

NutriSystem, Inc.

NTRI: NasdaqGS

Analyst: Mark Papuzza

Sector: Services

BUY

Price Target: \$22.53

Key Statistics as of 4/7/15

Market Price:	\$19.49
Industry:	Consumer Services
Market Cap:	\$551.9M
52-Week Range:	\$13.76-21.47
Beta:	1.46

Thesis Points:

- Successful Product Line and Product Expansion
- Growing Demand in Weight-Loss Field
- Financials – Growing EBITDA margins, Free Cash Flow, and No Debt

Company Description:

Nutrisystem, Inc. provides weight loss programs for women, men, and seniors in the United States. The company's website provides members with a weight management program that incorporates personal online counseling, individual diet and exercise plans, as well as other information. Nutrisystem programs comprise of Nutrisystem D, Fast 5+ Kit, 5-day Kit, My Daily 3, and NuMi. The company sells its pre-packaged foods to weight loss program participants directly through the internet, telephone, a television shopping network, and retailers. Nutrisystem, Inc. was founded in 1972 and is based in Fort Washington, Pennsylvania.



Thesis

Nutrisystem has developed into a leader in the weight loss industry, and has been helping people lose weight and become healthier for over 35 years. With their product line that has proven to be successful, combined with their recent product expansion and the growing demand in the weight-loss field, Nutrisystem will continue to grow their EBITDA margins, and continue to generate value for the company and increase the price of their stock.

Successful Product Line and Product Expansion

Nutrisystem has a long line of products that have been proven to be successful with customers, and continue to introduce new ones each year. Nutrisystem has more variety than any of its competitors, which has been a key to their success. With over 40 frozen products, and over 115 ready-to-go products, they are able to appeal to the very diverse market of individuals attempting to lose weight. In order for these products to be successful and to keep the customers motivated to stay on track with the programs, the food must be satisfying to them. This is why Nutrisystem goes with the current food market trends, and base their products off of what the customers want. They conduct research continually, and introduce new products based off the results of customer preference. Nutrisystem has over 100 products, all nutrient rich and contain no trans-fat, no high fructose corn syrup, no fully or partially hydrogenated oil, no artificial preservatives, and no artificial flavorings.

Some of Nutrisystem's most successful products include Nutrisystem D, Fast 5+ Kit, and NuMi. Nutrisystem D is a program that is specifically designed for people with type 2 diabetes. Customers who use this program lose an average of 18 pounds, lower their cholesterol levels, lose inches off their waistline, and reduced A1c levels on average by 0.7%. This program helps type 2 diabetics to both lose weight and manage their diabetes. With this program, customers also receive full access to certified diabetic educators, food and glucose trackers, and an online support community.

The Fast 5+ Kit maximizes results in one week with a

unique meal plan and pre-picked meals, and on average customers lose five pounds after this week. It works as a motivational introduction to the Nutrisystem program, as customers will see results immediately. This program also comes with a guarantee; if customers are not satisfied within the first two weeks, they will receive a full refund. This shows the confidence Nutrisystem has that their products work, and that customers will be satisfied with them.

One of the newest products Nutrisystem has introduced enters the digital technology field that has become so popular with society's use of smartphones. NuMi is a free online weight loss program that is personalized to one's unique lifestyle. The app is designed for the "do-it-yourself" dieter, to guide them in the right direction for success and stay by their side throughout it. The app tracks both victories and slip-ups in one's every day diet, and allows them to see what they are doing well and what they need to improve. Users can scan nutritional information from the food they are consuming straight to the NuMi app, allowing for the most accurate tracking of their diet possible. It contains solutions for eating in with over 12,000 nutritionist-reviewed recommendations, and for eating out at over 300 restaurants/chains. Nutrisystem has pioneered an on-the-go, real time weight loss system that is personalized to the individual's overall goals, lifestyle, activity and changing needs. This product is an exceptional add-on benefit for Nutrisystem customers because even after they complete their Nutrisystem programs, they can still have Nutrisystem by their side to help keep them on the right, healthy path.

In 2013, Nutrisystem expanded into the retail market with a partnership with Walmart. The company began offering their "5-day Nutrisystem Jumpstart Your Weight Loss Kit" product at Walmart stores, taking an immense step to grow their retail presence. This allowed their product to be seen by a large amount of people who had not yet been exposed to it. Since this partnership, they have also partnered with Sam's Club and Amazon.com. Nutrisystem will continue to expand their channels by working with more club stores, grocery stores and drug stores.

Growing Demand in Weight-Loss Field

Two years ago, the American Medical Association

officially recognized obesity as a disease. Right now in America, two-thirds of adults have this disease, as they have a Body Mass Index that classifies them as obese. This means that there are over 160 million overweight adults living in America. Of these 160 million, over 85 million are attempting to lose weight, and another 48 million are actively trying to prevent weight gain. These numbers prove that obese adults understand they have a problem, and are trying to do something to fix it. With all of society's advancements in medical research, information is now available to encourage overweight people to lose weight that goes beyond simply their physical appearance. Obesity has been proven to significantly raise the risk of coronary heart disease, high blood pressure, stroke, type 2 diabetes, abnormal levels of blood fat, cancer, osteoarthritis, sleep apnea, reproductive problems, gallstones, and so on. Needless to say, obesity only brings harm to one's health. Fortunately for overweight people this disease is treatable, as it is up to the individual themselves to lose the extra weight. Of the 85 million people attempting to lose weight, many struggle with finding the right diet or right motivation to do it. This is where Nutrisystem steps in. Nutrisystem has discovered the science behind weight-loss, and tailor their plans specifically for each individual based on their needs and lifestyle. With the Nutrisystem programs, obese people do not have to worry if they are dieting correctly, as the program takes care of everything for them by instructing them what to eat and when to eat it. People do not have to focus on counting the amount of calories or carbs a meal has, or how much of something they are allowed to have, as Nutrisystem takes care of all that for them. As long as the individuals are committed and motivated to following the structured programs, they will see the results they desire.

Approximately 95% of people who have diabetes have type 2, and there are currently more than 17 million adults in America with this disease. Living with this disease not only affects one's health, but also causes medical expenses to be approximately 2.3 times higher. People who are obese have the highest chance of developing type 2 diabetes. As a result, this disease can be very preventable. A mere 7% drop in weight reduces one's risk of diabetes by 58%. For those who are worried they will develop type 2 diabetes, Nutrisystem programs will help them reduce that risk greatly. As for those who have already developed it and need to maintain their health better, Nutrisystem has a program designed specifically for them. Nutrisystem D not only

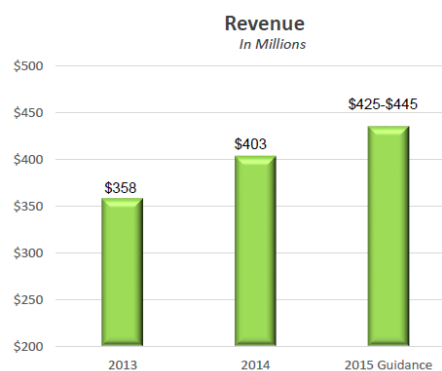
promotes weight loss, but also helps stabilize blood sugar levels. The program also includes unlimited access to certified diabetic educators and counselors for support. 10% of Nutrisystem customers are on this program, and with the growing number of cases of type 2 diabetes in America, this number will continue to rise.

Last year, new customer revenues grew 20% year-over-year. The total market for weight-loss programs is over \$60 billion currently, and Nutrisystem has an addressable market of \$15 billion. With such a high number of obese adults attempting to lose weight, this large market will continue to grow, bringing more customers and success to Nutrisystem.

Financials

Nutrisystem has been showing consistent growth in revenue, which has increased shareholder value. In its most recent quarter, results showed their sixth consecutive quarter of year-over-year revenue growth. Overall, the company had a 13% growth in revenue in 2014. Their EBITDA margins have also continued to consistently grow, and are projected to begin outgrowing the percentage of revenue growth in the next two years. This demonstrates that the company is creating value, and eliminating operating expenses that are eating into their bottom line.

Also noteworthy is the company's net debt and free cash flow. Nutrisystem has zero debt on their balance sheet. They also continue to have positive free cash flow. Last year, the company returned approximately \$20,000,000 to stockholders. Their cash flow generation has been consistently strong, and is projected to continue doing so in the upcoming two years.



Conclusion

Nutrisystem is the leading brand in direct-to-consumer commercial weight loss. The company prides itself on adapting to current market trends, and will continue to innovate and create the most successful products for customers. Their programs have been proven to work, and with the amount of obese adults in the U.S. that are working toward losing weight, Nutrisystem will continue to attract new customers. With growing EBITDA margins, zero net debt, and consistently positive free cash flow, Nutrisystem has the groundwork laid to deliver sustainable growth and profitability, and will increase the value of both their company and their share price.

CENTER FOR GLOBAL FINANCIAL STUDIES									
Nutrisystem, Inc.		ntri	Analyst Mark Papuzza	Current Price \$19.43	Intrinsic Value \$19.47	Target Value \$22.53	Divident Yield 4%	Target Return -y Return: 19.55%	NEUTRAL
General Info		Peers		Market Cap.		Management			
Sector	Consumer Discretionary	Mediast Inc.		\$373.06	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Industry	Internet and Catalog Retail	Vitacost.com, Inc.			Zier, Dawn	Chief Executive Officer, Fi	\$ 1,913,477.00	\$ 2,147,744.00	\$ 2,629,632.00
Last Guidance	Mar-02-2015	Whole Foods Market, Inc.		\$18,525.18	Monahan, Michael	Chief Financial Officer anc	\$ -	\$ 1,062,616.00	\$ 963,682.00
Next earnings date	4/30/2015	Safeway Inc.			Krausz, Keira	Chief Marketing Officer ar	\$ -	\$ 1,363,800.00	\$ 954,124.00
Market Data		Wal-Mart Stores Inc.		\$261,407.88	Crivelli, Joe	Senior Vice President of Ir	\$ -	\$ -	\$ -
Enterprise value	\$533.54	Amazon.com Inc.		\$177,023.18	Mauro, Ralph	Senior Vice President, Ge	\$ -	\$ -	\$ -
Market Capitalization	\$562.78	Ocado Group PLC		\$2,116.69	Shallow, Robin	Vice President of Commu	\$ -	\$ -	\$ -
Daily volume	0.16	Current Capital Structure			10y-Median Performance				
Shares outstanding	28.96	Jumei International Holding Limite		\$2,529.08	Growth	ntri	Peers	Industry	All U.S. firms
Diluted shares outstanding	28.79	Total debt/market cap		0.00%	ROIC	-2.1%	6.3%	10.5%	7.4%
% shares held by institutions	84.25%	Cost of Borrowing		#DIV/0!	NOPLAT Margin	39.3%	11.4%	18.3%	14.3%
% shares held by insiders	1.85%	Interest Coverage		1038.41%	REV./Invested Capital	5.5%	3.6%	8.4%	10.4%
Short interest	11.25%	Altman Z		10.38	Excess Cash/Rev.	717.7%	315.2%	216.5%	137.4%
Days to cover short interest	9.88	Debt Rating		AA	Total Cash/Rev.	7.4%	2.4%	13.5%	12.9%
52 week high	\$21.47	Levered Beta		0.95	Unlevered Beta	7.4%	3.2%	12.3%	15.2%
52-week low	\$13.76	WACC (based on market value we		7.72%	TEV/REV	0.67	0.93	1.29	0.95
5y Beta	0.39	Past Earning Surprises			PE	1.1x	0.7x	2.6x	2.5x
6-month volatility	29.23%	Last Quarter		-1.4%	TEVEBITA	14.1x	18.7x	16.1x	13.1x
		Last Quarter-1		1.3%	P/BV	25.6x	17.8x	31.9x	23.5x
		Last Quarter -2		-0.3%	Non-GAAP Adjustments in estimates computations				
		Last Quarter -3		0.0%	Operating Leases Capitaliza	100%	Straightline	10 years	
		Last Quarter -4		0.3%	R&D Exp. Capitalization	100%	Straightline	10 years	
		Proforma Assumptions			Expl./Drilling Exp. Capitalizat	0%	N/A	N/A	
					SG&A Capitalization	0%	N/A	N/A	
					Forecast				
					Invested Capital	NUPLA1 Margin	HUIC	WACC	
					\$52.23	5%	42.3%	7.7%	
					\$45.83	10%	82.3%	7.8%	
					\$44.51	11%	113.1%	7.7%	
					\$46.33	11%	131.3%	7.8%	
					\$48.54	12%	138.5%	7.8%	
					\$50.77	12%	143.5%	7.8%	
					\$52.88	12%	148.1%	7.9%	
					\$55.45	12%	153.1%	7.8%	
					\$58.35	12%	157.1%	7.8%	
					\$61.67	12%	160.6%	7.8%	
					Valuation				
					Invested Capital ± (HUIC-WACC)	price Value (UPL1- Valuation)	Valuation Total Debt	Other claims	Equity Value
					\$18.06	\$586.16	\$0.00	\$7.29	\$578.87
					\$34.17	\$600.82	\$13.16	\$29.16	\$558.50
					\$46.89	\$604.01	\$41.30	\$26.92	\$535.79
					\$57.21	\$596.96	\$69.58	\$27.96	\$499.41
					\$63.46	\$577.81	\$103.30	\$29.61	\$444.90
					\$68.87	\$550.41	\$142.26	\$31.64	\$376.51
					\$74.14	\$514.93	\$180.25	\$25.66	\$309.02
					\$80.58	\$470.15	\$220.92	\$27.47	\$221.76
					\$87.23	\$414.22	\$265.07	\$29.34	\$119.81
					\$273.63	\$348.21	\$312.28	\$31.32	\$4.61
					Monte Carlo Simulation Assumptions				
					Base	Stdev	Min	Max	Distribution
					0	10%	N/A	N/A	Normal
					Op. Costs Variation	10%	N/A	N/A	Normal
					Country Risk Premium	6%	N/A	7%	Triangular
					Long term Growth	7%	N/A	-2%	Triangular
					Monte Carlo Simulation Results				
					Mean est.			Intrinsic Value	1y- Target
					\$19.71			\$22.83	
					σ(ε)			\$0.08	\$0.10
					3σ(ε) adjusted price			\$19.47	\$22.53
					Current Price			\$19.43	
					Analysts' median est.				\$22.18