

Medifast Inc.

NYSE: MED

Analyst: Annie Staudt

Sector: Consumer Staples

BUY on MED

Price Target: \$39.93

Key Statistics as of 3/6/2016

Market Price:	\$30.52
Industry:	Personal Products
Market Cap:	\$358.88M
52-Week Range:	\$26.14-\$33.56
Unlevered Beta:	0.83

Thesis Points:

- Increasing health-awareness trend demonstrates positive industry outlook
- Investment in Take Shape for Life program is beginning to realize deferred benefits
- Consistent value creation and improving margins

Company Description:

Medifast Inc. (Medifast) is engaged in the production, distribution, and sale of consumable health, diet, and weight loss and management products. The company combines physician-supervised weight loss programs with nutritional supplements and multidisciplinary patient education programs. It helps customers achieve their healthy living goals through personal coaching, clinics, working with physicians, meal replacements, and a nutrition support team. The company operates its business in two segments: Medifast and MWCC & Wholesale. Revenues come from sales from Medifast Direct marketing, franchise weight control centers, its Take Shape for Life coaching program, Medifast wholesale physicians, and international sales. The company was founded in 1980 and is headquartered in Owings Mills, Maryland. It is listed on the NYSE as MED.



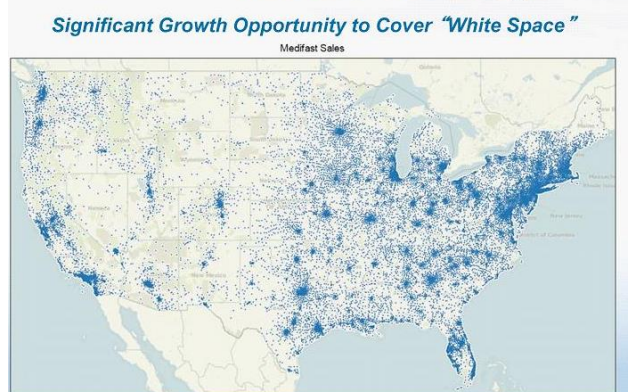
Thesis

Medifast has been a leading provider of weight loss and maintenance products and programs for many years. The increasing health-awareness trend paired with American's ever quickening on-the-go lifestyle provide Medifast with substantial growth potential.

Additionally, throughout the last year, Medifast invested heavily in the development, growth, and simplification of their largest business, Take Shape for Life, which accounts for 75.7% of their business. Quarter three 2015 earnings demonstrated tangible results from the actions taken throughout the year, signaling a positive improvement within Take Shape to Life. The program realized both health coach growth and increasing coach productivity, both of which bolstered revenues generated by TSL.

Lastly, Medifast has demonstrated consistent value creation and improving margins. According to their Q3 2015 earnings call, gross margin expanded 110 basis points and Medifast was able to effectively manage their expenses, resulting in earnings per share exceeding expectations. Additionally, the implied continuing period ROIC/WACC is 2, signifying long term value creation. Medifast's years of experience in this industry along with their commitment to growth and evolving with the changing market make Medifast an attractive investment, and its current undervaluation due to deferred realized revenues pose an opportune time for investors to buy. This report includes an analysis and forecast of the MED stock price.

Medifast. Current Medifast National Market Coverage

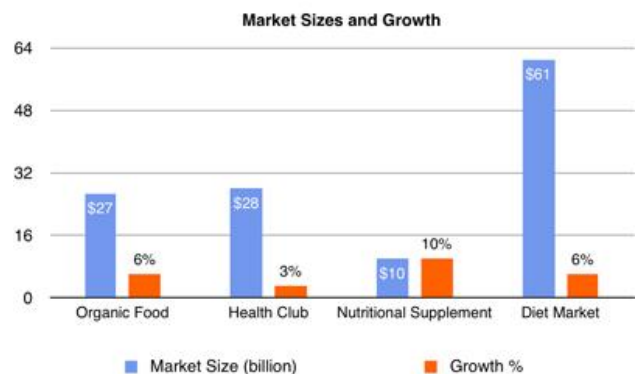


Industry Outlook

Both the personal care and diet/weight-loss industries have experienced steady growth over last few years. They continued to expand even during economic recession, when other sectors were negatively affected. Personal care and weight loss markets are expected to grow strongly due to rising awareness of health issues among consumers.

Health and fitness have always been major concerns and are something that consumers spend a lot of time and money on, particularly in recent years. Increasing overweight and obesity rates have drawn a lot of attention and resources towards getting people to adjust their eating habits and live healthier lifestyles. These increasing levels of awareness amongst calorie-conscious consumers in North America have opened new avenues for the weight management industry. The North American weight loss/obesity management market was worth \$104 billion in 2012.

The North America weight loss and management market witnesses a growing preference for low-calorie diet food and beverages, which is precisely what Medifast Direct, a prepared foods business, provides its customers. The U.S. is the largest market for weight loss/obesity management market, followed by Canada, a country to which Medifast recently expanded in 2014. Additionally, weight loss diets and services make up the largest portions of the North American weight loss and obesity management markets, which are the sectors in which Medifast conducts business. Nutritional supplements are growing at 10%, another large portion of Medifast's sales.



Product Differentiation

Medifast prides itself on its differentiation and wide variety of product offerings in a relatively saturated market. Medifast food, unlike that of competitors such as Nutrisystem, was developed by doctors, and is fortified with around 24 vitamins and minerals as well as protein and fiber. Medifast uses a unique, multi-channel structure with four support and distribution channels: Medifast Direct, Take Shape for Life, Medifast Weight Control Centers, and Medical providers. Medifast Direct is geared towards the independent consumer who is looking for self-guided weight loss and weight management with the convenience of online ordering and tools. Take Shape for Life provides clients with a personal health coach to guide them through their weight-loss journey.

Medifast Weight Control Centers provide clinically-focused, one-on-one counseling. Medifast Medical Providers is a physician-directed weight loss and weight management that allows healthcare professionals to offer the Medifast program to their patients. Medifast Medical Providers, which allows health professionals to offer the program to their patients.

Competitive Advantage

Medifast is a vertically integrated company. All of its manufacturing and distribution operations are owned and operated by Medifast. This greatly reduces their expenses and therefore produces industry leading gross margins.

Valuation

The valuation of Medifast Inc. is computed using a return on invested capital valuation approach on a pro forma. Attached is an overview of the proforma containing the relevant financials of Medifast as well as pertinent industry information and projections for the future. MED is currently trading at \$30.52 and after a conservative but reasonable return on invested capital valuation approach, an intrinsic value of \$36.73 has been calculated.

Conclusion

I recommend a buy on Medifast, Inc. Currently priced at \$30.52, I believe Medifast is undervalued and is actually

worth over \$36/share. With a 12-month target price of \$39.93/share, the investment presents a 30.83% upside.

Medifast has been a leading competitor in the personal care and weight loss sectors for decades. The positive outlook for this industry along with the company realigning its focus on strengthening its programs indicate a positive future for the corporation. Medifast is a value creating company, and with earnings per share from continuing operations at \$0.45, \$0.02 above the high end of expectations and operating costs expected to fall, it will continue to create value for its shareholders in the future. The growing revenue from Take Shape for Life along with their commitment to investing in the continued development of their product offerings to improve quality and profitability demonstrate enormous growth potential.



Medifast Inc. (med)

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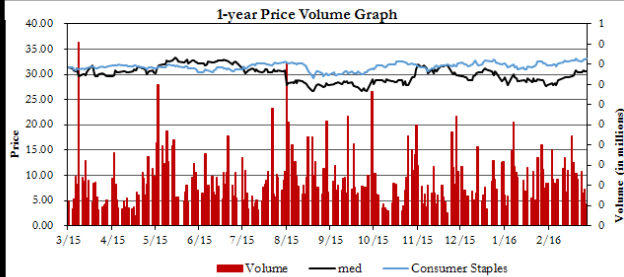
BULLISH

Analysis by Marianne Staudt
3/6/2016

Current Price: **\$30.52**
Divident Yield: **0.0%**

Intrinsic Value: **\$36.73**
Target Price: **\$39.93**

Target 1 year Return: **30.83%**
Probability of Price Increase: **98%**

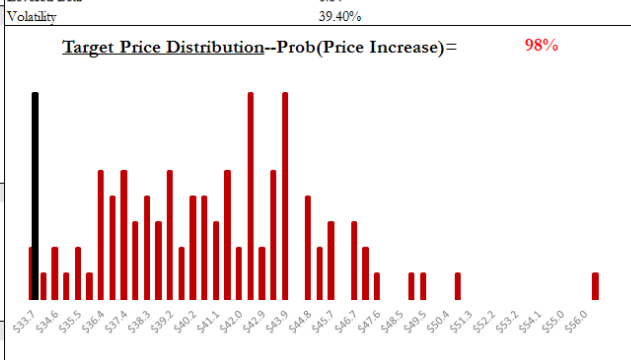


Description	
Medifast, Inc. engages in the production, distribution, and sale of weight loss and weight management products and other consumable health and diet products.	
General Information	
Sector	Consumer Staples
Industry	Personal Products
Last Guidance	November 3, 2015
Next earnings date	March 10, 2016
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	\$358.88
Daily volume (mil)	0.08
Shares outstanding (mil)	11.76
Diluted shares outstanding (mil)	12.14
% shares held by institutions	62%
% shares held by investments Managers	52%
% shares held by hedge funds	29%
% shares held by insiders	8.01%
Short interest	6.57%
Days to cover short interest	6.81
52 week high	\$33.56
52-week low	\$26.14
Levered Beta	0.84
Volatility	39.40%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
9/30/2014	-9.25%	14.44%
12/31/2014	-9.38%	-23.90%
3/31/2015	3.70%	24.58%
6/30/2015	-0.86%	3.45%
9/30/2015	-1.59%	4.02%
Mean	-3.48%	4.52%
Standard error	2.5%	8.1%

Peers	
Everyday Health, Inc.	
USANA Health Sciences Inc.	
Nutrisystem, Inc.	
Weight Watchers International, Inc.	
Synutra International Inc.	
Herbalife Ltd.	

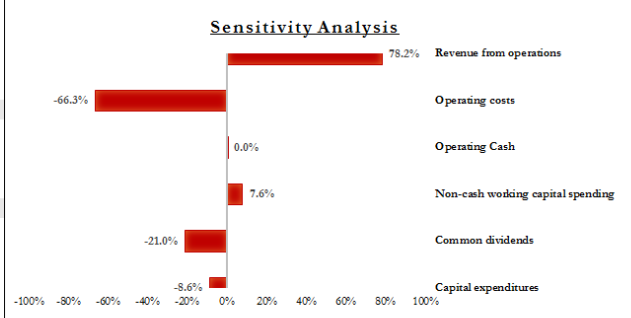


Management	Position
MacDonald, Michael	Chairman, Chief Executive Of
MacDonald-Sheetz, Margaret	President and Chief Operatın
Robinson, Timothy	Chief Financial Officer
Arterburn, Linda	Vice President of Scientific
Groves, Jason	Executive Vice President, Ge
Kelleman, Joseph	Vice President of Finance an

Total compensations growth	Total return to shareholders
160.75% per annum over 5y	-3.51% per annum over 5y
-2.33% per annum over 5y	-3.51% per annum over 5y
-39.17% per annum over 1y	28.4% per annum over 1y
N/M	N/M
-100% per annum over 2y	12.75% per annum over 2y
-100% per annum over 1y	28.4% per annum over 1y

Profitability	med (LTM)	med (5 years historical average)	Industry (LTM)
ROIC	23.25%	28.25%	18.56%
NOPAT Margin	8%	9.37%	9.4%
Revenue/Invested Capital	2.99	3.01	1.98
ROE	24.6%	29.88%	19.51%
Adjusted net margin	8%	9.33%	9.1%
Revenue/Adjusted Book Value	3.09	3.20	2.14

Invested Funds	med (LTM)	med (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	53.0%	41.0%	25%
Estimated Operating Cash/Total Capital	19.6%	17.7%	N/A
Non-cash working Capital/Total Capital	-2.4%	1.2%	17%
Invested Capital/Total Capital	66.6%	76.7%	61%



Capital Structure	med (LTM)	med (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.04	0.07	0.06
Cost of Existing Debt	1.32%	1.12%	3.82%
Estimated Cost of new Borrowing	1.37%	1.37%	3.82%
CGFS Risk Rating	AAA	AAA	AA
Unlevered Beta (LTM)	0.83	1.64	0.92
WACC	7.84%	12.71%	8.29%

Valuation	
Invested Capital	\$94.53
Net Claims	-\$27.74
Price per share	\$36.65

Period	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share
Base Year			\$94.53	-\$27.74	\$36.65
9/30/2016	1.7%	3.04	\$108.65	-\$52.91	\$39.89
9/30/2017	8.1%	3.41	\$132.17	-\$77.60	\$43.31
9/30/2018	7.5%	3.46	\$109.68	-\$103.57	\$46.88
9/30/2019	6.9%	3.42	\$91.69	-\$131.36	\$50.58
9/30/2020	6.4%	3.39	\$83.62	-\$160.99	\$54.39
9/30/2021	5.8%	3.37	\$84.79	-\$192.48	\$58.32
9/30/2022	5.3%	3.36	\$90.22	-\$225.83	\$62.34
9/30/2023	4.7%	3.37	\$96.57	-\$261.02	\$66.44
9/30/2024	4.1%	3.39	\$102.55	-\$298.31	\$70.65
9/30/2025	3.6%	3.43	\$107.97	-\$336.82	\$74.89
Continuing Period	3.0%	3.49			

Investor Relations

Since 1980, our company has been dedicated to helping customers become healthier, happier, and more hopeful through safe, simple, medically formulated meal replacement products for weight loss and maintenance. We create, produce and distribute these products through four support and distribution channels: Medifast Direct, for the independent customer who prefers online ordering and tools; Take Shape for Life, for those who prefer to work with a Health Coach; Medifast Weight Control Centers, located in retail and business centers providing clinically-focused, one-on-one counseling; and Medifast Medical Providers, which allows health professionals to offer the program to their patients. Medifast's wholly owned subsidiaries include Jason Pharmaceuticals; Jason Properties; Jason Enterprises; and Take Shape for Life, Inc. Medifast, Inc. is listed on the NYSE as MED.

<http://www.fool.com/quote/nyse/medifast-inc/med>

<http://www.bloomberg.com/quote/MED:US>

Medifast, Inc. combines physician-supervised weight loss programs with nutritional supplements and multidisciplinary patient education programs. The Company provides an Internet-based physician and medical practitioner network to consumers. Medifast also provides a corporate wellness program for large corporations, associations, and their health insurance carriers.

<http://finance.yahoo.com/q?s=MED>

<http://seekingalpha.com/article/3663276-medifasts-med-ceo-michael-macdonald-q3-2015-results-earnings-call-transcript?page=2>

http://filecache.drivetheweb.com/mr5ir_medifastdiet/142/CO-0071_DOC_Ecosystem+%283%29.pdf

<https://ir.medifastnow.com/index>