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Club stock presentation: Medifast (MED)


by George Reid
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Why I selected MED

- Club Partners were divided into 3 research teams to look at smaller companies. Each member was assigned three companies to review.
- For my three stocks, MED Visual Analysis was up/straight/parallel for the last 6 years, management ratios in Section 2 look good
- MED pays a nice dividend



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Company description

Last Fiscal Year End: 12/2021
Industry: Personal Services
Sector: Consumer Cyclical
Company Size: Medium - \$1B to \$10B in Sales
Description: Medifast Inc is a US-based company that produces, distributes and sells products concerning weight loss, weight management, and healthy living. The company generates its revenue from point of sale transactions executed over an e-commerce platform for weight loss, weight management, and other consumable health and nutritional products.



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Old business model

1980 created a weight loss shake product that was sold through a physician network.

Over the years, the shake products expanded to include weight loss meals and snacks with the same distribution network.



New business model

2002 Coach Distribution Model first introduced

2016 Dan Chard was appointed CEO

2017 the company re-branded and developed a new line of products under the brand Optavia it also began expanding the number of coaches.



Competition

[Nutrisystem](#). Frozen processed meals delivered. Privately held.

[Noom](#). Psychology-based mobile app uses surveys. Privately held.

[Jenny Craig](#). Privately held.

[Weight Watchers](#). Jaggy lines (down, straight, etc.) Publicly held.



Sustainable growth

2019 MED began expanding into the Asia Pacific markets of Hong Kong and Singapore. Added a Distribution Center in Hong Kong.

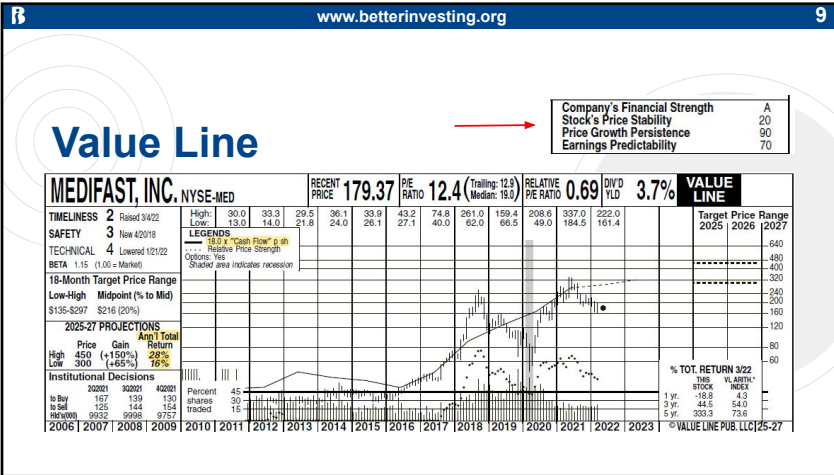
22Q1 Focused on building IT infrastructure.

22Q2 Opened new Product and Development Center. Intent is to open in other markets.



Analyst estimates as of 6/10/22

	VL 3-5	Yahoo 2023	Zacks 2023	MS 5
Sales	6.5%	14% (23)	-	-
Earnings	8%	20% (27)	22.9%	20%



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Morningstar ratings

Narrow moat rating with a Fair value of \$233.87 Current price is \$184.21

Financials are good. Little to no debt.

Kim Butcher's Morningstar Checklist [Recording](#) and the [slides](#) are linked to this page on the pdf handout.

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Strengths

- Easy-to-understand their business model
- The coaching program: 90% of its 63,900 coaches came from being a client.
- Focus on building IT infrastructure and new product development (new Product Development Lab)
- Stable and effective management (Last 5 years ROE 59.5% and Debt to Capital 6.4%)

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Weaknesses

- Subject to business cycles. Products and services offered will be more impacted.
- In the event of an economic slowdown, most people will consider this type of expenditure to not be a necessity.
- Quality control due to volume growth when relying on third party manufacturing.

Opportunities

Geographical expansion, a global company.

Increased consumer interest in Health and Wellness

MED moves into that market.



Threats

MED rapid growth places significant demands on management and administrative, logistical, operational and financial infrastructure.

Also relies on third-parties to distribute and deliver products.

Ability to source quality ingredients and other products is critical, and any disruption to supply or supply chain could materially adversely affect the business.



Resources

Morningstar Financial Statements and Key Ratios.

Value Line

Yahoo

Zacks

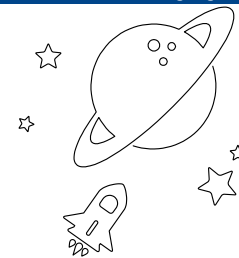
MED 10Ks and 10Qs

March Stockup in the Video Learning Library: *How to Use Qualitative Factors in Fundamental Analysis*



My Judgments

Reminder: Do your own research!

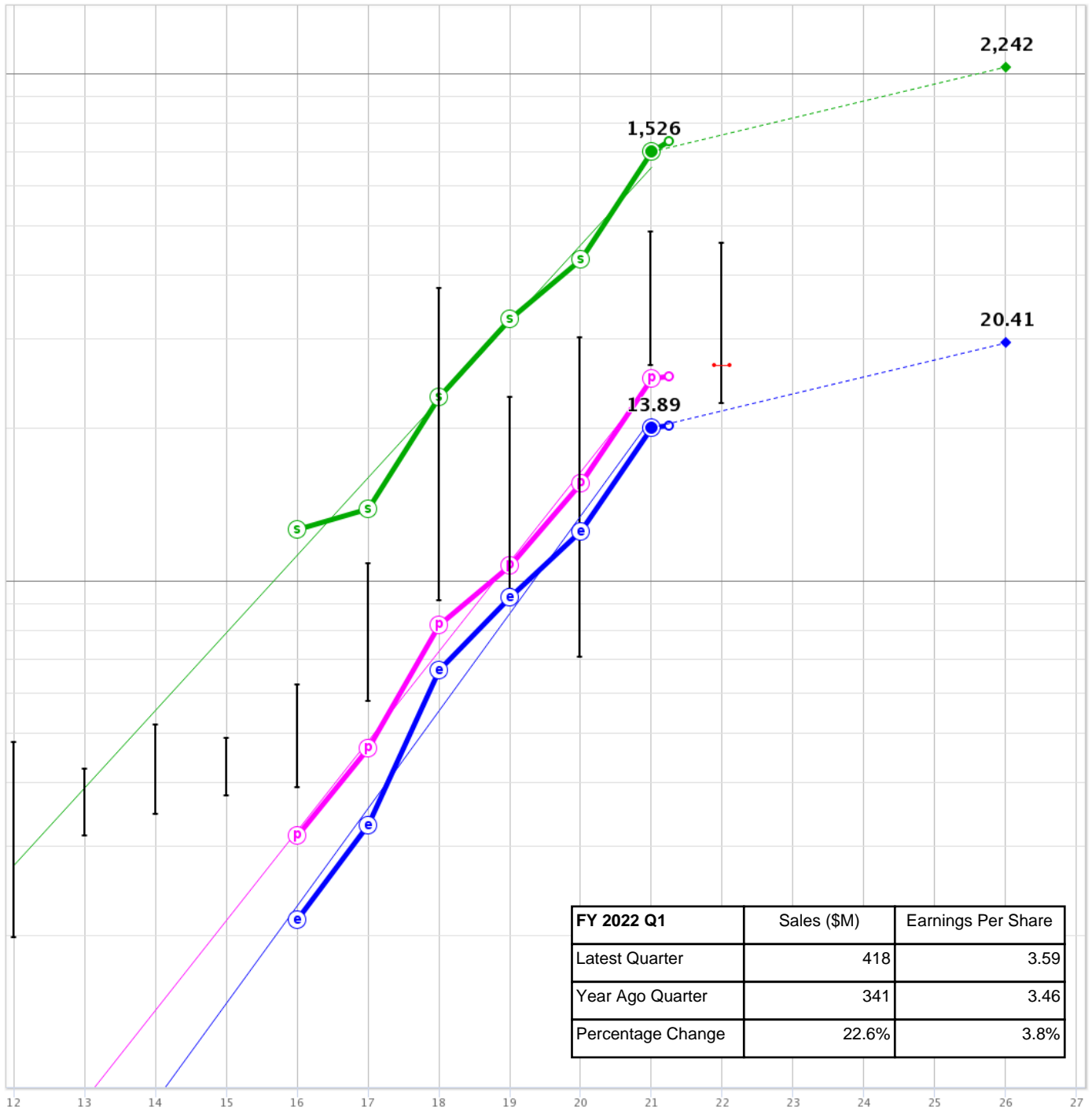


Stock Selection Guide

Company	Medifast		Date	06/03/22	
Prepared by	REID		Data taken from	BI Stock Data	
Where traded	NYS	Industry	Personal Services		
Capitalization --- Outstanding Amounts	Reference				
Preferred (\$M)	0.0	% Insiders	% Institution		
Common (M Shares)	11.6	19.7	76.2		
Debt (\$M)	31.0	% to Tot Cap	12.6	% Pot Dil	0.7

Symbol: MED

1 VISUAL ANALYSIS of Sales, Earnings, and Price



- | | | | |
|-----------------------------------|-------|--|-------|
| (1) Historical Sales Growth | 42.2% | (3) Historical Earnings Per Share Growth | 55.7% |
| (2) Estimated Future Sales Growth | 8.0% | (4) Estimated Future Earnings Per Share Growth | 8.0% |

2 EVALUATING Management

Medifast

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Last 5 Year Avg.
Pre-tax Profit on Sales	6.9%	9.6%	11.1%	10.9%	9.9%	13.4%	14.1%	12.9%	14.4%	14.2%	13.8%
% Earned on Equity	17.6%	20.4%	24.1%	22.0%	18.6%	25.3%	49.1%	68.0%	73.0%	82.1%	59.5%
% Debt To Capital	4.6%	0.7%	3.0%	0.2%	0.0%	0.0%	0.0%	11.5%	6.6%	13.8%	6.4%

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

CLOSING PRICE 184.21 (06/03/22)

HIGH THIS YEAR 321.21

LOW THIS YEAR 154.67

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2017	74.8	40.0	2.29	32.7	17.5	1.44	62.9	3.6
2018	261.0	63.2	4.62	56.5	13.7	2.19	47.4	3.5
2019	159.4	66.5	6.43	24.8	10.3	3.38	52.6	5.1
2020	208.6	49.0	8.68	24.0	5.6	4.52	52.1	9.2
2021	337.0	184.5	13.89	24.3	13.3	5.68	40.9	3.1
AVERAGE		80.7		24.4	13.7		51.2	
CURRENT/TTM			14.02			6.56	46.8	
AVERAGE PRICE EARNINGS RATIO: 19.0				CURRENT PRICE EARNINGS RATIO: 13.1				

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 19.0 X Estimate High Earnings/Share 20.41 = Forecasted High Price \$ 387.8

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 13.1 X Estimate Low Earnings/Share 13.34 = Forecasted Low Price \$ 174.8

(b) Avg. Low Price of Last 5 Years 80.7

(c) Recent Market Low Price 49.0

(d) Price Dividend Will Support $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{6.56}{9.22\%} = 71.2$

Selected Forecasted Low Price \$ 129.0

C ZONING using 25%-50%-25%

Forecasted High Price 387.8 Minus Forecasted Low Price 129.0 = 258.8 Range. 25% of Range 64.7

Buy Zone 129.0 to 193.7

Hold Zone 193.7 to 323.1

Sell Zone 323.1 to 387.8

Present Market Price of 184.21 is in the **BUY** Zone

D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{387.8 - 184.21}{184.21 - 129.0} = \frac{203.56}{55.21} = 3.7$ To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{387.8 - 184.21}{184.21} = 2.1050$ X 100 = 210.50 - 100 = 110.5 % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{5.68}{184.21} = 0.0356 = 3.6\%$ Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{46.8\%}{19.00} = 2.5\%$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{46.8\%}{16.05} = 2.9\%$

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 16.1 %
Average Yield 2.5 %
Annualized Rate of Return 18.5 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 12.2 %
Average Yield 2.9 %
Annualized Rate of Return 15.1 %