



# Medifast (MED)

Updated February 21<sup>st</sup>, 2023 by Derek English

## Key Metrics

<b>Current Price:</b>	\$105	<b>5-Year CAGR Estimate:</b>	14.3%	<b>Market Cap:</b>	\$1.15B
<b>Fair Value Price:</b>	\$144	<b>5-Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	03/28/23 <sup>1</sup>
<b>% Fair Value:</b>	73%	<b>5-Year Valuation Multiple Estimate:</b>	6.5%	<b>Dividend Payment Date:</b>	05/09/23
<b>Dividend Yield:</b>	6.2%	<b>5-Year Price Target</b>	\$167	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	F	<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 its brand.

Medifast released fourth-quarter financial results on February 21<sup>st</sup>, 2023. The company's impressive growth in the first half of 2022 slowed down as revenue decreased 10.7% to \$377.8 million. The company has attributed its decline to lower coach productivity, where on average, a coach earned \$5,538 compared with \$6,321 in the same quarter last year. OPTAVIA coaches have risen to 60,900 compared with Q4 2021. Gross profit decreased by 16.1%, reflected by the reduced number of customers supporting each coach and one-time expenses in connection with restructuring manufacturing agreements. Net income was \$26.5 million or \$2.41 per share. Despite a weaker showing, the company performed in-line with its lowered guidance from last quarter.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.73	\$1.65	\$1.62	\$1.49	\$2.29	\$4.62	\$6.43	\$8.68	\$13.89	\$12.73	<b>\$9.60</b>	<b>\$11.13</b>
<b>DPS</b>	---	---	\$0.25	\$1.07	\$1.44	\$2.19	\$3.38	\$4.52	\$5.68	\$6.56	<b>\$6.56</b>	<b>\$8.37</b>
<b>Shares</b>	13.1	12.1	11.8	12.0	12.0	11.9	11.8	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 35.6% 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. However, inflation and rising costs affected the company's growth in the second half of 2022. In 2016, coaches totaled 12,500 compared to 60,900 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>2</sup>. However, due to the cyclical nature of the business, we have downgraded our EPS forecast to 3% annually through 2028. This is down from our original 6% estimation due to increased costs in the current environment. The company's EPS guidance for Q1 2023 is between \$1.75 and \$2.40. Based on this guidance and the number of coaches, we have estimated FY 2023 EPS to come in at ~\$9.60, down from our expected \$14.10 last year.

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. But, again, we take a conservative approach as an increase of this magnitude is not long-term sustainable. The company typically announces an increased dividend in March; we expect the average increase to be closer to 5%, with a target of \$8.37 per share by 2028.

<sup>1</sup> Estimated based on Past Payments

<sup>2</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	2028
Avg. P/E	15.0	18.2	18.8	23.1	22.0	31.1	18.3	15.1	16.9	16.4	10.9	15.0
Avg. Yld.	---	---	2.0%	1.6%	1.7%	2.1%	2.9%	3.1%	3.2%	3.2%	6.2%	5.0%

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. The company currently trades at a P/E ratio of 10.9, below its ten-year average of 19.5 and our target multiple of 15. We estimate the company is 73% of our fair value, which is closer to \$144. Our five-year price target is \$167 based on our revised 3% EPS growth estimate. Shares currently offer a healthy 6.2% dividend yield compared to the 1.64% dividend yield from the S&P 500<sup>3</sup>.

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

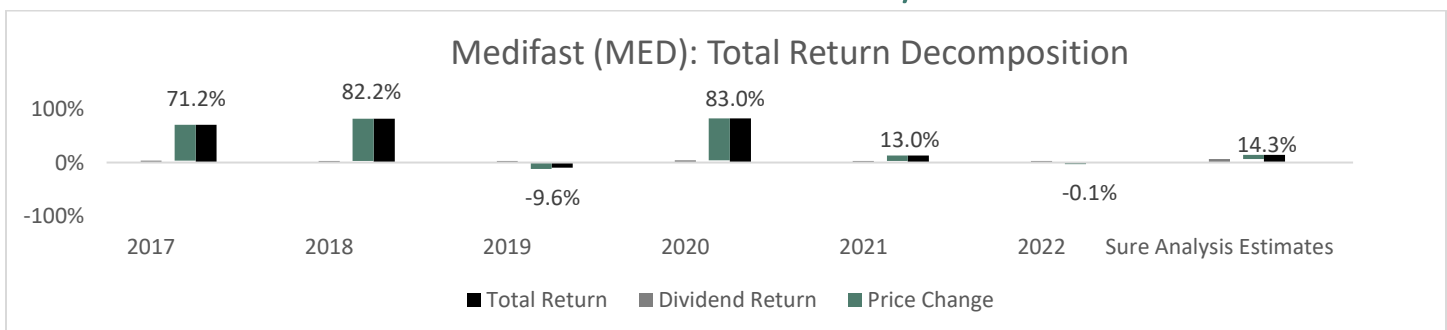
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	15%	72%	63%	47%	53%	52%	41%	52%	68%	75%

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 over 20,000 doctors since 1980<sup>4</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 classified as 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 few 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 can the company 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 estimates, we expect an annual return of 14.3% over the next five years. Therefore, we currently rate Medifast as a buy due to projected returns.

## Total Return Breakdown by Year



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<sup>3</sup> <https://www.multpl.com/s-p-500-dividend-yield>

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

## Balance Sheet Metrics

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

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	18.2%	10.6%	17.3%	15.0%	20.8%	35.4%	42.8%	43.7%	48.6%
Return on Equity	25.3%	14.7%	23.7%	19.3%	27.1%	51.3%	72.8%	78.5%	91.2%
ROIC	24.9%	14.6%	23.5%	19.3%	27.1%	51.3%	72.8%	78.5%	91.2%
Shares Out.	13.1	12.1	11.8	12.0	12.0	11.9	11.8	11.8	11.8
Revenue/Share	23.45	22.33	22.60	22.98	24.95	41.48	58.90	78.89	129.19
FCF/Share	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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