



Medifast (MED)

Updated May 2nd, 2023 by Derek English

Key Metrics

Current Price:	\$84	5-Year CAGR Estimate:	19.5%	Market Cap:	\$0.91B
Fair Value Price:	\$144	5-Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/27/23
% Fair Value:	58%	5-Year Valuation Multiple Estimate:	11.4%	Dividend Payment Date:	05/09/23
Dividend Yield:	7.9%	5-Year Price Target	\$167	Years Of Dividend Growth:	7
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	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 first-quarter financial results on May 2nd, 2023. Despite a better showing at the end of last year, the company has continued to slow down so far in 2023 as revenue decreased 16.4% to \$349.0 million. The company has attributed its decline to lower coach productivity, where on average, a coach earned \$5,945 in the quarter compared with \$6,536 in the same quarter last year. In addition, OPTAVIA coaches have decreased to 58,700 compared with Q1 2022. Gross profit decreased by 18.5%, reflected by the reduced number of customers supporting each coach as well as cost inflation from raw ingredients, shipping, and labor. Net income was \$40 million or \$3.67 per share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.73	\$1.65	\$1.62	\$1.49	\$2.29	\$4.62	\$6.43	\$8.68	\$13.89	\$12.73	\$9.60	\$11.13
DPS	---	---	\$0.25	\$1.07	\$1.44	\$2.19	\$3.38	\$4.52	\$5.68	\$6.56	\$6.56	\$8.37
Shares	13.1	12.1	11.8	12.0	12.0	11.9	11.8	11.8	11.8	11.8	11.6	11.5

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 58,700 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 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 Q2 2023 is between \$1.32 and \$1.44. 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.

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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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	8.8	15.0
Avg. Yld.	---	---	2.0%	1.6%	1.7%	2.1%	2.9%	3.1%	3.2%	3.2%	6.56%	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 8.8, below its ten-year average of 19.5 and our target multiple of 15. We estimate the company is 58% 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 7.9% dividend yield compared to the 1.66% dividend yield from the S&P 500².

Safety, Quality, Competitive Advantage, & Recession Resiliency

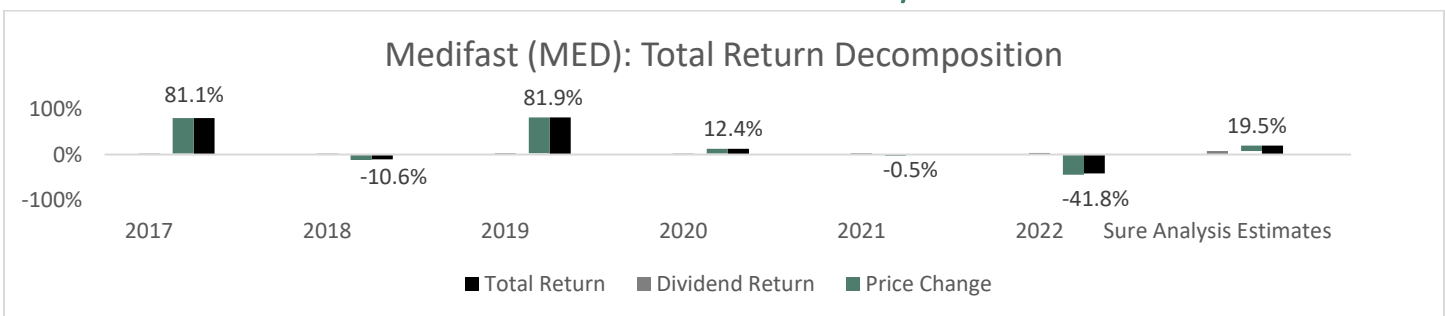
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	15%	72%	63%	47%	53%	52%	41%	52%	68%	75%

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 1980³. 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 19.5% 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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² <https://www.multpl.com/s-p-500-dividend-yield>

³ http://www.medifastmedia.com/med/docs/medi_in_medifast.pdf

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	285	273	275	302	501	714	935	1,526	1,599
Gross Profit	209	201	206	228	380	537	698	1,128	1,140
Gross Margin	73.3%	73.8%	74.9%	75.5%	75.8%	75.2%	74.6%	73.9%	71.3%
SG&A Exp.	179	173	179	188	311	446	564	911	956
D&A Exp.	8	7	5	4	4	7	7	7	11
Operating Profit	30	29	27	40	69	91	134	216	185
Operating Margin	10.6%	10.5%	9.8%	13.1%	13.8%	12.8%	14.4%	14.2%	11.6%
Net Profit	13	20	18	28	56	78	103	164	144
Net Margin	4.6%	7.4%	6.5%	9.2%	11.1%	10.9%	11.0%	10.7%	9.0%
Free Cash Flow	19	27	22	40	56	74	139	60	178
Income Tax	11	10	9	13	15	14	31	52	40

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	116	116	121	146	169	195	276	398	316
Cash & Equivalents	24	42	52	75	81	77	164	104	88
Accounts Receivable	2	2	1	1	1	1	1	-	-
Inventories	16	13	18	19	39	49	53	180	119
Goodwill & Int. Ass.	-	-	-	-	-	-	-	-	-
Total Liabilities	35	28	25	37	60	90	119	196	161
Accounts Payable	12	11	10	14	19	23	36	71	59
Long-Term Debt	2	-	-	-	-	-	-	-	-
Shareholder's Equity	80	89	96	109	109	105	157	202	155
LTD/E Ratio	0.02	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.6%	17.3%	15.0%	20.8%	35.4%	42.8%	43.7%	48.6%	40.2%
Return on Equity	14.7%	23.7%	19.3%	27.1%	51.3%	72.8%	78.5%	91.2%	80.3%
ROIC	14.6%	23.5%	19.3%	27.1%	51.3%	72.8%	78.5%	91.2%	80.3%
Shares Out.	12.1	11.8	12.0	12.0	11.9	11.8	11.8	11.8	11.3
Revenue/Share	22.33	22.60	22.98	24.95	41.48	58.90	78.89	129.19	141.77
FCF/Share	1.45	2.20	1.88	3.31	4.63	6.12	11.76	5.11	15.78

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

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