



Medifast (MED)

Updated February 25th, 2022 by Derek English

Key Metrics

Current Price:	\$175	5 Year CAGR Estimate:	14.4%	Market Cap:	\$2.05B
Fair Value Price:	\$221	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/29/22
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	05/06/22
Dividend Yield:	3.2%	5 Year Price Target	\$296	Years Of Dividend Growth:	6
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	33.7%

Overview & Current Events

Medifast Inc (MED) is an American weight loss and nutrition company headquartered in Baltimore, Maryland. Founded in 1980, Medifast is known as the company behind the health and wellness community OPTAVIA. Its business model is based on direct selling, where nearly 60,000 independent coaches offer exclusive OPTAVIA branded nutritional products to their clients. As independent contractors, Coaches are not direct employees of Medifast and earn a commission for marketing and selling OPTAVIA products to friends and family. The company's OPTAVIA brand accounts for 98% of revenue, which is why they emphasize growing the number of coaches who promote their brand.

Medifast released fourth-quarter financial results on the 23rd of February, 2022. The company has continued to show strong growth as revenue increased 42% to \$377 million. The company has attributed its solid momentum to its personalized health and wellness programs. OPTAVIA coaches have risen to a 59,800, with an average coach generating \$6,321 in revenue. Net income was \$34 million or \$2.91/share, which was up 23% from Q4 2020.

The company also released solid full year 2021 results. Revenue increased 63% to \$1.526 Billion compared to \$934 Billion in 2020. Net income returned \$164 million, an increase of 59%, while EPS increased to \$13.89, missing our estimate by \$0.01. The companies balance sheet also remains strong with cash, cash equivalents, and investment securities of \$109.5 million and no interest-bearing debt.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.16	\$1.73	\$1.65	\$1.62	\$1.49	\$2.29	\$4.62	\$6.43	\$8.68	\$13.89	\$14.75	\$19.74
DPS	---	---	---	\$0.25	\$1.07	\$1.44	\$2.19	\$3.38	\$4.52	\$5.68	\$6.25	\$10.06
Shares	13.8	13.1	12.1	11.8	12.0	12.0	11.9	11.8	11.8	11.7	11.6	11.5

Medifast's earnings per share have grown at a CAGR of 25.9% over the last nine years. However, it was not until 2016 that we saw exponential growth where earnings have increased 56.3 % from \$1.49 for the year to \$13.89 in FY 2021. Growth is driven by the number of independent coaches within the business. In 2016, coaches totaled 12,500 compared to 59,800 today. Further development is harder to predict; however, Medifast has a significant market to aim for, with over 42% of the American population suffering from obesity¹. However, due to the cyclical nature of the business, we have estimated a 6% EPS growth annually through 2027. This is down from our original 8% estimation due to the number of coaches doping from an all time high of 61,000 in Q3 . In addition, the company has had a solid dividend policy since 2015 and has increased its dividend by 34% on average over the last five years. Again, we take a conservative approach as a 39.5% increase is not sustainable long term and expect the average increase to be closer to 10%.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.3	15.0	18.2	18.8	23.1	22.0	31.1	18.3	15.1	16.9	17.2	15.0
Avg. Yld.	---	---	---	2.0%	1.6%	1.7%	2.1%	2.9%	3.1%	3.2%	3.6%	3.4%

¹ <https://www.cdc.gov/nchs/fastats/obesity-overweight.htm>

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours



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Medifasts' share price has been quite volatile over recent years, reaching a high of \$250 in 2018 before dipping to below \$100 at the beginning of 2020. However, since the pandemic, the share price has risen to a high of \$330 before dropping off again to \$175. The company currently trades at a PE ratio of 17, which is below its ten-year average of 19.8, but above our target multiple of 15. We estimate that the company is now 21% undervalued, with its fair value closer to \$221. Our five-year price target is \$296 based on an 6% EPS growth estimate. Shares offer a 3% dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

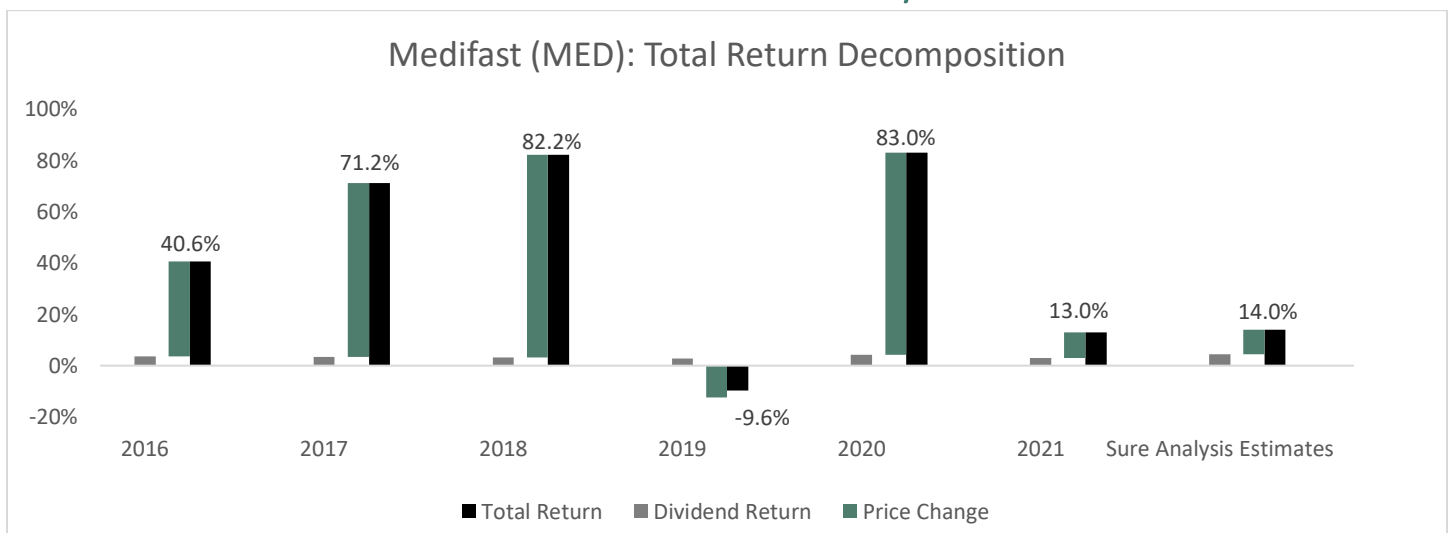
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	15%	72%	63%	47%	53%	52%	41%	42%	51%

Medifast operates within a highly competitive niche, where trends move pretty fast. However, the company boasts that its main competitive advantage is being backed by more than 20,000 doctors since 1980². In its 2020 investor presentation, the company claimed to have a massive 86% retention rate due to a doctor-developed program for fast, safe, and sustained weight loss. Of course, there are always new trends and products for weight loss, and with a low entry barrier, competition will always remain one of the companies most significant risks. The companies business model can be classed as either a strength or a weakness. The company is heavily reliant on increasing the number of coaches who will advertise and sell Medifast brands. Coaches will usually sell to their friends and family, whom themselves might become future coaches. A sharp decline in coaches would also correspond to a sharp decline in the company's revenue. As the company has substantial liquidity, Medifast has been focused on share buybacks to increase shareholder value. The company has once again reiterated its commitment to repurchase shares over the next couple of years.

Final Thoughts & Recommendations

Medifast has seen remarkable growth in earnings, dividends, and share price over the last five years. However, the question remains how much more the company can grow. With obesity becoming a global problem and its unique business model, there appears to be plenty of room for the company to expand into Asia and the Middle East. It is not easy to predict growth rates; however, even with our conservative estimations we expect a five-year average return of 14%. We would currently rate Medifast as a buy due to projected returns.

Total Return Breakdown by Year



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² http://www.medifastmedia.com/med/docs/medi_in_medifast.pdf

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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	298	319	324	285	273	275	302	501	714	935
Gross Profit	224	236	241	209	201	206	228	380	537	698
Gross Margin	75.3%	74.1%	74.2%	73.3%	73.8%	74.9%	75.5%	75.8%	75.2%	74.6%
SG&A Exp.	197	209	202	179	173	179	188	311	446	564
D&A Exp.	8	8	8	8	7	5	4	4	7	7
Operating Profit	27	27	38	30	29	27	40	69	91	134
Operating Margin	9.2%	8.5%	11.9%	10.6%	10.5%	9.8%	13.1%	13.8%	12.8%	14.4%
Net Profit	19	16	24	13	20	18	28	56	78	103
Net Margin	6.2%	5.0%	7.4%	4.6%	7.4%	6.5%	9.2%	11.1%	10.9%	11.0%
Free Cash Flow	20	32	31	19	27	22	40	56	74	139
Income Tax	9	10	12	11	10	9	13	15	14	31

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	106	130	133	116	116	121	146	169	195	276
Cash & Equivalents	14	40	36	24	42	52	75	81	77	164
Accounts Receivable	1	2	1	2	2	1	1	1	1	1
Inventories	20	21	18	16	13	18	19	39	49	53
Goodwill & Int. Ass.	1	0								
Total Liabilities	32	39	34	35	28	25	37	60	90	119
Accounts Payable	13	16	12	12	11	10	14	19	23	36
Long-Term Debt	5	4	-	2	-	-	-	-	-	-
Shareholder's Equity	73	91	98	80	89	96	109	109	105	157
LTD/E Ratio	0.06	0.04	-	0.02	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	18.6%	13.5%	18.2%	10.6%	17.3%	15.0%	20.8%	35.4%	42.8%	43.7%
Return on Equity	25.5%	19.3%	25.3%	14.7%	23.7%	19.3%	27.1%	51.3%	72.8%	78.5%
ROIC	23.8%	18.4%	24.9%	14.6%	23.5%	19.3%	27.1%	51.3%	72.8%	78.5%
Shares Out.	14.1	13.8	13.1	12.1	11.8	12.0	12.0	11.9	11.8	11.8
Revenue/Share	21.00	23.19	23.45	22.33	22.60	22.98	24.95	41.48	58.90	78.89
FCF/Share	1.42	2.34	2.24	1.45	2.20	1.88	3.31	4.63	6.12	11.76

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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