



Bears Target More Weakness in Medifast

Ticker/Price: MED (\$102)

Analysis:

Medifast (MED) with a buyer of 1,000 March \$110 puts bought up to \$13 to open yesterday and follows buyers of 400 March \$115 puts on 1-23 and 2,000 September \$120 puts on 1-22. The March \$90 puts have 2,000 in OI from buyers back in November. MED shares gapped down under \$70 in November on earnings and has rallied back sharply to the declining 200-MA at \$120 where it has failed recently. The bounce-back broke late last week and optimal spot to short may be back around the declining 8-EMA at \$107.50. Shares have downside to \$90, the November value-area. The \$1.17B company trades 13.5X earnings and 1.7X sales with a 4.4% yield. MED is seeing declining EPS growth and sales growth, likely down to single-digit sales growth in FY22 from 40% in 2019. MED is coming off a disastrous quarter with supply chain disruptions as they expand capacity, widespread IT issues including issues with an ERP transition that needed to be re-assigned, and credit-card fraud that resulted in stolen identities making buys. MED cost from the credit card fraud at around \$3M but potential for adjustments as they evaluate the situation more and could have a multi-quarter impact on retention levels into one of the most seasonally strong periods of the year. Analysts have an average target for shares of \$140. Jefferies a long-time bull with a \$130 PT and thinks the recent activist push in the name reinforces the value gap in the stock while the disclosed amendment to Medifast's stockholder rights plan is "notable" in context of the speculation. DA Davidson cutting to Neutral with a \$74 PT as the investment story on Medifast has "gone off the rails", and now modeling flat-to-down revenue for the first 3 quarters of FY20 before "optimistically" forecasting return to 20% revenue growth in FY21. Short interest is 31.5%, down a bit from 38.5% in December but still a position that has surged from around 3% in late 2018. Hedge fund ownership has been flat in recent quarters. Engaged Capital back with a 1.16M share activist position in the name and pushing for the company to explore strategic alternatives. Dealreporter out on 12-20 questioning how serious Engaged is in Medifast.

Hawk Vision:



Hawk's Perspective: MED is one of the perpetual short names, ugly fundamentals, high short float, and plenty of size put buys in OI, a name to target short.

Confidence Ranking: \$\$