NEWS RELEASE

# Medifast, Inc. Announces First Quarter 2018 Financial Results

2018-05-03

BALTIMORE, May 3, 2018 /**PRNewswire**/ -- Medifast, Inc. (NYSE: MED), a leading manufacturer and distributor of clinically proven, healthy living products and programs, today reported financial results for the first quarter ended March 31, 2018.

## First Quarter 2018 Highlights:

- Medifast revenue of $98.6 million, an increase of 39.6% year-over-year
- Active earning OPTAVIA Coaches of 16,700, an increase of 28.5% year-over-year
- Net income of $12.2 million compared to net income of $6.1 million for the first quarter of 2017
- Earnings per diluted share ("EPS") of $1.01 compared to EPS of $0.51 for the first quarter of 2017

"We are off to a strong start in 2018 driven by our focused, transformational business model that continues to deliver optimal health to our clients through our community of OPTAVIA Coaches," said Dan Chard, Medifast's Chief Executive Officer. "This helped fuel growth and profitability that exceeded our expectations for the first quarter and has led to our raising our annual sales and earnings outlook."

## First Quarter 2018 Results

Effective at the beginning of the first quarter ended March 31, 2018, we changed how we report sales going forward to simplify and align with changes in the way we now manage the business, review operating performance, and allocate resources. We previously disclosed entity-wide disclosures for sales by channel for OPTAVIA, Medifast

Direct, Franchise Medifast Weight Control Centers and Medifast Wholesale. Due to the interchangeable nature of our customers amongst sale channels, sales migration to OPTAVIA, and realignment of internal operations, we will now be operating and reporting as a single sales channel. This change in our financial reporting structure is a testament to our success in transforming and restructuring the business and reflection of how the business is managed today.

For the first quarter of 2018, revenue increased 39.6% to $98.6 million from revenue of $70.6 million for the first quarter last year. OPTAVIA branded products represented 58% of consumable units sold for the first quarter of 2018 compared to 17% for the first quarter of last year. The total number of active earning OPTAVIA Coaches for the first quarter of 2018 increased to 16,700, compared to 13,000 for the first quarter of 2017. The average revenue per active earning OPTAVIA Coach for the first quarter of 2018 increased 18.3% to $5,278 compared to $4,463 for the first quarter last year.

Gross profit for the first quarter of 2018 increased to $74.8 million from $52.9 million for the first quarter of 2017. The Company's gross profit as a percentage of revenue increased 100 basis points to 75.9% from 74.9% for the first quarter last year. The increase in gross margin percentage was a result of improved inventory management and shipping expenses.

Selling, general and administrative expenses ("SG&A") increased $15.8 million to $60.1 million compared to $44.3 million for the first quarter of 2017, primarily as a result of higher OPTAVIA commission expense as a result of higher sales. SG&A as a percentage of revenue decreased 170 basis points to 61.0% compared to 62.7% in the first quarter last year.

Operating income increased $6.1 million to $14.7 million from $8.6 million for the first quarter of 2017 primarily as a result of increased gross profit, partially offset by increased SG&A expenses. Operating income as a percentage of revenue increased 270 basis points to 14.9% compared to 12.2% in the first quarter of 2017.

The first quarter 2018 effective tax rate was 18.1%, compared to 29.5% for the first quarter of 2017. This decrease was primarily a result of the decrease in the Federal statutory rate pursuant to the Tax Cuts & Jobs Act as well as the discrete accounting for taxes associated with share-based compensation. Excluding the discrete accounting for taxes associated with share-based compensation, the first quarter effective tax rate would have been 23.1%.

Net income for the first quarter of 2018 was $12.2 million, or $1.01 per diluted share, based on approximately 12.1 million shares outstanding. First quarter 2017 net income was $6.1 million, or $0.51 per diluted share based on approximately 12.0 million shares outstanding.

## Balance Sheet

The Company's balance sheet remains strong with stockholders' equity of $113.6 million and working capital of $92.9 million as of March 31, 2018. Cash, cash equivalents, and investment securities increased $10.4 million to $109.2 million as of March 31, 2018 compared to $98.8 million at December 31, 2017. The Company remains free of interest bearing debt.

The Company declared a quarterly cash dividend of $5.7 million, or $0.48 per share, during the first quarter of 2018. The Company has approximately 850,000 shares remaining on its repurchase authorization as of March 31, 2018.

## Adoption of Accounting Standard Update 2014-09, Revenue from Contracts with Customers ("ASC 606")

In the first quarter of 2018, the Company adopted ASC 606 on a modified retrospective basis. As a result, the Company did not restate financial information for the three months ending March 31, 2017. The results of ASU 606 primarily impact the Company's timing of revenue recognition for product shipments, as product revenue will be recognized upon customer receipt in lieu of at the time of shipment.

The following are the impacts to the financial results for the three months ended March 31, 2018 from the implementation of ASC 606. For the quarter ended March 31, 2018, revenue increased $1.3 million, or 1.4%, which resulted in gross profit increasing $1.1 million, or 1.5%. Reported gross profit as a percentage of revenue increased 10 basis points to 75.9% from 75.8%. Income from operations was positively impacted by $0.5 million, or 3.3%, resulting in increased net income and diluted earnings per share of $0.4 million, or $0.03 per share, respectively.

As of March 31, 2018, working capital decreased $2.1 million and stockholders' equity decreased $1.6 million as a result of the impact ASC 606.

## Outlook

The Company expects second quarter revenue to be in the range of $99.0 million to $102.0 million and earnings per diluted share to be in the range of $0.94 to $0.97. The Company is raising its guidance for the full year 2018, expecting revenue of $385 million to $395 million and earnings per diluted share of $3.55 to $3.65. This compares to the Company's previous annual guidance for revenue of $350 million to $360 million and earnings per diluted share of $3.15 to $3.25. The full year 2018 earnings guidance assumes a 21% to 22% effective tax rate.

## Conference Call Information

The conference call is scheduled for today, Thursday, May 3, 2018 at 4:30 p.m. ET. The call will be broadcast live over the Internet hosted at the Investor Relations section of Medifast's website at **www.MedifastInc.com**, and will be archived online through May 17, 2018. In addition, listeners may dial (855) 560-2579.

A telephonic playback will be available from 6:30 p.m. ET, May 8, 2018, through May 10, 2018. Participants can dial (877) 344-7529 to hear the playback and enter passcode 10119661.

## About Medifast®

Medifast (NYSE: MED) is a leading manufacturer and distributor of clinically proven healthy living products and programs. The brand has been recommended by more than 20,000 Doctors since its founding. In 2016, the company announced OPTAVIA®, an exclusive brand and product line sold through its community of independent Coaches who offer support and guidance to their Clients. In partnership with OPTAVIA Coaches, franchise partners, and its Scientific Advisory Board, Medifast offers comprehensive wellness products and programs that focus on creating sustainable change by helping people learn to incorporate healthy habits into their lives. Medifast is traded on the New York Stock Exchange and was named to Forbes' 100 Most Trustworthy Companies in America List in 2016 and 2017. For more information, visit **www.MedifastInc.com** or **www.OPTAVIA.com**.

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## Forward Looking Statements

Please Note: This release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by use of phrases or terminology such as "intend" or other similar words or the negative of such terminology. Similarly, descriptions of Medifast's objectives, strategies, plans, goals or targets contained herein are also considered forward-looking statements. Medifast believes this release should be read in conjunction with all of its filings with the United States Securities and Exchange Commission and cautions its readers that these forward-looking statements are subject to certain events, risks, uncertainties, and other factors. Some of these factors include, among others, Medifast's inability to attract and retain independent OPTAVIA Coaches and Members, stability in the pricing of print, TV and Direct Mail marketing initiatives affecting the cost to acquire customers, increases in competition, litigation, regulatory changes, and its planned growth into new domestic and international markets and new channels of distribution. Although Medifast believes that the expectations, statements, and assumptions reflected in these forward- looking statements are reasonable, it cautions readers to always consider all of the risk factors and any other cautionary statements carefully in evaluating each forward-looking statement in this release, as well as those set forth in its latest Annual Report on Form 10-K and Quarterly Report on Form 10-Q, and other

filings filed with the United States Securities and Exchange Commission, including its current reports on Form 8-K. All of the forward-looking statements contained herein speak only as of the date of this release.

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MEDIFAST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts & dividend data)

| | Three months ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Revenue | $ 98,596 | $ 70,622 |
| Cost of sales | 23,788 | 17,730 |
| Gross profit | 74,808 | 52,892 |
| Selling, general, and administrative | 60,125 | 44,283 |
| Income from operations | 14,683 | 8,609 |
| Other income (expense) | | |
| Interest income, net | 249 | 63 |
| Other income (expense) | (1) | 39 |
| | 248 | 102 |
| Income from operations before income taxes | 14,931 | 8,711 |
| Provision for income taxes | 2,709 | 2,566 |
| Net income | $ 12,222 | $ 6,145 |
| Earnings per share - basic | $ 1.02 | $ 0.52 |

| | | |
|---|---|---|
| Earnings per share - diluted | $ 1.01 | $ 0.51 |
| Weighted average shares outstanding - | | |
| Basic | 12,030 | 11,901 |
| Diluted | 12,139 | 12,009 |
| Cash dividends declared per share | $ 0.48 | $ 0.32 |

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MEDIFAST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except par value)

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 86,963 | $ 75,077 |
| Accounts receivable-net of doubtful accounts of $98 at March 31, 2018 and allowance for sales returns and doubtful accounts of $597 at December 31, 2017 | 1,025 | 576 |
| Inventory | 17,288 | 19,328 |
| Investment securities | 22,278 | 23,757 |
| Income taxes, prepaid | - | 2,272 |

| | | |
|---|---|---|
| Prepaid expenses and other current assets | 3,577 | 4,188 |
| Total current assets | 131,131 | 125,198 |
| Property, plant and equipment - net | 18,358 | 18,611 |
| Other assets | 1,902 | 2,120 |
| Deferred tax assets | 426 | - |
| TOTAL ASSETS | $ 151,817 | $ 145,929 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | $ 38,187 | $ 37,140 |
| Total current liabilities | 38,187 | 37,140 |
| Deferred tax liabilities | - | 208 |
| Total liabilities | 38,187 | 37,348 |
| Stockholders' Equity | | |
| Common stock, par value $.001 per share: 20,000 shares authorized; 12,139 and 12,103 issued and 12,063 and 11,971 outstanding at March 31, 2018 and December 31, 2017, respectively | 12 | 12 |
| Additional paid-in capital | 6,369 | 4,967 |
| Accumulated other comprehensive loss | (244) | (160) |
| Retained earnings | 108,243 | 103,762 |
| Less: Treasury stock at cost, 9 shares at March 31, 2018 | (750) | - |
| Total stockholders' equity | 113,630 | 108,581 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 151,817 | $ 145,929 |

As required by ASC 606, the impact of the adoption of the new revenue standard on our Condensed Consolidated Statements of Income and Condensed Consolidated Balance Sheets was as follows (in thousands):

| | Three months ended March 31, 2018 | | |
|---|---|---|---|
| | As Reported | Balances without adoption of ASC 606 | Effect of Change |
| Revenue | $ 98,596 | $ 97,254 | $ 1,342 |
| Cost of sales | 23,788 | 23,521 | (267) |
| Gross profit | 74,808 | 73,733 | 1,075 |
| Selling, general, and administrative | 60,125 | 59,523 | (602) |
| Income from operations | 14,683 | 14,210 | 473 |
| Other income (expense) | | | |
| Interest income, net | 249 | 249 | - |
| Other income (expense) | (1) | (1) | - |
| | 248 | 248 | - |
| Income from operations before income taxes | 14,931 | 14,458 | 473 |
| Provision for income taxes | 2,709 | 2,608 | (101) |
| Net income | $ 12,222 | $ 11,850 | $ 372 |
| Earnings per share - basic | $ 1.02 | $ 0.99 | $ 0.03 |
| Earnings per share - diluted | $ 1.01 | $ 0.98 | $ 0.03 |
| Weighted average shares outstanding - | | | |
| Basic | 12,030 | 12,030 | |

| | | |
|---|---|---|
| Diluted | 12,139 | 12,139 |

| | March 31, 2018 | | |
|---|---|---|---|
| | As Reported | Balances without adoption of ASC 606 | Effect of Change |
| ASSETS | | | |
| Accounts receivable, net | $ 1,025 | $ 92 | $ 933 |
| Inventory | 17,288 | 16,624 | 664 |
| Prepaid expenses and other current assets | 3,577 | 3,491 | 86 |
| Deferred tax assets | 426 | - | 426 |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 38,187 | 34,416 | 3,771 |
| Deferred tax liabilities | - | 16 | (16) |
| Stockholders' Equity | | | |
| Retained earnings | 108,243 | 109,889 | (1,646) |

SOURCE Medifast, Inc.