



NEWS RELEASE

# Medifast, Inc. Announces Fourth Quarter and Fiscal Year 2013 Financial Results

2014-03-10

OWINGS MILLS, Md., March 10, 2014 /PRNewswire/ -- Medifast, Inc. (NYSE: MED), a leading United States manufacturer and provider of clinically proven, portion-controlled weight-loss products and programs, today reported financial results for the fourth quarter and fiscal year ended December 31, 2013.

"We made consistent progress on our strategic initiatives in 2013 to better position Medifast for long-term profitable growth," commented Michael C. MacDonald, Medifast's Chairman and Chief Executive Officer. "In the fourth quarter our team managed the business well generating strong operational efficiencies that resulted in a 480 basis point improvement in operating margin. Looking ahead, we believe Medifast is increasingly well positioned to capitalize on our future growth opportunities as we execute our strategic initiatives and in turn increase long-term shareholder value."

## Fourth Quarter 2013 Results

For the fourth quarter ended December 31, 2013, Medifast net revenue decreased 7% to \$77.3 million from net revenue of \$83.2 million in the fourth quarter of the prior year.

Revenue in the direct sales channel, Take Shape for Life, was comparable to the prior year at \$51.7 million in the fourth quarter of 2013 compared to \$51.8 million in the same period last year. The Company ended the fourth quarter with approximately 10,500 active health coaches and the average revenue per health coach per month for the quarter decreased 6% to \$1,477 compared to \$1,571 in the fourth quarter of 2012.

The Company's Medifast Direct channel revenue decreased 24% to \$13.9 million, compared to \$18.2 million in the fourth quarter of 2012. The Company implemented a planned advertising spending reduction in the fourth quarter in line with the focus to maximize efficiencies and optimize profits.

In the fourth quarter, the Medifast Weight Control Centers and Wholesale Physicians channel revenue decreased 12% to \$11.7 million, due to the Company's focus on creating operational efficiency, optimizing staffing, and managing expenses including advertising spend. The Company ended the fourth quarter with a total of 75 corporate centers and 41 franchise centers. Going forward, the Company expects to sell the assets of approximately 10 to 15 existing corporate-owned Medifast Weight Control Centers to an existing business partner in the first half of 2014, which would then be transitioned to the franchise model.

Gross profit for the fourth quarter of 2013 decreased 8% to \$57.7 million, compared to \$62.8 million in the fourth quarter of the prior year. The Company's gross profit margin decreased 80 basis points to 74.6% in the fourth quarter of 2013 versus 75.4% in the fourth quarter of 2012.

Selling, general and administrative expenses decreased \$8.6 million to \$50.6 million versus \$59.2 million in the fourth quarter last year. Fourth Quarter 2012 included a non-recurring sales tax accrual of \$3.3 million before income tax. As a percent of net revenue, selling, general and administrative expenses decreased to 65.5% from 71.1% in the fourth quarter of 2012.

Operating income was \$7.0 million, or 9.1% as a percent of net revenue, compared to \$3.6 million, or 4.3% as a percent of net revenue, in the fourth quarter of 2012.

The Company had an effective tax rate of 21.3% compared to 48.8% in the fourth quarter of 2012. The decrease in the effective tax rate was the result of claiming research and development credits in 2013 which became effective in early 2013 but applied retroactively to prior years. Additionally, we were able to take advantage of the Maryland multi-state apportionment methodology in 2013.

The fourth quarter of 2013 net income includes a \$1.6 million net of tax charge related to the closure of eight corporate-owned Medifast Weight Control Centers.

Net income was \$5.3 million, or \$0.39 per diluted share based on approximately 13.6 million shares outstanding, compared to net income of \$1.9 million, or \$0.13 per diluted share, for the comparable quarter last year based on approximately 13.8 million shares outstanding. The fourth quarter 2012 net income includes a \$2.0 million net of tax sales tax accrual. Excluding this item, net income in the fourth quarter 2012 would have been \$3.9 million or \$0.28 per diluted share.

## Fiscal Year 2013

For the fiscal year ended December 31, 2013, Medifast net revenue increased to \$356.9 million from net revenue of \$356.7 million in 2012.

Net income for the fiscal year 2013 increased \$8.1 million to \$24.0 million, or \$1.73 per diluted share based on approximately 13.8 million shares outstanding, compared to net income of \$15.9 million, or \$1.16 per diluted share for the comparable period last year based on approximately 13.7 million shares outstanding.

Fiscal year 2012 net income includes \$3.7 million from the previously disclosed FTC charge in the second quarter of 2012 and \$2.0 million net of tax sales tax accrual. Excluding these items, net income for fiscal year 2012 would have been \$21.6 million or \$1.57 per diluted share in 2012.

## Balance Sheet

The Company's balance sheet remains strong with stockholders' equity of \$98.4 million and working capital of approximately \$64.9 million as of December 31, 2013. Cash, cash equivalents, and investment securities for the fourth quarter of 2013 increased \$7.8 million to \$67.8 million compared to \$60.0 million at December 31, 2012.

## Outlook

The Company expects first quarter 2014 net revenue to be in the range of \$86 to \$88 million. Earnings per diluted share are expected to be in the range of \$0.32 to \$0.35. Our first quarter guidance assumes the Company will not convert any corporate owned centers to Franchise centers in the quarter.

For fiscal year 2014 the Company expects net revenue to be in the range of \$340 to \$380 million and earnings per diluted share are expected to be in the range of \$1.80 to \$1.90 as compared to the 2013 fiscal year. The annual range of revenue expectations is partly dependent on the timing of the transition of corporate-owned centers to the franchise model which effectively reduces revenue while improving profitability.

## Conference Call Information

The Company will host a conference call to discuss these results with additional comments and details. The conference call is scheduled to begin at 4:30 p.m. ET on March 10, 2014. The call will be broadcast live over the Internet hosted at the Investor Relations section of Medifast's website at [www.choosemedifast.com](http://www.choosemedifast.com), and will be archived online through March 24, 2014. In addition, listeners may dial (877) 705-6003.

A telephonic playback will be available from 7:30 p.m. ET, March 10, 2014, through March 24, 2014. Participants can dial (877) 870-5176 to hear the playback and enter passcode 13576107.

## About Medifast

Medifast (NYSE: MED) is the leading easy-to-use, clinically proven, portion-controlled weight-loss program. The company sells its products and programs via four unique distribution channels: 1) the Web and national call centers, 2) the Take Shape For Life personal coaching division, 3) Medifast Weight Control Centers, and 4) a national network of physicians. Medifast was founded in 1980 and is located in Owings Mills, Maryland. For more information, log onto [www.MedifastNow.com](http://www.MedifastNow.com).

## 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 Health 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

## CONSOLIDATED BALANCE SHEETS

As of December 31, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 36,382,000	\$ 39,937,000
Accounts receivable-net of allowance for sales returns and doubtful accounts of \$647,000 and \$542,000	1,246,000	2,148,000
Inventory	18,059,000	20,804,000
Investment securities	31,420,000	20,057,000
Income taxes, prepaid	-	873,000
Prepaid expenses and other current assets	2,890,000	3,296,000
Deferred tax assets	1,957,000	1,460,000
<b>Total current assets</b>	<b>91,954,000</b>	<b>88,575,000</b>
Property, plant and equipment - net	40,336,000	40,109,000
Trademarks and intangibles - net	-	428,000
Other assets	360,000	1,139,000
<b>TOTAL ASSETS</b>	<b>\$ 132,650,000</b>	<b>\$ 130,251,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 26,780,000	\$ 28,221,000
Income taxes payable	99,000	-
Current maturities of long-term debt and capital leases	222,000	528,000
<b>Total current liabilities</b>	<b>27,101,000</b>	<b>28,749,000</b>
<b>Other liabilities:</b>		
Long-term debt, net of current portion	-	3,113,000

Capital leases, net of current portion	474,000	696,000
Deferred tax liabilities	6,659,000	6,907,000
<b>Total liabilities</b>	<b>34,234,000</b>	<b>39,465,000</b>
<b>Stockholders' Equity:</b>		
Preferred stock, \$.001 par value (1,500,000 authorized, no shares issued and outstanding)	-	-
Common stock; par value \$.001 per share; 20,000,000 shares authorized; 13,143,309 and 15,525,955 issued; 13,115,642 and 13,767,380 issued and outstanding	13,000	16,000
Additional paid-in capital	-	40,191,000
Accumulated other comprehensive income	703,000	553,000
Retained earnings	97,700,000	76,534,000
Less: cost of 0 and 1,608,908 shares of common stock in treasury	-	(26,508,000)
<b>Total stockholders' equity</b>	<b>98,416,000</b>	<b>90,786,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 132,650,000</b>	<b>\$ 130,251,000</b>

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MEDIFAST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Years Ended Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Revenue	\$ 77,291,000	\$ 83,243,000	\$ 356,886,000	\$ 356,706,000
Cost of sales	19,637,000	20,439,000	89,040,000	88,671,000

Gross Profit	57,654,000	62,804,000	267,846,000	268,035,000
Selling, general, and administration	50,632,000	59,205,000	234,256,000	244,773,000
Income from operations	7,022,000	3,599,000	33,590,000	23,262,000
Other income				
Interest and dividend income, net	189,000	74,000	506,000	301,000
Other income (expense)	(490,000)	(29,000)	91,000	895,000
	(301,000)	45,000	597,000	1,196,000
Income before income taxes	6,721,000	3,644,000	34,187,000	24,458,000
Provision for income taxes	1,431,000	(1,779,000)	10,218,000	(8,582,000)
Net income	\$ 5,290,000	\$ 1,865,000	\$ 23,969,000	\$ 15,876,000
Basic earnings per share	\$ 0.39	\$ 0.14	\$ 1.74	\$ 1.16
Diluted earnings per share	\$ 0.39	\$ 0.13	\$ 1.73	\$ 1.16
Weighted average shares outstanding -				
Basic	13,523,140	13,759,381	13,774,083	13,721,997
Diluted	13,629,046	13,831,940	13,817,693	13,739,824

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MEDIFAST, INC. AND SUBSIDIARIES

Supplemental Information- Reconciliation of Non-GAAP Financial Measures

	Three Months Ended December 31,		Years Ended December 31,	
	2013	2012	2013	2012

Income from operations	\$	7,022,000	\$	3,599,000	\$	33,590,000	\$	23,262,000
Adjustments								
Sales Tax Expense Accrual	-		3,256,000		-		3,256,000	
FTC Settlement Expense	-		-		-		3,700,000	
Adjusted Income from operations	\$	7,022,000	\$	6,855,000	\$	33,590,000	\$	30,218,000

		Three Months Ended December 31,		Years Ended December 31,				
		2013	2012	2013	2012			
Net income	\$	5,290,000	\$	1,865,000	\$	23,969,000	\$	15,876,000
Adjustments								
Sales Tax Expense Accrual	-		2,027,000		-		2,026,000	
FTC Settlement Expense	-		-		-		3,700,000	
Adjusted net income	\$	5,290,000	\$	3,892,000	\$	23,969,000	\$	21,602,000
Diluted earnings per share	\$	0.39	\$	0.13	\$	1.73	\$	1.16
Impact for adjustments	-		0.15		-		0.42	
Adjusted diluted earnings per share	\$	0.39	\$	0.28	\$	1.73	\$	1.57

The weighted-average diluted shares outstanding used in the calculation of these non-GAAP financial measures are the same as the weighted-average shares outstanding used in the calculation of the reported per share amounts.

Weighted average shares outstanding -

Basic	13,523,140	13,759,381	13,774,083	13,721,997
Diluted	13,629,046	13,831,940	13,817,693	13,739,824

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