



Large Puts Build in Medifast

Ticker/Price: MED (\$64.50)

Analysis:

Medifast (MED) buyers active again today 1,300 May \$80 puts from \$17.40 to \$18.30, sizable flows and follows buyers at the strike earlier in the week. MED still has 2,000 September \$120 deep ITM puts in OI from earlier in the year. Shares have rebounded back to the 38.2% Fibonacci of the run lower this year, one of the weaker bounces, and slipping under the 8-EMA today. A bear pennant is forming under the declining 50-MA and a break under \$60 targets a re-test of the March lows and longer-term support down near \$35/\$40. The \$767M company trades 8.5X earnings and 1.1X sales. They have limited debt and around \$8/share in cash on hand with a 6.75% dividend yield, although certainly at risk as their FCF guidance in February only exceeded the payout by \$12M. MED faces a number of challenges as their earnings and sales growth has slowed to low-single digits in FY20 and they've invested a lot in Optavia, their coach + client model, which relies on doubling the business size every 3-4 years as they scale. 2020 is also the beginning of a big international ramp and the company highlighting in February challenges in their earliest locations like Hong Kong due to political unrest while China and the US will undoubtedly be impacted by COVID-19. Analysts have an average target for shares of \$86.50 and limited coverage since COVID-19's breakout. On 2-27, Jefferies downgrading to Hold as they see guidance challenged and a lack of momentum keeping shares range-bound. The firm also notes that their conviction in a 2H ramp in sales is very low as it counters natural seasonality. Short interest is 28.2%. Hedge fund ownership rose 12.5% in Q4. Melvin Capital holds put options in the name while Engaged Capital has a 1.1M share position and active with a 13-D filing last year.

Hawk Vision:



Hawk's Perspective: MED has been a favorite short target noted previously and looks vulnerable to continue to new lows from here as a top viable short play.

Confidence Ranking: \$\$