



# Medifast (MED)

Updated August 6<sup>th</sup>, 2022 by Derek English

## Key Metrics

<b>Current Price:</b>	\$138	<b>5 Year CAGR Estimate:</b>	15.8%	<b>Market Cap:</b>	\$1.53B
<b>Fair Value Price:</b>	\$211	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	06/27/22
<b>% Fair Value:</b>	66%	<b>5 Year Valuation Multiple Estimate:</b>	-2.7%	<b>Dividend Payment Date:</b>	08/08/22
<b>Dividend Yield:</b>	4.7%	<b>5 Year Price Target</b>	\$245	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Medifast Inc (MED) is an American weight loss and nutrition company headquartered in Baltimore, Maryland. Founded in 1980, Medifast is 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 increasing the number of coaches promoting their brand. Medifast released second-quarter financial results on August 3<sup>rd</sup>, 2022. The company showed strong growth, as revenue increased 15% to \$453.3 million. The company has attributed its solid momentum to its personalized health and wellness programs and a rapid rise in independent coaches. OPTAVIA coaches have risen to 68,000, with an average coach generating \$6,667 in revenue. Gross profit increased 9.5%; however, gross margin decreased to 72.4% from 73% due to the cost of the customer acquisition program and higher shipping and raw material costs. Net income was \$39.1 million or \$3.42/share. Despite a strong showing, the company's share price has dropped ~20% since the earnings release based on a lowered guidance from the company.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.16	\$1.73	\$1.65	\$1.62	\$1.49	\$2.29	\$4.62	\$6.43	\$8.68	\$13.89	<b>\$14.10</b>	<b>\$16.35</b>
<b>DPS</b>	---	---	---	\$0.25	\$1.07	\$1.44	\$2.19	\$3.38	\$4.52	\$5.68	<b>\$6.56</b>	<b>\$10.56</b>
<b>Shares</b>	13.8	13.1	12.1	11.8	12.0	12.0	11.9	11.8	11.8	11.8	<b>11.6</b>	<b>11.5</b>

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 per share 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 68,000 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 obesity<sup>1</sup>. However, due to the cyclical nature of the business, we have downgraded our EPS forecast to 3% annually through 2027. This is down from our original 6% estimation due to increased costs in the current environment. The company has decreased its full-year EPS guidance to \$12.70 to \$14.10. We expect earnings to come in at the high end of expectations at \$14.10 due to the number of coaches at an all time high, and the average revue per coach has increased as the company pass on some of the higher costs to consumers. 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%.

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

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## 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%	4.7%	4.3%

Medifast's 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 ~\$140. The company currently trades at a PE ratio of 17, below its ten-year average of 19.8, but above our target multiple of 15. We estimate the company is 53% undervalued, with its fair value closer to \$211. Our five-year price target is \$245 based on our revised 3% EPS growth estimate. Shares currently offer a healthy 4.7% dividend yield compared to the 1.54% dividend yield from the S&P 500<sup>2</sup>.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

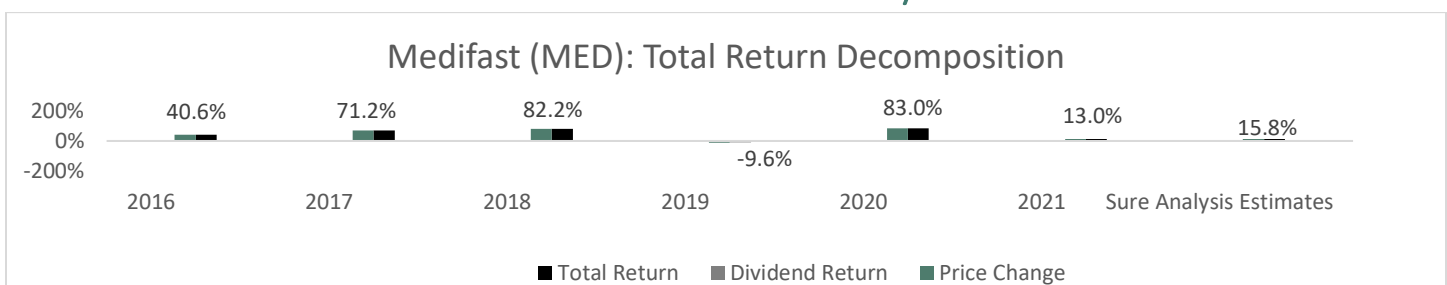
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	15%	72%	63%	47%	53%	52%	41%	47%	65%

Medifast operates within a highly competitive niche, where trends move pretty fast. However, the company boasts that its main competitive advantage has been backed by more than 20,000 doctors since 1980<sup>3</sup>. 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 competition will always remain one of the company's most significant risks with a low entry barrier. The company's business model can be classed as either a strength or a weakness. The company relies heavily 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 again reiterated its commitment to repurchase shares over the next couple of years.

## Final Thoughts & Recommendations

Medifast has seen remarkable earnings, dividends, and share price growth 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, hence we are cautious with expectations; however, even with our conservative estimations, we expect a five-year average return of 15.8%. Therefore, we currently rate Medifast as a buy due to projected returns.

## Total Return Breakdown by Year



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<sup>2</sup> <https://www.multpl.com/s-p-500-dividend-yield>

<sup>3</sup> [http://www.medifastmedia.com/med/docs/medi\\_in\\_medifast.pdf](http://www.medifastmedia.com/med/docs/medi_in_medifast.pdf)

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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	319	324	285	273	275	302	501	714	935	1,526
<b>Gross Profit</b>	236	241	209	201	206	228	380	537	698	1,128
<b>Gross Margin</b>	74.1%	74.2%	73.3%	73.8%	74.9%	75.5%	75.8%	75.2%	74.6%	73.9%
<b>SG&amp;A Exp.</b>	209	202	179	173	179	188	311	446	564	911
<b>D&amp;A Exp.</b>	8	8	8	7	5	4	4	7	7	7
<b>Operating Profit</b>	27	38	30	29	27	40	69	91	134	216
<b>Operating Margin</b>	8.5%	11.9%	10.6%	10.5%	9.8%	13.1%	13.8%	12.8%	14.4%	14.2%
<b>Net Profit</b>	16	24	13	20	18	28	56	78	103	164
<b>Net Margin</b>	5.0%	7.4%	4.6%	7.4%	6.5%	9.2%	11.1%	10.9%	11.0%	10.7%
<b>Free Cash Flow</b>	32	31	19	27	22	40	56	74	139	60
<b>Income Tax</b>	10	12	11	10	9	13	15	14	31	52

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	130	133	116	116	121	146	169	195	276	398
<b>Cash &amp; Equivalents</b>	40	36	24	42	52	75	81	77	164	104
<b>Accounts Receivable</b>	2	1	2	2	1	1	1	1	1	---
<b>Inventories</b>	21	18	16	13	18	19	39	49	53	180
<b>Goodwill &amp; Int. Ass.</b>	-	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	39	34	35	28	25	37	60	90	119	196
<b>Accounts Payable</b>	16	12	12	11	10	14	19	23	36	71
<b>Long-Term Debt</b>	4	-	2	-	-	-	-	-	-	-
<b>Shareholder's Equity</b>	91	98	80	89	96	109	109	105	157	202
<b>LTD/E Ratio</b>	0.04	-	0.02	-	-	-	-	-	-	-

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	13.5%	18.2%	10.6%	17.3%	15.0%	20.8%	35.4%	42.8%	43.7%	48.6%
<b>Return on Equity</b>	19.3%	25.3%	14.7%	23.7%	19.3%	27.1%	51.3%	72.8%	78.5%	91.2%
<b>ROIC</b>	18.4%	24.9%	14.6%	23.5%	19.3%	27.1%	51.3%	72.8%	78.5%	91.2%
<b>Shares Out.</b>	13.8	13.1	12.1	11.8	12.0	12.0	11.9	11.8	11.8	11.8
<b>Revenue/Share</b>	23.19	23.45	22.33	22.60	22.98	24.95	41.48	58.90	78.89	129.19
<b>FCF/Share</b>	2.34	2.24	1.45	2.20	1.88	3.31	4.63	6.12	11.76	5.11

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

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