with such franchise sales laws and franchise relationship laws, our non-compliance could result in liability to franchisees and regulatory authorities (as described above), inability to enforce our franchise agreements and a reduction in our anticipated royalty revenue, which in turn may materially and adversely affect our business and results of operations.

We and our franchisees are also subject to the Fair Labor Standards Act of 1938, as amended, and various other laws in the United States, Canada and the Dominican Republic governing such matters as minimum-wage requirements, overtime and other working conditions. A significant number of our and our franchisees' employees are paid at rates related to the U.S. federal or state minimum wage, and past increases in the U.S. federal and/or state minimum wage have increased labor costs, as would future increases. Any increases in labor costs might result in our and our franchisees inadequately staffing stores. Such increases in labor costs and other changes in labor laws could affect store performance and quality of service, decrease royalty revenues and adversely affect our brand.

Our and our franchisees' operations and properties are subject to extensive U.S., Canadian and Dominican federal, state, provincial and local laws and regulations, including those relating to environmental, building and zoning requirements. Our and our franchisees' development of properties depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements. Failure to comply with these legal requirements could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability, which could adversely affect our business.

We and our franchisees are responsible at stores we each operate for compliance with state and provincial laws that regulate the relationship between stores and their members. Many states and provinces have consumer protection regulations that may limit the collection of membership dues or fees prior to opening, require certain disclosures of pricing information, mandate the maximum length of contracts and "cooling off" periods for members (after the purchase of a membership), set escrow and bond requirements for stores, govern member rights in the event of a member relocation or disability, provide for specific member rights when a store closes or relocates, or preclude automatic membership renewals. Our or our franchisees' failure to comply fully with these rules or requirements may subject us or our franchisees to fines, penalties, damages, and civil liability, or result in membership contracts being void or voidable. In addition, states may update these laws and regulations. Any additional costs which may arise in the future as a result of changes to the legislation and regulations or in their interpretation could individually or in the aggregate cause us to change or limit our business practices, which may make our business model less attractive to our franchisees or our members.

Regulatory restrictions placed on indoor tanning services and negative opinions about the health effects of indoor tanning services could harm our reputation and our business.

Although our business model does not place an emphasis on indoor tanning, the vast majority of our corporate-owned and franchise stores offer indoor tanning services. We offer tanning services as one of many amenities available to our PF Black Card members. Many states and provinces where we and our franchisees operate have health and safety regulations that apply to health clubs and other facilities that offer indoor tanning services. In addition to regulations imposed on the indoor tanning industry, medical opinions and opinions of commentators in the general public regarding negative health effects of indoor tanning services could adversely impact the value of our PF Black Card memberships and our future revenues and profitability. Although the tanning industry is regulated by U.S., Canadian and Dominican federal, state and provincial government agencies, negative publicity regarding the potentially harmful health effects of the tanning services we offer at our stores could lead to additional legislation or further regulation of the industry. The potential increase in cost of complying with these regulations could have a negative impact on our profit margins.

The continuation of our tanning services is dependent upon the public's sustained belief that the benefits of utilizing tanning services outweigh the risks of exposure to ultraviolet light. Any significant change in public perception of tanning equipment or any investigative or regulatory action by a government agency or other regulatory authority could impact the appeal of indoor tanning services to our PF Black Card members, and could in turn have an adverse effect on our and our franchisees' reputation, business, results of operations and financial condition as well as our ability to profit from sales of tanning equipment to our franchisees.

In addition, from time to time, government agencies and other regulatory authorities have shown an interest in taking investigative or regulatory action with respect to tanning services. For example, we reached a settlement with the New York Office of the Attorney General ("OAG") in November 2015 in connection with allegations that in the spring of 2013, seven of the approximately 80 independently owned and operated Planet Fitness franchise locations in New York at the time had violated certain state laws related to tanning advertising, signage, paperwork, and eyewear. Upon being alerted to these alleged violations, we re-emphasized to all franchisees that they are contractually required to operate their businesses in compliance with all applicable laws and regulations. Although we understand that the OAG's investigation was part of a larger initiative with respect to tanning salons and other providers of tanning services and do not believe that the settlement will have a material adverse effect on us, publicity regarding the OAG's initiative could influence public perception of the tanning services we offer and of the benefits of our PF Black Card membership.

Risks related to our indebtedness

As of December 31, 2016, we had total indebtedness of \$716.7 million and our substantial indebtedness could adversely affect our financial condition and limit our ability to pursue our growth strategy.

We have a substantial amount of debt, which requires significant interest payments. As of December 31, 2016, we had total indebtedness of \$716.7 million, gross of deferred financing costs. Subject to the restrictions contained in our senior secured credit facility applicable to our subsidiary Planet Fitness Holdings, LLC, as borrower, and its restricted subsidiaries and its parent Planet Intermediate, LLC, as guarantors, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. These restrictions will not prevent us from incurring obligations that do not constitute indebtedness, may be waived by certain votes of debt holders and, if we refinance our existing indebtedness, such refinancing indebtedness may contain fewer restrictions on our activities. To the extent new indebtedness or other financial obligations are added to our and our subsidiaries' currently anticipated indebtedness levels, the related risks that we and our subsidiaries face could intensify.

Our substantial level of indebtedness could adversely affect our financial condition and increase the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our substantial indebtedness, combined with our other existing and any future financial obligations and contractual commitments, could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under our senior secured credit facility, including restrictive covenants, could result in an event of default under such facility;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions, selling and marketing efforts, research and development and other purposes;
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to our competitors that have proportionately less indebtedness;
- increase our cost of borrowing and cause us to incur substantial fees from time to time in connection with debt amendments or refinancings;
- increase our exposure to rising interest rates because our borrowings are at variable interest rates;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; and
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, selling and marketing efforts, research and development and other corporate purposes.

By the nature of their relationship to our enterprise, debt holders may have different points of view on the use of company resources as compared to our management. The financial and contractual obligations related to our debt also represent a natural constraint on any intended use of company resources.

Restrictions imposed by our outstanding indebtedness and any future indebtedness may limit our ability to operate our business and to finance our future operations or capital needs or to engage in other business activities.

The terms of our outstanding indebtedness restrict us from engaging in specified types of transactions. These covenants restrict our ability, among other things, to:

- incur indebtedness or guarantees or engage in sale-leaseback transactions;

- incur liens;
- engage in mergers, acquisitions and asset sales;
- alter the business conducted by Planet Intermediate, LLC, Planet Fitness Holdings, LLC and its restricted subsidiaries;
- make investments and loans;
- declare dividends or other distributions;
- enter into agreements limiting restricted subsidiary distributions; and
- engage in certain transactions with affiliates.

In addition, the credit agreement governing our senior secured credit facility requires us to comply with a financial maintenance covenant, which covenant is solely for the benefit of the revolving credit facility. Our ability to comply with this financial covenant can be affected by events beyond our control, and we may not be able to satisfy it. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility.”

A breach of any of the restrictive covenants in the credit agreement governing our senior secured credit facility could result in an event of default, which could trigger acceleration of our indebtedness and may result in the acceleration of or default under any other debt we may incur in the future to which a cross-acceleration or cross-default provision applies, which could have a material adverse effect on our business, results of operations and financial condition. In the event of any default under our credit facilities, the applicable lenders could elect to terminate borrowing commitments and declare all borrowings and loans outstanding, together with accrued and unpaid interest and any fees and other obligations, to be due and payable. In addition, or in the alternative, the applicable lenders could exercise their rights under the security documents entered into in connection with our credit facilities. We have pledged a significant portion of our assets as collateral under our senior secured credit facility.

If we were unable to repay or otherwise refinance these borrowings and loans when due, the applicable lenders could proceed against the collateral granted to them to secure that indebtedness, which could force us into bankruptcy or liquidation. In the event the applicable lenders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. Any acceleration of amounts due under the agreements governing our credit facilities or the exercise by the applicable lenders of their rights under the security documents would likely have a material adverse effect on our business. As a result of these restrictions, we may be:

- limited in how we conduct our business;
 - unable to raise additional debt or equity financing to operate during general economic or business downturns; or
 - unable to compete effectively or to take advantage of new business opportunities.
- These restrictions may affect our ability to grow in accordance with our strategy.

We will require a significant amount of cash to service our indebtedness. The ability to generate cash or refinance our indebtedness as it becomes due depends on many factors, some of which are beyond our control.

We are a holding company, and as such have no independent operations or material assets other than our ownership of equity interests in our subsidiaries and our subsidiaries' contractual arrangements with customers, and we will depend on our subsidiaries to distribute funds to us so that we may pay our obligations and expenses. Our ability to make scheduled payments on, or to refinance our respective obligations under, our indebtedness and to fund planned capital expenditures and other corporate expenses will depend on the ability of our subsidiaries to make distributions, dividends or advances to us, which in turn will depend on our subsidiaries' future operating performance and on economic, financial, competitive, legislative, regulatory and other factors and any legal and regulatory restrictions on the payment of distributions and dividends to which they may be subject. Many of these factors are beyond our control. We can provide no assurance that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized or that future borrowings will be available to us in an amount sufficient to enable us to satisfy our respective obligations under our indebtedness or to fund our other needs. In order for us to satisfy our obligations under our indebtedness and fund planned capital expenditures, we must continue to execute our business strategy. If we are unable to do so, we may need to reduce or delay our planned capital expenditures or refinance all or a portion of our indebtedness on or before maturity. Significant delays in our planned capital expenditures may materially and adversely affect our future revenue prospects. In addition, we can provide no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

Borrowings under our senior secured credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our

indebtedness, would correspondingly decrease.

Our senior secured credit facility includes a London Inter-Bank Offered Rates (“LIBOR”) floor of 0.75% in respect of the term loans. If the specified LIBOR rate increases above 0.75% floor for the term loans, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. An increase of 0.125% over the 0.75% floor for the term loans previously mentioned would result in an approximate increase of \$0.9 million in our annual interest expense associated with our senior secured credit facilities.

We have entered into and may continue to enter into interest rate swaps, caps or other derivative financial instruments that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain derivative financial instruments with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

Risks related to our organizational structure

We will be required to pay certain of our existing and previous owners for certain tax benefits we may claim, and we expect that the payments we will be required to make will be substantial.

Future and certain past exchanges of Holdings Units for shares of our Class A common stock (or cash) are expected to produce and have produced favorable tax attributes for us. We are a party to two tax receivable agreements. Under the first of those agreements, we are generally required to pay to certain existing and previous equity owners of Pla-Fit Holdings, LLC (the “TRA Holders”) 85% of the applicable cash savings, if any, in U.S. federal and state income tax that we are deemed to realize as a result of certain tax attributes of their Holdings Units sold to us (or exchanged in a taxable sale) and that are created as a result of (i) the sales of their Holdings Units for shares of our Class A common stock and (ii) tax benefits attributable to payments made under the tax receivable agreement (including imputed interest). Under the second tax receivable agreement, we are generally required to pay to TSG AIV II-A L.P. and TSG PF Co-Investors A L.P. (the “Direct TSG Investors”) 85% of the amount of cash savings, if any, that we are deemed to realize as a result of the tax attributes of the Holdings Units that we hold in respect of the Direct TSG Investors’ interest in us, which resulted from the Direct TSG Investors’ purchase of interests in our 2012 acquisition (the “2012 Acquisition”) by investment funds affiliated with TSG Consumer Partners, LLC (“TSG”), and certain other tax benefits. Under both agreements, we generally retain the benefit of the remaining 15% of the applicable tax savings.

The payment obligations under the tax receivable agreements are obligations of Planet Fitness, Inc., and we expect that the payments we will be required to make under the tax receivable agreements will be substantial. Assuming no material changes in the relevant tax law and that we earn sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreements, we expect that the reduction in tax payments for us associated with all past and future exchanges and sales of Holdings Units as described above would aggregate to approximately \$994.0 million over the remaining term of the tax receivable agreements based on a price of \$20.10 per share of our Class A common stock (the closing price per share of our Class A common stock on the New York Stock Exchange (“NYSE”) on December 30, 2016) and assuming all future sales had occurred on such date. Under such scenario, we would be required to pay the other parties to the tax receivable agreements 85% of such amount, or \$844.9 million, over the applicable period under the tax receivable agreements. The actual amounts may materially differ from these hypothetical amounts, as potential future reductions in tax payments for us, and tax receivable agreement payments by us, will be calculated using the market value of our Class A common stock at the time of the sale and the prevailing tax rates applicable to us over the life of the tax receivable agreements and will be dependent on us generating sufficient future taxable income to realize the benefit. See “—Certain Relationships and Related Party Transactions, and Director Independence—Tax receivable agreements.” Payments under the tax receivable agreements are not conditioned on the TRA Holders’ ownership of our shares.

The actual increase in tax basis, as well as the amount and timing of any payments under these agreements, will vary depending upon a number of factors, including the timing of sales by the TRA Holders, the price of our Class A common stock at the time of the sales, whether such sales are taxable, the amount and timing of the taxable income we generate in the future, the tax rate then applicable and the portion of our payments under the tax receivable agreements constituting imputed interest. Payments under the tax receivable agreements are expected to give rise to certain additional tax benefits attributable to either further increases in basis or in the form of deductions for imputed interest (generally calculated using one-year LIBOR), depending on the tax receivable agreements and the circumstances. Any such benefits are covered by the tax receivable agreements and will increase the amounts due thereunder. The tax receivable agreements provide for interest, at a rate equal to one-year LIBOR, accrued from the due date (without extensions) of the corresponding tax return to the date of payment specified by the tax receivable agreements. In addition, under certain circumstances where we are unable to make timely payments under the tax receivable agreements, the tax receivable agreements provide for interest to accrue on unpaid payments, at a rate equal to one-year LIBOR plus 500 basis points.

Payments under the tax receivable agreements will be based on the tax reporting positions that we determine. Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase or other tax attributes subject to the tax receivable agreements, we will not be reimbursed for any payments previously made under the tax receivable agreements if such basis increases or other benefits are subsequently disallowed. As a result, in certain circumstances, payments could be made under the tax receivable agreements in excess of the benefits that we are deemed to realize in respect of the attributes to which the tax receivable agreements relate.

Our ability to pay taxes and expenses, including payments under the tax receivable agreements, may be limited by our structure.

Our principal asset is our ownership of Holdings Units in Pla-Fit Holdings. As such, we have no independent means of generating revenue. Pla-Fit Holdings is treated as a partnership for U.S. federal income tax purposes and, as such, is generally not subject to U.S. federal income tax. Instead, taxable income is allocated to holders of its Holdings Units, including us. Accordingly, we incur income taxes on our allocable share of any taxable income of Pla-Fit Holdings, and also incur expenses related to our operations. Pursuant to the limited liability company agreement of Pla-Fit Holdings that was amended and restated in connection with our initial public offering (the “New LLC Agreement”), Pla-Fit Holdings makes cash distributions to the owners of Holdings Units for purposes of funding their tax obligations in respect of the income of Pla-Fit Holdings that is allocated to them, to the extent other distributions from Pla-Fit Holdings have been insufficient. In addition to tax expenses, we also incur expenses related to our operations, including payment obligations under the tax receivable agreements, which are significant. We have caused Pla-Fit Holdings to make

distributions in an amount sufficient to allow us to pay our taxes and operating expenses, including ordinary course payments due under the tax receivable agreements. However, its ability to make such distributions in the future will be subject to various limitations and restrictions, including contractual restrictions under our senior secured credit facility. If, as a consequence of these various limitations and restrictions, we do not have sufficient funds to pay tax or other liabilities or to fund our operations (including as a result of an acceleration of our obligations under the tax receivable agreements), we may have to borrow funds and thus our liquidity and financial condition could be materially and adversely affected. To the extent that we are unable to make payments under the tax receivable agreements for any reason, such payments will be deferred and will accrue interest at a rate equal to one-year LIBOR plus 500 basis points until paid.

In certain cases, payments under the tax receivable agreements to our TRA Holders may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreements.

The tax receivable agreements provide that (i) in the event that we materially breach such tax receivable agreements, (ii) if, at any time, we elect an early termination of the tax receivable agreements, or (iii) upon certain mergers, asset sales, other forms of business combinations or other changes of control, our (or our successor's) obligations under the tax receivable agreements (with respect to all Holdings Units, whether or not they have been sold before or after such transaction) would accelerate and become payable in a lump sum amount equal to the present value of the anticipated future tax benefits calculated based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the tax deductions, tax basis and other tax attributes subject to the tax receivable agreements.

As a result of the foregoing, (i) we could be required to make payments under the tax receivable agreements that are greater than or less than the specified percentage of the actual tax savings we realize in respect of the tax attributes subject to the agreements and (ii) we may be required to make an immediate lump sum payment equal to the present value of the anticipated tax savings, which payment may be made years in advance of the actual realization of such future benefits, if any such benefits are ever realized. In these situations, our obligations under the tax receivable agreements could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreements in a manner that does not adversely affect our working capital and growth requirements. For example, if we had elected to terminate the tax receivable agreements as of December 31, 2016, based on a share price of \$20.10 per share of our Class A common stock (based on the closing price of our Class A common stock on the NYSE as of December 30, 2016) and a discount rate equal to 2.69%, we estimate that we would have been required to pay \$655.2 million in the aggregate under the tax receivable agreements. See "Certain Relationships and Related Party Transactions, and Director Independence—Tax receivable agreements."

In certain circumstances, Pla-Fit Holdings will be required to make distributions to us and the Continuing LLC Owners, and the distributions that Pla-Fit Holdings will be required to make may be substantial.

Funds used by Pla-Fit Holdings to satisfy its tax distribution obligations will not be available for reinvestment in our business. Moreover, the tax distributions that Pla-Fit Holdings will be required to make may be substantial and will likely exceed (as a percentage of Pla-Fit Holdings' net income) the overall effective tax rate applicable to a similarly situated corporate taxpayer.

As a result of potential differences in the amount of net taxable income allocable to us and to the owners of Holdings Units other than Planet Fitness, Inc. (the "Continuing LLC Owners"), as well as the use of an assumed tax rate in calculating Pla-Fit Holdings' distribution obligations, we may receive distributions significantly in excess of our tax liabilities and obligations to make payments under the tax receivable agreements. To the extent, as currently expected, we do not distribute such cash balances as dividends on our Class A common stock and instead, for example, hold

such cash balances or lend them to Pla-Fit Holdings, the Continuing LLC Owners would benefit from any value attributable to such accumulated cash balances as a result of their ownership of Class A common stock following an exchange of their Holdings Units.

We will not be reimbursed for any payments made to the TRA Holders or the Direct TSG Investors under the tax receivable agreements in the event that any tax benefits are disallowed.

If the IRS or a state or local taxing authority challenges the tax basis adjustments and/or deductions that give rise to payments under the tax receivable agreements and the tax basis adjustments and/or deductions are subsequently disallowed, the recipients of payments under the agreements will not reimburse us for any payments we previously made to them. Any such disallowance would be taken into account in determining future payments under the tax receivable agreements and would, therefore, reduce the amount of any such future payments. Nevertheless, if the claimed tax benefits from the tax basis adjustments and/or deductions are disallowed, our payments under the tax receivable agreements could exceed our actual tax savings, and we may not be able to recoup payments under the tax receivable agreements that were calculated on the assumption that the disallowed tax savings were available.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our financial condition and results of operations.

We are subject to income taxes in the United States and Canada, and our domestic and foreign tax liabilities will be subject to the allocation of expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowances;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations or interpretations thereof; or
- lower than anticipated future earnings in jurisdictions where we have lower statutory tax rates and higher than anticipated future earnings in jurisdictions where we have higher statutory tax rates.

In addition, we may be subject to audits of our income, sales and other transaction taxes by U.S. federal and state and foreign authorities. Outcomes from these audits could have an adverse effect on our financial condition and results of operations.

Risks related to our Class A common stock

We are eligible to be treated as an emerging growth company, and we cannot be certain that the reduced disclosure requirements applicable to emerging growth companies will not make our ordinary shares less attractive to investors.

We are an emerging growth company, as defined in Section 2(a)(19) of the Securities Act of 1933, as amended (the “Securities Act”), as modified by the Jumpstart Our Business Startups Act of 2012 (the “Jobs Act”). For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including (1) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), (2) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and (3) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to another three years, although circumstances could cause us to lose that status earlier, including if the market value of our Class A common stock held by non-affiliates exceeds \$700.0 million as of the end of the second fiscal quarter in any fiscal year before that time or if we have total annual gross revenues of \$1.0 billion or more during any fiscal year before that time, in which case we would no longer be an emerging growth company as of the following fiscal year end, or if we issue more than \$1.0 billion in non-convertible debt during any three-year period before that time we would cease to be an emerging growth company immediately. If some investors find our Class A common stock less attractive as a result of our being an emerging growth company, there may be a less active trading market for our Class A common stock, and our share price may be more volatile.

Certain of our directors have relationships with TSG, which may cause conflicts of interest with respect to our business.

Four of our eight directors are affiliated with TSG. Our TSG-affiliated directors have fiduciary duties to us and, in addition, have duties to TSG. As a result, these directors may face real or apparent conflicts of interest with respect to matters affecting both us and TSG, whose interests may be adverse to ours in some circumstances.

Following the September 2016 secondary offering, we ceased to be a “controlled company” under NYSE rules. However, TSG continues to have significant influence over us, which could limit your ability to influence the outcome of matters submitted to stockholders for a vote.

Following the September 2016 secondary offering, TSG ceased to own a majority of the voting power of our outstanding Class A common stock. As a result, we are no longer a “controlled company” within the meaning of the NYSE corporate governance standards. However, because investment funds affiliated with TSG control 31.3% of the voting power of our common stock, TSG continues to have the ability to strongly influence or effectively control certain corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the election and removal of directors and the size of our board of directors, any amendment of our certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets. TSG’s interests may not align with the interests of our other stockholders. TSG is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. TSG may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

Provisions of our corporate governance documents could make an acquisition of our Company more difficult and may prevent attempts by our stockholders to replace or remove our current management, even if beneficial to our stockholders.

In addition to TSG’s beneficial ownership of a substantial percentage of our common stock, our certificate of incorporation and bylaws and the Delaware General Corporation Law (the “DGCL”) contain provisions that could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. These provisions include:

- the division of our board of directors into three classes and the election of each class for three-year terms;
 - advance notice requirements for stockholder proposals and director nominations;
 - the ability of the board of directors to fill a vacancy created by the expansion of the board of directors;
 - the ability of our board of directors to issue new series of, and designate the terms of, preferred stock, without stockholder approval, which could be used to, among other things, institute a rights plan that would have the effect of significantly diluting the stock ownership of a potential hostile acquirer, likely preventing acquisitions that have not been approved by our board of directors;
 - limitations on the ability of stockholders to call special meetings and to take action by written consent; and
 - the required approval of holders of at least 75% of the voting power of the outstanding shares of our capital stock to adopt, amend or repeal certain provisions of our certificate of incorporation and bylaws or remove directors for cause.
- In addition, Section 203 of the DGCL may affect the ability of an “interested stockholder” to engage in certain business combinations, for a period of three years following the time that the stockholder becomes an “interested stockholder.” While we have elected in our certificate of incorporation not to be subject to Section 203 of the DGCL, our certificate of incorporation contains provisions that have the same effect as Section 203 of the DGCL, except that they provide that investment funds affiliated with TSG will not be deemed to be an “interested stockholder,” and accordingly will not be subject to such restrictions.

Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt to replace current members of our management team. As a result, you may lose your ability to sell your stock for a price in excess of the prevailing market price due to these protective measures, and efforts by stockholders to change the direction or management of the Company may be unsuccessful.

Our organizational structure, including the tax receivable agreements, confers certain benefits upon the TRA Holders and the Continuing LLC Owners that do not benefit Class A common stockholders to the same extent as it will benefit the TRA Holders and the Continuing LLC Owners.

Our organizational structure, including the tax receivable agreements, confers certain benefits upon the TRA Holders and the Continuing LLC Owners that do not benefit the holders of our Class A common stock to the same extent. The tax receivable agreement with the Direct TSG Investors also confers benefits upon the Direct TSG Investors that are not shared with other holders of Class A common stock. Although we retain 15% of the amount of tax benefits conferred under the tax receivable agreements, this and other aspects of our organizational structure may adversely impact the future trading market for the Class A common stock.

If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price. In addition, because of our status as an emerging growth company, you cannot depend on any attestation from our independent registered public accountants as to our internal control over financial reporting.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to document and test our internal control over financial reporting and furnish a report by management assessing the effectiveness of our internal control over financial reporting for the fiscal year ending December 31, 2016. This assessment includes disclosure of any material weakness identified by our management in our internal control over financial reporting. In addition, we are required to comply with the SEC's rules implementing Section 302 of the Sarbanes-Oxley Act, which requires management to certify financial and other information in our quarterly and annual reports, and we are required to disclose significant changes made in our internal controls and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) until the date we are no longer an emerging growth company if we continue to take advantage of the exemptions contained in the JOBS Act. At such time, if our independent registered public accounting firm concluded that our internal control over financial reporting was not effective due to the existence of one or more material weaknesses in internal control, it would issue an adverse opinion on the effectiveness of our internal control over financial reporting.

If we identify a material weakness in our internal control over financial reporting, there can be no assurance that we will be able to remediate the material weaknesses identified in a timely manner or maintain all of the controls necessary to remain in compliance with our reporting obligations. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an unqualified opinion as to the effectiveness of our internal control over financial reporting in future periods, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could be negatively affected, and we could become subject to investigations by the NYSE, on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

Our certificate of incorporation designates courts in the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders;
- any action asserting a claim against us arising pursuant to any provision of the DGCL, our certificate of incorporation or our bylaws;
- any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws; or
- any other action asserting a claim against us that is governed by the internal affairs doctrine (each, a "Covered Proceeding").

In addition, our certificate of incorporation provides that if any action the subject matter of which is a Covered Proceeding is filed in a court other than the specified Delaware courts without the approval of our board of directors (each, a "Foreign Action"), the claiming party will be deemed to have consented to (i) the personal jurisdiction of the specified Delaware courts in connection with any action brought in any such courts to enforce the exclusive forum

provision described above and (ii) having service of process made upon such claiming party in any such enforcement action by service upon such claiming party's counsel in the Foreign Action as agent for such claiming party.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to these provisions. These provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

Our stock price could be extremely volatile, and, as a result, you may not be able to resell your shares at or above the price you paid for them.

Since our initial public offering (the "IPO"), the price of our Class A common stock, as reported by the NYSE, has ranged from a low of \$13.23 on February 11, 2016 to a high of \$25.10 on November 14, 2016. In addition, in recent years the stock market in general has been highly volatile. As a result, the market price and trading volume of our Class A common stock is likely to be similarly volatile, and investors in our Class A common stock may experience a decrease, which could be substantial, in the value of their stock,

including decreases unrelated to our results of operations or prospects, and could lose part or all of their investment. The price of our Class A common stock could be subject to wide fluctuations in response to a number of factors, including those described elsewhere in this report and others such as:

- variations in our operating performance and the performance of our competitors;
- actual or anticipated fluctuations in our quarterly or annual operating results;
- publication of research reports by securities analysts about us or our competitors or our industry;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the passage of legislation or other regulatory developments affecting us or our industry;
- speculation in the press or investment community;
- changes in accounting principles;
- terrorist acts, acts of war or periods of widespread civil unrest;
- natural disasters and other calamities; and
- changes in general market and economic conditions.

In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

Because we do not currently anticipate that we will pay any cash dividends on our Class A common stock in the foreseeable future, you may not receive any return on investment unless you sell your Class A common stock for a price greater than that which you paid for it.

We may retain future earnings, if any, for future operations, expansion and debt repayment and do not currently anticipate that we will pay any cash dividends on our Class A common stock in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our senior credit facility. As a result, you may not receive any return on an investment in our Class A common stock unless you sell our Class A common stock for a price greater than that which you paid for it.

Financial forecasting may differ materially from actual results.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters is located in Newington, New Hampshire and consists of approximately 24,400 sq. ft. of leased office space. It is the base of operations for our executive management and nearly all of the employees who provide our primary corporate and franchisee support functions. On October 18, 2016 we executed a lease for our new corporate headquarters in a building consisting of approximately 68,700 sq. ft. of office space located at 4 Liberty Lane West, Hampton, New Hampshire for an initial term of 15 years with one five-year renewal option, exercisable in our discretion. We anticipate moving into our new headquarters prior to July, 2017. We have the right to sublease our current corporate headquarters and are marketing the property actively. In the event we do not agree to a sublease, we will have to negotiate a buyout with our current landlord for the remaining term of our lease.

Corporate-Owned Stores

We lease all of our corporate-owned stores. Our store leases typically have initial terms of ten years with two five-year renewal options, exercisable in our discretion. The following table lists all of our corporate-owned store counts by state/province as of December 31, 2016:

State/Province	Store Count
New York	16
Pennsylvania	15
New Hampshire	14
New Jersey	3
California	3
Massachusetts	3
Ontario	2
Colorado	1
Delaware	1

Franchisee Stores

Franchisees own or directly lease from a third-party each Planet Fitness franchise location. We do not own or enter into leases for Planet Fitness franchise stores and generally do not guarantee franchisees' lease agreements, although we have done so in a few isolated instances. As of December 31, 2016, we had 1,255 franchisee-owned stores in 48 states, the District of Columbia, Puerto Rico, Canada and the Dominican Republic.

Item 3. Legal Proceedings.

On July 7, 2015, we received a letter from counsel to Michael Grondahl, a founder and former CEO of the Company, expressing Mr. Grondahl's view that the non-competition agreement Mr. Grondahl signed in connection with the acquisition of Pla-Fit Holdings Units from Mr. Grondahl and others by investment funds affiliated with TSG in 2012 may not be enforceable. Mr. Grondahl's non-compete agreement expires in November 2017. In addition, Mr. Grondahl expressed concerns with the separation agreement executed by Mr. Grondahl when he resigned as CEO and as an employee of the Company in January 2013, as well as the valuation agreed to in the unit purchase agreement executed in October 2013 pursuant to which Mr. Grondahl sold his remaining Holdings Units to TSG. Finally, Mr. Grondahl expressed his desire to be excused from certain indemnification obligations he agreed to in connection with the 2012 Acquisition. We and TSG believe that Mr. Grondahl's claims are without merit and intend to vigorously contest any

claims that may be made by Mr. Grondahl. In addition, we and TSG have initiated arbitration proceedings to resolve Mr. Grondahl's claims as provided in the unit purchase agreement. We do not expect this matter to have a material adverse effect on our business, results of operations or financial condition.

Additionally, we are involved in various claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of these actions will have a material adverse effect on our financial position, results of operations, liquidity and capital resources.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information for Class A Common Stock

Shares of our Class A common stock began trading on the NYSE under the symbol “PLNT” on August 6, 2015. Prior to that date, there was no public trading market for shares of our Class A common stock.

The table below shows the highest and lowest prices paid per share for our Class A common stock for the quarters since our IPO.

	Highest	Lowest
Fiscal 2015		
Third quarter (from August 6)	\$ 20.68	\$ 13.65
Fourth quarter	\$ 17.34	\$ 14.50
Fiscal 2016		
First quarter	\$ 16.38	\$ 13.23
Second quarter	\$ 19.62	\$ 14.86
Third quarter	\$ 23.41	\$ 18.55
Fourth quarter	\$ 25.10	\$ 19.17

Holders of Record

As of March 1, 2017, there were five stockholders of record of our Class A common stock. A substantially greater number of holders of our Class A common stock are held in “street name” and held of record by banks, brokers and other financial institutions. As of March 1, 2017 there were 16 stockholders of record of our Class B common stock. All shares of Class B common stock are owned by TSG, current or former directors and management of the Company, and there is no public market for these shares.

Dividend Policy

During 2016, we declared and paid a special dividend of \$2.78 per share to our Class A common stock holders of record as of November 10, 2016. We do not currently anticipate that we will pay any cash dividends on our Class A common stock in the foreseeable future. The declaration, amount and payment of any future dividends on shares of our Class A common stock will be at the sole discretion of our board of directors, which may take into account general economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, the implications of the payment of dividends by us to our stockholders or by our subsidiaries to us, and any other factors that our board of directors may deem relevant.

Performance Graph

The following graph and table depict the total return to shareholders from August 6, 2015 (the date our Class A common stock began trading on the NYSE) through December 31, 2016, relative to the performance of the S&P 500 Index and the Russell 2000. We include a comparison against the Russell 2000 because there is no published industry or line-of-business index for our industry and we do not have a readily definable peer group that is publicly traded. The graph and table assume \$100 invested at the closing price of \$16.00 on August 6, 2015.

The performance graph and table are not intended to be indicative of future performance. The performance graph and table shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act”), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of the Company’s filings under the Securities Act of 1933 or the Exchange Act.

	August 6, 2015	December 31, 2015	December 31, 2016
Planet Fitness Inc.	\$ 100.00	\$ 97.69	\$ 125.63
S&P 500 Index	100.00	98.10	107.45
Russell 2000 (Total Return) Index	100.00	93.42	111.62

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the year ended December 31, 2016.

In connection with our IPO, we and the Continuing LLC Owners entered into an exchange agreement under which they (or certain permitted transferees) have the right, from time to time and subject to the terms of the exchange agreement, to exchange their Holdings Units, together with a corresponding number of shares of Class B common stock, for shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends, reclassifications and other similar transactions. As a Continuing LLC Owner exchanges Holdings Units for shares of Class A common stock, the number of Holdings Units held by Planet Fitness, Inc. is correspondingly increased as it acquires the exchanged Holdings Units, and a corresponding number of shares of Class B common stock are cancelled.

Item 6. Selected Financial Data.

The following tables set forth our selected historical consolidated financial and other data for the periods indicated. The terms “Predecessor” and “Successor” used below and throughout this Form 10-K refer to the periods prior and subsequent to our 2012 Acquisition, respectively. The selected historical consolidated financial data as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements included elsewhere in this report.

The selected historical consolidated financial data set forth below as of December 31, 2014, 2013 and 2012 and for the year ended December 31, 2013 and the periods from January 1, 2012 to November 7, 2012 (Predecessor) and November 8, 2012 to December 31, 2012 (Successor) have been derived from our audited consolidated financial statements not included in this report.

The unaudited combined results of operations and cash flows for the year ended December 31, 2012 represents the mathematical addition of our Predecessor’s results of operations from January 1, 2012 to November 7, 2012, and the Successor’s results of operations from November 8, 2012 to December 31, 2012. We have included the unaudited combined financial information in order to facilitate a comparison with our other years.

Subsequent to the IPO and the related recapitalization transactions, the Company is a holding company whose principal asset is a controlling equity interest in Pla-Fit Holdings. As the sole managing member of Pla-Fit Holdings, the Company operates and controls all of the business and affairs of Pla-Fit Holdings, and, through Pla-Fit Holdings, conducts its business. As a result, the Company consolidates Pla-Fit Holdings’ financial results and reports a non-controlling interest related to the Holdings Units not owned by the Company. Such consolidation has been reflected for all periods presented. Our selected historical consolidated financial data does not reflect what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone public company during those periods.

Our selected historical consolidated financial data may not be indicative of our future results of operations or future cash flows.

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You should read the information set forth below in conjunction with our historical consolidated financial statements and the notes to those statements, “Item 1A. – Risk Factors,” and “Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Form 10-K.

	Years ended December 31,				Combined year ended December 31,	Period from November 8, 2012 through December 31,	Period from January 1, 2012 through November 7,
(in thousands, except per share data)	2016	2015	2014	2013	2012	2012	2012
Consolidated statement of operations data:	(Successor)	(Successor)	(Successor)	(Successor)	(Unaudited) ⁽¹⁾	(Successor)	(Predecessor)
Revenue:							
Franchise revenue	\$97,374	\$ 71,762	\$ 58,001	\$ 33,684	\$ 25,709	\$ 4,420	\$ 21,289
Commission income	19,114	16,323	13,805	10,473	9,026	1,837	7,189
Franchise segment	116,488	88,085	71,806	44,157	34,735	6,257	28,478
Corporate-owned stores segment	104,721	98,390	85,041	67,364	49,182	8,822	40,360
Equipment segment	157,032	144,062	122,930	99,488	75,770	26,708	49,062
Total revenue	378,241	330,537	279,777	211,009	159,687	41,787	117,900
Operating costs and expenses:							
Cost of revenue	122,317	113,492	100,306	81,353	62,544	21,480	41,064
Store operations	60,121	57,485	49,476	41,692	34,331	5,950	28,381
Selling, general and administrative	50,008	55,573	35,121	23,118	22,108	2,633	19,475
Depreciation and amortization	31,502	32,158	32,341	28,808	12,635	6,959	5,676
Other (gain) loss	(1,369)	(273)	994	-	(1,921)	-	(1,921)
Total operating costs and expenses	262,579	258,435	218,238	174,971	129,697	37,022	92,675
Income from operations	115,662	72,102	61,539	36,038	29,990	4,765	25,225
Other income (expense), net:							
Interest expense, net ⁽²⁾	(27,125)	(24,549)	(21,800)	(8,912)	(3,782)	(2,430)	(1,352)
Other income (expense)	1,371	(275)	(1,261)	(694)	(96)	(125)	29
Total other expense, net	(25,754)	(24,824)	(23,061)	(9,606)	(3,878)	(2,555)	(1,323)
Income before income taxes	89,908	47,278	38,478	26,432	26,112	2,210	23,902
Provision for income taxes	18,661	9,148	1,183	633	712	56	656
Net income	71,247	38,130	37,295	25,799	25,400	2,154	23,246
Less net income attributable to	49,747	19,612	487	361	1,047	32	1,015

non-controlling interests							
Net income attributable to Planet Fitness, Inc.	\$21,500	\$ 18,518	\$ 36,808	\$ 25,438	\$ 24,353	\$ 2,122	\$ 22,231
Net income per share of Class A common stock:							
Basic & diluted	\$0.50	\$ 0.11					
Cash dividends declared per Class A common share	\$2.78	\$ -					
Consolidated statement of cash flows data:							
Net cash provided by operating activities	\$ 108,817	\$ 81,663	\$ 79,405	\$ 66,943	\$ 43,058	\$ 12,481	\$ 30,577
Net cash used in investing activities	(14,694)	(19,161)	(54,362)	(7,137)	(232,900)	(216,156)	(16,744)
Net cash (used in) provided by financing activities	(85,183)	(74,240)	(12,952)	(37,994)	186,643	192,441	(5,798)
Consolidated balance sheet data:							
Cash and cash equivalents	\$40,393	\$ 31,430	\$ 43,291	\$ 31,267	n/a	\$ 9,455	n/a
Property and equipment, net	61,238	56,139	49,579	33,766	n/a	32,747	n/a
Total assets	1,001,442	699,177	601,982	556,573	n/a	552,564	n/a
Total debt and capital lease obligations, excluding deferred financing costs	716,654	492,320	387,496	184,460	n/a	201,819	n/a
Total (deficit) equity	(214,755)	(1,080)	151,749	321,915	n/a	316,639	n/a

- (1) The table above sets forth our results of operations for the period from January 1, 2012 to November 7, 2012 (Predecessor), and the period November 8, 2012 to December 31, 2012 (Successor). The unaudited combined results of operations and cash flows for the year ended December 31, 2012 represents the mathematical addition of our Predecessor's results of operations from January 1, 2012 to November 7, 2012, and the Successor's results of operations from November 8, 2012 to December 31, 2012. We have included the unaudited combined financial information in order to facilitate a comparison with our other years. Each of the Predecessor and Successor results for the period from January 1, 2012 to November 7, 2012, and the period from November 8, 2012 to December 31, 2012, respectively, have been audited and are consistent with GAAP. However, the presentation of unaudited combined financial information for the year ended December 31, 2012 is not consistent with GAAP or with the pro forma requirements of Article 11 of Regulation S-X, and may yield results that are not comparable on a period-to-period basis primarily due to (i) the impact of required purchase accounting adjustments and (ii) the new basis of accounting established in connection with the 2012 Acquisition. Such results are not necessarily indicative of what the results for the respective periods would have been had the 2012 Acquisition not occurred.

All references to the year ended December 31, 2012 in this Form 10-K are based on this unaudited combined information.

- (2) Interest expense in 2016 and 2014 included \$0.6 million and \$4.7 million, respectively, for the loss on extinguishment of debt.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context requires otherwise, references in this report to the "Company," "we," "us" and "our" refer to Planet Fitness, Inc. and its consolidated subsidiaries following the recapitalization transactions described in this report and to Pla-Fit Holdings, LLC and its consolidated subsidiaries prior to the recapitalization transactions.

Overview

We are one of the largest and fastest-growing franchisors and operators of fitness centers in the United States by number of members and locations, with a highly recognized national brand. Our mission is to enhance people's lives by providing a high-quality fitness experience in a welcoming, non-intimidating environment, which we call the Judgement Free Zone, where anyone—and we mean anyone—can feel they belong. Our bright, clean stores are typically 20,000 square feet, with a large selection of high-quality, purple and yellow Planet Fitness-branded cardio, circuit- and weight-training equipment and friendly staff trainers who offer unlimited free fitness instruction to all our members in small groups through our PE@PF program. We offer this differentiated fitness experience at only \$10 per month for our standard membership. This exceptional value proposition is designed to appeal to a broad population, including occasional gym users and the approximately 80% of the U.S. and Canadian populations over age 14 who are not gym members, particularly those who find the traditional fitness club setting intimidating and expensive. We and our franchisees fiercely protect Planet Fitness' community atmosphere—a place where you do not need to be fit before joining and where progress toward achieving your fitness goals (big or small) is supported and applauded by our staff and fellow members.

As of December 31, 2016, we had approximately 8.9 million members and 1,313 stores in 48 states, the District of Columbia, Puerto Rico, Canada and the Dominican Republic. Of our 1,313 stores, 1,255 are franchised and 58 are corporate-owned.

As of December 31, 2016, we had 1,255 franchisee-owned stores and had commitments to open more than 1,000 new stores under existing ADAs. Of the 58 existing corporate-owned stores as of December 31, 2016, eight of these stores were acquired from a franchisee on March 31, 2014.

Composition of Revenues, Expenses and Cash Flows

Revenues

We generate revenue from three primary sources:

Franchise segment revenue: Franchise segment revenue relates to services we provide to support our franchisees and includes royalty revenue, franchise fees, placement revenue, other fees and commission income associated with our franchisee-owned stores. Franchise segment revenue does not include the sale of tangible products by us to our franchisees. Our franchise segment revenue comprised 31%, 27% and 26% of our total revenue for the years ended December 31, 2016, 2015 and 2014, respectively. Royalty revenue, which represents royalties paid by franchisees based on the franchisee-owned stores' monthly and annual membership billings, is recognized on a monthly basis over the term of the franchise agreement. Franchise fees, which include fees under ADAs, are recognized when we have substantially completed all of our performance obligations, which is generally at or near the store opening date. Placement revenue includes amounts we charge our franchisees for assembling and placing cardio and strength equipment at franchisee-owned stores. Placement revenue is recognized upon completion and acceptance of the services at the franchisee stores. Other fees includes online member join fees we receive from franchisees related to processing transactions for new members joining franchisee-owned stores through the Company's website and billing transaction fees we receive from franchisees related to franchisee membership billing processing through our third-party hosted point-of-sale system. Through our point-of-sale system, we oversee the processing of membership billings for franchisee-owned stores through EFT transactions and the billing transaction fees we receive are based

upon the number of transactions processed. Our royalties and other fees are deducted from these membership billings and remitted to us by the processor prior to the net billings being remitted to the franchisees. Commission income is generated from activities related to our franchisees, including purchases of merchandise, promotional materials and store fixtures by our franchisees from third-party vendors. Beginning in 2015, commission income also included commissions earned on equipment sales by third-party vendors to franchisees in international locations. These commissions are recognized when amounts have been earned and collectability from the vendor is reasonably assured.

Corporate-owned store segment revenue: Includes monthly membership dues, enrollment fees, annual fees and prepaid fees paid by our members as well as retail sales. This source of revenue comprised 28%, 30%, and 30% of our total revenue for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, 96% of our members paid their monthly dues by EFT, while the remainder prepaid annually in advance. Membership dues and fees are earned and recognized over the membership term. Enrollment fees are recognized ratably over the estimated duration of the membership. Annual fees are recognized ratably over the 12-month membership period. Retail sales are recognized at the point of sale.

Equipment segment revenue: Includes equipment revenue for new U.S. franchisee-owned stores as well as replacement equipment for U.S. existing franchisee-owned stores. Franchisee-owned stores are required to replace their equipment every four to seven years based on the life of the specific equipment. This source of revenue comprised 41%, 43% and 44% of our total revenue for the years ended December 31, 2016, 2015 and 2014, respectively. Equipment revenue is recognized when the equipment is delivered, assembled, and accepted by the franchisee.

Expenses

We primarily incur the following expenses:

- **Cost of revenue:** Primarily includes the direct costs associated with equipment sales to new and existing franchisee-owned stores in the U.S. as well as direct costs related to our point-of-sale system. Cost of revenue also includes the cost of retail sales at our corporate-owned stores, which is immaterial. Our cost of revenue changes primarily based on equipment sales volume.

Store operations: Includes the direct costs associated with our corporate-owned stores, primarily rent, utilities, payroll, marketing, maintenance and supplies. The components of store operations remain relatively stable for each store and change primarily based on the number of corporate-owned stores. Our statements of operations do not include, and we are not responsible for, any costs associated with operating franchisee-owned stores.

Selling, general and administrative expenses: Consists of costs associated with administrative and franchisee support functions related to our existing business as well as growth and development activities, including costs to support equipment placement and assembly services. These costs primarily consist of payroll, IT-related, marketing, legal and accounting expenses.

Cash flows

We generate a significant portion of our cash flows from monthly membership dues, royalties and various fees and commissions related to transactions involving our franchisee-owned stores. We oversee the membership billing process, as well as the collection of our royalties and certain other fees, through our third-party hosted system-wide point-of-sale system. We collect monthly dues from our corporate-owned store members on or around the 17th of each month, while annual fees are collected on or around the 1st of the second month following the month in which the membership agreement was signed. Through our point-of-sale system, we oversee the processing of membership billings for franchisee-owned stores. Our royalties and certain other fees are deducted on or around the 17th of each month from these membership billings by the processor prior to the net billings being remitted to the franchisees. Our franchisees are responsible for maintaining the membership billing records and collection of member dues for their respective stores through the point-of-sale system. Our royalties are based on monthly and annual membership billings for the franchisee-owned stores without regard to the collections of those billings by our franchisees. The amount and timing of the collection of royalties and membership dues and fees at corporate-owned stores is, therefore, generally fairly predictable.

As new corporate-owned stores open, or existing stores generate positive same store sales, future corporate-owned store revenues are expected to grow. Our corporate-owned stores also generate strong operating margins and cash flows, as a significant portion of our costs are fixed or semi-fixed such as rent and labor.

Equipment sales to new and existing franchisee-owned stores also generate significant cash flows. Franchisees either pay in advance or provide evidence of a committed financing arrangement.

Recent Transactions

On November 22, 2016, we completed a secondary offering (the “November Secondary Offering”) pursuant to which the Direct TSG Investors and participating Continuing LLC Owners sold an aggregate of 15,000,000 shares of Class A common stock at a price of \$23.22 per share. The Company did not receive any proceeds from the sale of shares of our Class A common stock offered in the November Secondary Offering.

On November 10, 2016, the Company declared a special cash dividend of \$2.78 per share which was paid on December 5, 2016 to the Class A common stock holders of record as of November 22, 2016. The dividend, which together with other dividend equivalent payments (including payments of \$2.78 per unit to Continuing LLC Owners), resulted in an aggregate cash payment of \$271.0 million.

On November 10, 2016, we executed the second amendment to our senior secured credit agreement to a) decrease the interest rate spread on our term loan by 25 basis points, b) increase the aggregate principal amount of the term loans by \$230.0 million to \$718.5 million, and c) increase the aggregate revolving commitments by \$35.0 million to \$75.0 million.

On September 28, 2016, we completed a secondary offering (the “September Secondary Offering”) pursuant to which the Direct TSG Investors and participating Continuing LLC Owners sold an aggregate of 8,000,000 shares of Class A common stock at a price of \$19.62 per share. The Company did not receive any proceeds from the sale of shares of our Class A common stock offered in the September Secondary Offering.

On June 28, 2016, we completed a secondary offering (the “June Secondary Offering”) pursuant to which the Direct TSG Investors and participating Continuing LLC Owners sold an aggregate of 11,500,000 shares of Class A common stock at a price of \$16.50 per share. The Company did not receive any proceeds from the sale of shares of our Class A common stock offered in the June Secondary Offering.

On August 11, 2015, we completed an IPO pursuant to which we and selling stockholders sold an aggregate of 15,525,000 shares of Class A common stock at a public offering price of \$16.00 per share. We received \$156.9 million in proceeds, net of underwriting discounts and commissions, which were used to purchase Holdings Units from the Continuing LLC Owners, at a purchase price per unit equal to the IPO price per share of Class A common stock, less underwriting discounts and commissions.

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On March 31, 2015, we amended our senior secured credit facility to provide for an increase in term loan borrowings to \$506.1 million to permit the issuance of a cash distribution of approximately \$140.0 million to holders of Class T Units and Class O Units of Pla-Fit Holdings. The full incremental borrowings of \$120.0 million plus cash on hand were used to fund the distribution.

On March 31, 2014, we acquired the assets related to eight stores in the Hudson Valley area of New York from a franchisee for total consideration of \$41.6 million. As a result of this transaction, the stores became corporate-owned stores, and we recorded related property and equipment, intangible assets and goodwill.

Seasonality

Our results are subject to seasonality fluctuations in that member joins are typically higher in January as compared to other months of the year. In addition, our quarterly results may fluctuate significantly because of several factors, including the timing of store openings, timing of price increases for enrollment fees and monthly membership dues and general economic conditions.

See Note 20 to our consolidated financial statements included elsewhere in this Form 10-K for our total revenues, income from operations and net income for each of the quarters during the years ended December 31, 2016 and 2015.

Our Segments

We operate and manage our business in three business segments: Franchise, Corporate-owned stores and Equipment. Our Franchise segment includes operations related to our franchising business in the United States, Puerto Rico, Canada and the Dominican Republic. Our Corporate-owned stores segment includes operations with respect to all corporate-owned stores throughout the United States and Canada. The Equipment segment includes the sale of equipment to franchisee-owned stores in the U.S. We evaluate the performance of our segments and allocate resources to them based on revenue and earnings before interest, taxes, depreciation and amortization, referred to as Segment EBITDA. Revenue and Segment EBITDA for all operating segments include only transactions with unaffiliated customers and do not include intersegment transactions. The tables below summarize the financial information for our segments for the years ended December 31, 2016, 2015 and 2014. "Corporate and other," as it relates to Segment EBITDA, primarily includes corporate overhead costs, such as payroll and related benefit costs and professional services that are not directly attributable to any individual segment.

	Year Ended December 31,		
	2016	2015	2014
(in thousands)			
Revenue			
Franchise segment	\$116,488	\$88,085	\$71,806
Corporate-owned stores segment	104,721	98,390	85,041
Equipment segment	157,032		