

Mannatech, Inc.

NASDAQGS:MTEX

Analyst: Hugo Perrin

Sector: Consumer Goods

BUY

Price Target: \$31.10

Key Statistics as of 2/12/2014

Market Price:	\$19.39
Industry:	Personal Products
Market Cap:	\$51.89 M
52-Week Range:	\$11.51-31.97
Beta:	-0.57

Thesis Points:

- Revenue growth based on both products innovation and higher demand for already existing merchandise.
- Multilevel network marketing becomes more popular and should continue to grow
- The firm focuses on emerging markets that will bring revenues for the next five years.

Company Description:

Mannatech, Incorporated develops and sells health products. Its health products include nutritional supplements, health solutions for children, and additional nutrients. The company also offers weight and fitness products; and topical, skin care, and anti-aging products. The company markets and sells its products through network marketing in the United States, Canada, and Mexico; Austria, the Czech Republic, Denmark, Estonia, Finland, Germany, the Republic of Ireland, Namibia, the Netherlands, Norway, South Africa, Spain, Sweden, and the United Kingdom; and Australia, Japan, New Zealand, the Republic of Korea, Singapore, Taiwan, and Hong Kong. Mannatech, Incorporated was founded in 1993 and is headquartered in Coppell, Texas.



Thesis

Recently, Mannatech has launched new products that customers are currently enjoying. As a consequence, the company has increased its sales. That growth in revenue is a key driver for the reduction of operating costs and therefore, value creation. Also, Mannatech is working under the multilevel network system, a new system embraced by a greater number of companies to sell their products. Few years ago, the firm faced charges on some of its products and their ability to cure diseases; the firm ended up paying damages. However, this decision did not bring negative effects on the firm's sales since. Another idea to consider is the idea that the firm has been targeting the Asian market as it appears to be the most promising market for the next coming years, followed by Europe. This geographic strategy should help at sustaining positive revenue growth.

Product Segmentation

Currently, Mannatech is selling its product under one segment. This segment gathers nutritional supplements, skin care and anti-aging products, and weight management and fitness products. It is also important to mention that such products are not approved by the FDA. However, this does not question their efficiency.

Health products:

The firm offers several nutritional supplements that enhance the overall health and wellness. Some of their products target children and bring health solutions and other nutrients designed to keep one's body system at optimal level. Mannatech offers a wide range of products among which are the Ambrotose products, one of the company's flagships.

Weight and Fitness:

Those products are designed to curb appetite and burn fat, build lean muscle tissue and support recovery from overexertion.

Skin Care and Anti-Aging:

Mannatech offers products based on more than 30 botanical ingredients designed to give the skin a "youthful appearance".

As of 2014, a small range of products accounted for the majority of the firm's sales.

	2014		2013	
	Sales by product	% of net sales	Sales by product	% of net sales
Advances Ambrotose	\$ 63,791	33.60%	\$ 59,894	33.70%
Ambrotose	\$ 10,895	5.70%	\$ 10,939	6.20%
Uth Skin Rejuvenation	\$ 13,431	7.10%	\$ 2,406	1.40%
NutriVerus	\$ 10,530	5.50%	\$ 10,964	6.20%
Total	\$ 98,647	51.90%	\$ 84,203	47.50%

On the chart above, four different products accounted for a majority (51.9%) of the total sales in 2014. The two different products that generated the most sales are both based on Ambrotose, referring to the Health products segment. It has to be noticed that both products represented around the same volume of sales compared to the prior year. Nutriverus, which accounts for 7% of the total revenue, also belongs to the same family as the Ambrotose products. One of the products that saw a significant increase in sales is the Uth Skin Rejuvenation, products that is part of the Skin Care and Anti-Aging family. This product was launched in late 2013 and the projected growth for this type of product is significant, as this will be explained later.

Key statistics

In Millions of USD	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
12 Months Ending	2010-12-31	2011-12-31	2012-12-31	2013-12-31	2014-12-31
Market Capitalization	47.7	11.7	14.9	45.0	71.3
- Cash & Equivalents	21.6	18.1	14.4	20.4	28.0
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0
+ Total Debt	2.5	2.2	1.7	1.2	1.8
Enterprise Value	28.6	-4.2	2.2	25.8	45.1
Revenue, Adj	228.1	200.7	173.4	177.4	190.1
Growth %, YoY	-21.3	-12.0	-13.6	2.3	7.1
Gross Profit, Adj	98.0	162.2	138.8	141.3	151.7
Margin %	43.0	80.8	80.0	79.7	79.8
EBITDA, Adj	0.0	-6.2	3.8	6.9	14.4
Margin %	0.0	-3.1	2.2	3.9	7.5
Net Income, Adj	-10.6	-20.7	-1.4	3.2	6.5
Margin %	-4.7	-10.3	-0.8	1.8	3.4
EPS, Adj	-4.00	-7.80	-0.52	1.18	2.40
Growth %, YoY	39.4	-95.0	93.3	--	108.4
Cash from Operations	4.0	-2.9	-1.5	8.5	9.4
Capital Expenditures	-1.8	-0.8	-0.4	-0.6	-1.5
Free Cash Flow	2.2	-3.7	-1.9	7.9	7.9

Name	Revenue Growth	Gross Margin	Op Margin	Return On Assets	Return On Equity	Return On Capital
Average	63.57%	69.78%	-1.33k%	-17.97%	-33.07%	-35.84%
100 MANNATECH INC	7.13%	79.82%	6.70%	10.52%	23.70%	--

The first table above depicts the firm's key statistics during the last four fiscal years. As for the revenue, after having decreased from 2010 to 2012, they are back up 2.3% and 7.1% respectively in 2013 and 2014. Along with this increase in revenue, Mannatech has been able to increase its EBITDA margin from negative 2.2% in 2011 to a positive 7.5% in 2014. Even if those margins can look somehow small, Mannatech is currently outperforming its peers in terms of gross margin, return on assets and return on equity.

While the operating expenses increased from \$136.57 million to \$138.989 million, or 1.8%, sales increased by 7.1%, triggering the idea that the company is becoming more profitable when it succeeds at generating additional revenue.

Revenue:

The company's revenue is based on sales of individual products, sales of the starter and renewal packs, and shipping fees.

In Q3 2013, the firm's initiated a loyalty program where customers would have a year to redeem points earned for products. This new program significantly contributed for the increase of revenue in 2014. Indeed, during 2014, the firm recognized \$17 million revenue and deferred \$21.2 million (net deferral of \$4.2 million), while the Mannatech recognized \$1.9 million and deferring \$7.3 million, resulting in a net deferral of \$5.4 million.

Without the launch of the Uth Skin Care product and the creation of the loyalty program, revenue would have increased only by \$0.1 million, or 0.05%. Those results prove that the firm is now currently able at generating revenue and increasing its EBITDA margin.

As mentioned earlier, even if Mannatech relies significantly on four flagships products (52% of sales), the company is still able to diversify and expand its market share.

Sales channels

Mannatech believes in a singular business plan where it sells its products and packs through a network of independent associates and members. In 2014, the firm relied on 230,000 independent associates and members in 24 different countries. By adopting this method, the firm thinks that it is cost effective and allows them to effectively introduce its products and communicate information about its business to the global marketplace. Hence, that method allows cutting on some of the firm's cost in marketing, advertising and products' promotion. Also, this system gives freedom to the clients who purchase for themselves or resale, which can increase the number of associates and clients overtime. All of the company's associates are independent contractors; Mannatech's revenue highly depends upon the retention and productivity of independent associates to maintain a long-term growth. Recently, the company introduced new incentives, such as travel incentives, which should motivate the associates' ambition and wish to achieve their goals. Even if the numbers of contractors declined by 6% to 230,000, the company has been able to increase

its sales, mainly thanks to the loyalty program, as mentioned above. A recent survey provided by Business From Home ranked Mannatech's contractors at the 97th position in the industry in terms of compensation plans. Mannatech is constantly changing its methods when things are not efficiently working. Even if the network marketing method has some detractors, it has gained in popularity and some major companies have considered this system, such as Herbalife, Avon and Amway, all being Mannatech's competitors. Those multinational companies have relied on that technique for several years and they look financially healthy and stable. Also, it is to consider that this system has bad reputation mainly due to the unsuccessful contractors' comments. This system is nothing close of being illegal; the products are sold at a given price following a certain demand and supply. Also, on February 24th, the Court dismissed claims stating that Herbalife was acting as an illegal pyramid scheme.

Scams Allegations

As many companies in this industry, Mannatech is currently being criticized for its products and their reliability. However, in February 2015, the company announced its 100th patent, which is exceptional for a company in the nutritional supplement company. The firm's financial statements show that Mannatech has only invested 0.8% of its sales in R&D, and never more than 5% of its sales during the last 10 years. Also, the company is constantly publishing its research in several websites, among which are the US National Library of Medicine and renowned public conferences. In early 2009, Mannatech and its former CEO, Samuel L. Caster have been charged with orchestrating an unlawful marketing scheme that exaggerated their products' health benefits. According to the state's enforcement action, "marketing materials falsely claimed that Mannatech's dietary supplements could cure and treat Down Syndrome, cystic fibrosis, cancer and other serious illnesses." Also, such products did not receive an approval by the US Food and Drug Administration to be labeled as a drug. Even if those allegations can send negative signals to the company's clients, the recent growth in sales seems to prove that clients did not truly consider this outcome. Also, Mannatech is currently stating in its website that any products that are sold are not approved by the FDA.

Geographic Sales

	2014		2013	
North America	\$ 81	42.50%	\$ 82	46.30%
Asia/Pacific	\$ 92	48.60%	\$ 80	45.30%
EMEA	\$ 17	8.90%	\$ 15	8.40%
Total	\$ 190	100%	\$ 177	100.00%

In terms of geographic sales, Asia/Pacific became the number one region for the firm's sales in 2014, ahead of North America which represented 42.50% of the firm's sales, versus 48.6% for Asia/Pacific. Sales in the North America declined by 1.22% while sales increased by 15% in Asia. Another region that saw a significant increase in sales is EMEA, with an increase of 13%. Consequently, as the company has been hurt by the appreciation of the dollar in FY 2014, it is expected that the sales growth might be hurt for the coming year. Therefore, sales growth should not be as close as they were last year, being at 7.1%. Following that increase in the firm's sales, Mannatech has been able to reduce its inventories by 25% on a year over year basis. Accordingly, Mannatech has significantly decreased its Cash Conversion Cycle (CCC) to 69.57 days, versus 100.3 days in 2013. This follows the trend that started in 2011. The firm is slightly reversing to its pre-2011 period with a CCC of 53.5 days.

Growth forecasts

As for the forecasts, a report from Lucintel has estimated the revenue for skin care products to reach \$102.3 billion by 2018. The reports states that due to the increase in living standards and increase in spending power, this will drive the demand for newer skin care products. The demand will be consistent for anti-aging, anti-wrinkling and sun care products, where the two first families of products are sold by Mannatech. Over the next five years, it is predicted that Asia Pacific, followed by Europe are expected to drive growth. Consequently, the fact that Mannatech is currently significantly increasing its sales in Asia is a sign that the company is following the current market trend. In September 2014, the firm expanded into Asia with the opening of a new associate business center in Singapore. This move follows the opening in March 2014 of two new training centers in Korea, which demonstrates the firm's commitment to expand its global business and specifically target Asia.

Another report provided by Euromonitor International states that there is a steady real term growth of 7.2% to be expected to continue to 2017, with global health and wellness sales on the way to hit record high of \$1 trillion by 2017.

CENTER FOR GLOBAL FINANCIAL STUDIES																								
Mannatech, Incorporated MTEX		Analyst Hugo Perrin		Current Price \$19.60		Intrinsic Value \$26.56		Target Value \$31.08		Divident Yield 0%		Target Return 58.59%		BULLISH										
General Info			Peers			Market Cap.			Management															
Sector	Consumer Staples		Lifevantage Corporation			\$78.09			Professional			Title			Comp. FY2012			Comp. FY2013			Comp. FY2014			
Industry	Personal Products		Reliv International, Inc.			\$14.74			Sinnott, Robert			Chief Executive Officer and Chic			\$ 371,036.00			\$ 429,410.00			\$ -			
Last Guidance	(Invalid Identifier)								Bala, Alfredo			President			\$ 321,592.00			\$ 348,659.00			\$ -			
Next earnings date	NM								Robbins, Marlin			Co-Founder, Director and Meml			\$ 2,638,216.00			\$ 2,460,902.00			\$ -			
Market Data			Natural Alternatives International Inc.			\$37.36			Nicholls, S.			Chief Financial Officer and Princ			-			-			-			
Enterprise value	\$25.27		Avon Rubber p.l.c.			\$241.60			Oberlton, Jerome			Chief Information Officer and V			-			-			-			
Market Capitalization	\$51.51								Spinell, Gary			Senior Vice President of Finance			-			-			-			
Daily volume	0.01																							
Shares outstanding	2.68																							
Diluted shares outstanding	2.71																							
% shares held by institutions	18.11%																							
% shares held by insiders	35.82%																							
Short interest	1.14%																							
Days to cover short interest	1.53																							
52 week high	\$31.97																							
52-week low	\$11.51																							
5y Beta	1.19																							
6-month volatility	102.03%																							
Past Earning Surprises																								
		Revenue		EBITDA		Norm. EPS																		
Last Quarter	0.0%		0.0%		0.0%																			
Last Quarter-1	0.0%		0.0%		0.0%																			
Last Quarter -2	0.0%		0.0%		0.0%																			
Last Quarter -3	0.0%		0.0%		0.0%																			
Last Quarter -4	0.0%		0.0%		0.0%																			
Proforma Assumptions																								
		Period		Rev. Growth		Adj. Op. Cost/Rev		Forecasted Profitability																
								NOPLAT				Invested capital				UFCF								
Operating, Cash/Cash	0.0%		LTM		7%		91%		\$190.08				\$5.76				\$36.88				\$5.76			
Unlevered Beta	1.00		LTM+1Y		1%		92%		\$191.98				\$6.27				\$37.18				\$5.97			
Rev./Invested Capital	250.0%		LTM+2Y		1%		92%		\$194.29				\$6.42				\$37.11				\$6.49			
Continuing Period Revenue Growth	1.0%		LTM+3Y		1%		92%		\$197.20				\$6.51				\$37.14				\$6.47			
Long Term ROIC	10.5%		LTM+4Y		1%		92%		\$200.16				\$6.56				\$37.12				\$6.58			
Invested Capital Growth	Equals to Maintenance		LTM+5Y		1%		93%		\$202.16				\$6.55				\$37.16				\$6.51			
Justified TEV/REV	0.5x		LTM+6Y		1%		92%		\$204.18				\$6.38				\$42.52				\$1.02			
Justified TEV/EBITDA	7.0x		LTM+7Y		1%		92%		\$206.22				\$6.34				\$43.34				\$5.53			
Justified TEV/EBITA	8.0x		LTM+8Y		1%		93%		\$208.29				\$6.29				\$43.88				\$5.74			
Justified TEV/UFCF	10.0x		LTM+9Y		1%		93%		\$210.37				\$6.26				\$44.19				\$5.95			
Valuation																								
		ROIC		WACC		EVA		Enterprise Value		Total Debt		Other claims		Equity		Adjusted Price								
LTM	15.6%		7.4%		\$3.02		\$82.43		\$1.75		\$6.29		\$74.39		\$28.75									
LTM+1Y	17.0%		7.7%		\$3.45		\$83.15		\$1.75		-\$3.91		\$85.31		\$32.91									
LTM+2Y	17.3%		7.9%		\$3.50		\$83.04		\$1.75		-\$14.90		\$96.19		\$36.86									
LTM+3Y	17.5%		8.0%		\$3.55		\$82.42		\$1.75		-\$26.15		\$106.82		\$40.87									
LTM+4Y	17.7%		8.1%		\$3.55		\$81.84		\$1.75		-\$37.76		\$117.85		\$45.00									
LTM+5Y	17.7%		8.2%		\$3.53		\$81.18		\$1.75		-\$49.55		\$128.98		\$49.07									
LTM+6Y	17.2%		8.3%		\$3.78		\$86.34		\$1.75		-\$52.97		\$137.55		\$52.01									
LTM+7Y	14.9%		8.4%		\$2.84		\$86.48		\$1.75		-\$59.93		\$144.65		\$54.76									
LTM+8Y	14.5%		8.5%		\$2.65		\$87.36		\$1.75		-\$67.36		\$152.96		\$57.91									
LTM+9Y	14.3%		8.5%		\$2.53		\$88.24		\$1.75		-\$75.28		\$161.77		\$60.45									
Monte Carlo Simulation Assumptions																								
		Base		Stdev		Min		Max		Distribution		Monte Carlo Simulation Results												
												Intrinsic Value		1y-Target										
Revenue Variation	0		10%		N/A		N/A		Normal		Mean est. \$28.75 \$32.91													
Op. Costs Variation	0		10%		N/A		N/A		Normal		σ(e) \$0.73 \$0.61													
Market Risk Premium	6%		N/A		5%		7%		Triangular		3 σ(e) adjusted price \$26.56 \$31.08													
Long term Growth	1%		N/A		-175%		8%		Triangular		Current Price \$19.60													
Terminal Value	0		0.1		N/A		N/A		Normal		Analysts' median est. \$0.00													