



Medifast (MED)

Updated November 7th, 2023 by Derek English

Key Metrics

Current Price:	\$70	5-Year CAGR Estimate:	23.9%	Market Cap:	\$761.04M
Fair Value Price:	\$144	5-Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/19/23 ¹
% Fair Value:	49%	5-Year Valuation Multiple Estimate:	15.5%	Dividend Payment Date:	02/08/24
Dividend Yield:	9.3%	5-Year Price Target	\$167	Years Of Dividend Growth:	7
Dividend Risk Score:	F	Retirement Suitability Score:	B	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 it emphasizes increasing the number of coaches promoting its brand.

Medifast released third-quarter financial results on November 6th, 2023. Revenue continued to be under pressure this year with a second consecutive decline of over 30% to \$235.9 million compared to Q3 2022 due to fewer actively earning OPTAVIA coaches and lower productivity per coach. The average revenue per coach dropped by 15.1% to \$5,008, influenced by customer acquisition challenges and a partial offset from a price increase. The number of active earning coaches decreased by 28.9% to 47,100 from Q3 2022. Gross profit fell 37.3% to \$177.4 million, driven by the decline in revenue. Gross profit margin increased to 75.2% due to lower supply chain costs. Selling, general, and administrative expenses (SG&A) decreased by 35.3% to \$151.9 million, primarily due to cost reduction initiatives and lower Coach compensation. Income from operations decreased by 47.0% to \$48.2 million, and net income for Q3 2023 was \$23.1 million, or \$2.12 per diluted share. The balance sheet remained strong, with \$157.8 million in cash and cash equivalents and no interest-bearing debt as of September 30, 2023.

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	\$6.60	\$8.42
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 has displayed remarkable earnings per share (EPS) growth with a 35.6% compound annual growth rate (CAGR) over the past nine years. Notably, a significant surge in EPS occurred in 2016, spiking by 56.3% from \$1.49 to \$13.89 in FY 2021. This growth has been propelled by the expanding number of independent coaches in the business. However, inflation and rising costs in the latter half of 2022 impacted the company's growth trajectory. Initially, the coach count stood at 12,500 in 2016, which now stands at 47,100. While forecasting future developments is challenging, Medifast targets a substantial market, given that over 42% of Americans grapple with obesity². Nevertheless, due to the cyclical nature of the business and the prevailing cost environment, our EPS forecast has been revised downwards to an annual growth of 3% until 2028, compared to the initial estimation of 6%. Notably, the company's EPS guidance for Q3 2023 came in at the low end of the estimated \$0.71 to \$1.23. Based on this quarter and considering the coach count, our estimate for FY 2023 EPS is approximately \$9.60, a decline from the projected \$14.10 at the beginning year. In addition, the

¹ Estimated base on past dates

² <https://www.cdc.gov/nchs/fastats/obesity-overweight.htm>

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company has had a solid dividend policy since 2015 and has increased its dividend by 34% on average over the last five years. We take a conservative approach as an increase of this magnitude is not sustainable long-term.

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	7.3	15.0
Avg. Yld.	---	---	2.0%	1.6%	1.7%	2.1%	2.9%	3.1%	3.2%	3.2%	9.3%	5.0%

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. The company currently trades at a P/E ratio of 9.5, below its ten-year average of 19.5 and our target multiple of 15. We estimate the company is 49% of our fair value as the share price continues to fall as revenues decline. Our five-year price target is \$167 based on our revised 3% EPS growth estimate. Shares currently offer a massive 9.3% dividend yield compared to the 1.58% dividend yield from the S&P 500³.

Safety, Quality, Competitive Advantage, & Recession Resiliency

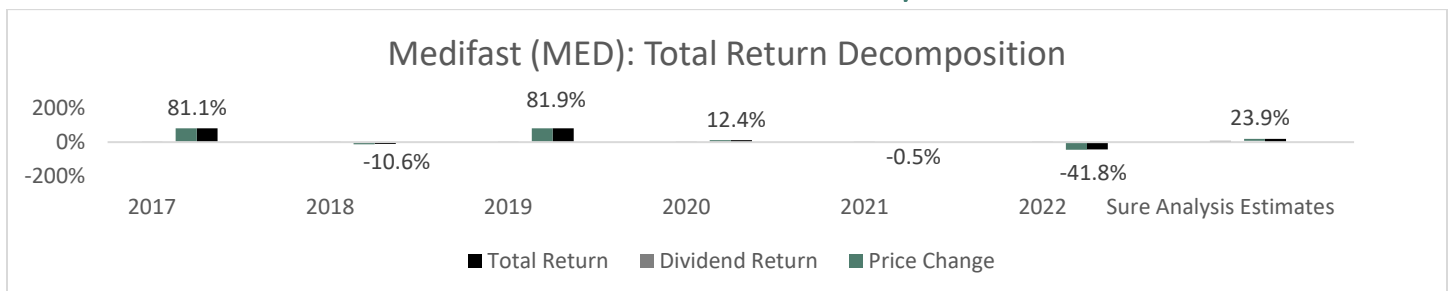
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	15%	72%	63%	47%	53%	52%	41%	52%	69%	76%

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 1980⁴. 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, who 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.

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 23.9% 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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³ <https://www.multpl.com/s-p-500-dividend-yield>

⁴ 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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