

Nutrisystem, Inc.

Recommendation: Buy

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Price	12-Mo. Target Price	Report Currency	Investment Style
\$19.87 (as of April 8, 2016)	\$32.01(DCF)	USD	Mid Cap Growth

Key Stock Statistics (Source: Capital IQ, NASDAQ.com)

52-Wk Range	\$17.25 – 32.05	Shares Out. (mm)	29.1	Institutional Ownership (%)	97.54%
EPS	\$0.89	Market Cap (mm)	582.3	Beta	0.81
P/E	22.46x	Yield (%)	3.5%	Credit Rating	0.0619%
\$10,000 Invested 5 Years Ago	\$13,892	Dividend Rate/Share	\$0.70	Quality Rating	A

Price Performance (5Y)



Highlights

- Over the past three years, revenue has been increasing at a rate of over 10% due to its ability to provide a product demanded by a large audience.
- We expect revenue growth to decrease slightly after 2018 in part due to the mounting competition from various nutrition apps and weight loss programs, to which there are few barriers to entry.
- EPS has more than doubled since 2011, and it is expected to continue to grow at a rate of over 12% through 2018.

Investment Rationale / Risk

- In December, Nutrisystem acquired South Beach Diet to further diversify their product and appeal to a greater consumer base. The results of this acquisition will not be fully seen until 2017.
- Risks include increasing advertising expenditures, which decrease operating income. However, in the long run, focusing on marketing is a key for this consumer retail business.
- Our target price of \$32.01 is based on the average of the perpetual growth method and the exit multiple method.

Risk Assessment

Low	Medium	High
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Our risk assessment for Nutrisystem reflects the company's strong potential for growth after diversifying their product availability. However, their mounting competition from weight-loss apps also contributes to this analysis.

Revenue Data

Year	Revenue (mm)
2013	358.1
2014	403.1
2015	462.6

Earnings Per Share

Year	EPS
2013	0.25
2014	0.66
2015	0.89

Dividend Data

Ex/Eff Date	Cash Amnt.	Declaration Date	Record Date	Payment Date
3/3/16	0.175	2/18/16	3/7/16	3/17/16
11/5/15	0.175	10/22/15	11/9/15	11/19/15
8/6/15	0.175	7/22/15	8/10/15	8/20/15
5/7/15	0.175	4/23/15	5/11/15	5/21/15

Nutrisystem, Inc.

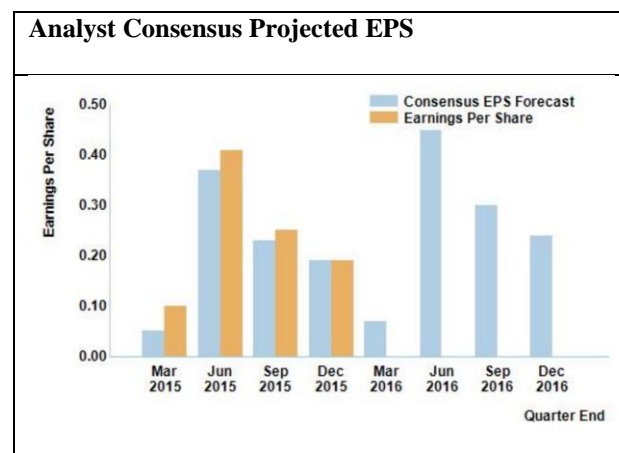
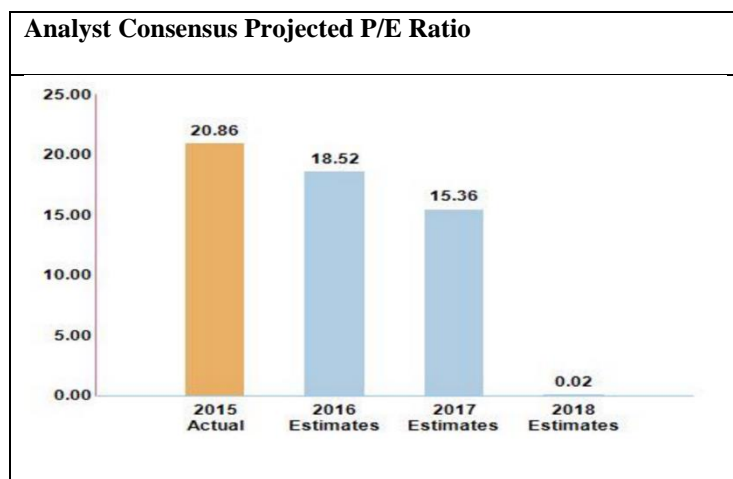
Expanded Ratio Analysis					
	2011	2012	2013	2014	2015
EBITDA Margin %	22.2	3.0	6.2	9.2	11.2
Gross Margin %	50.6	46.3	48.6	50.6	51.5
Return On Assets %	8	0.7	8.3	17.2	22.2
Quick Ratio	1.7X	0.8X	0.7X	0.8X	0.6X

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Analyst Recommendation
Strong Buy



Contributing Firms
B.RILEY & CO.
CO FORECST
LAKE STREET CAP
BARRINGTON RES
CRAIG-HALLUM
WUNDERLICH RES



Business Summary

Nutrisystem Inc. is one of the leading providers of weight-management services in the United States. Established in 1971, the company was initially founded as a weight loss center called Shape-Up. In 1999, it became a publicly traded company with operations in the US and Canada. Nutrisystem's core customer base is females of about 50 years of age. Nutrisystem offers its customers a home-delivery meal program with low-calorie and portion-controlled meals. Customers typically purchase monthly food packages with a 28-day supply of breakfasts, lunches, dinners and desserts, which they supplement with dairy, fruit, vegetables and low-glycemic carbohydrate items. The majority of customers purchase meals on an auto-delivery basis, which is priced between \$300.0 and \$330.0 per shipment. Nutrisystem offers over 130 food items and also provides its members with online tools and counseling, with counselors answering questions and make recommendations to clients. Furthermore, the company has internet chat rooms and bulletin boards where members can post and support each other, in addition to providing online and smartphone weight-management tools for clients.

Financial performance

Over the five years to 2016, industry-relevant revenue is expected to grow at an annualized rate of 3.8% to \$477.9 million. According to the company's latest quarterly report, robust direct-to-consumer and retail channel sales have bolstered the company's industry-relevant revenue. In 2014 and 2015, the company experienced double-digit growth, which is significant given the rising competition from weight loss app developers. Company profitability has also increased over the period. In particular, Nutrisystem has focused on removing some promotional items and free food promotions that were not profitable.

The company has expanded its product offering to include a combination of ready-to-go foods and a fresh-frozen line of menu items. In 2011, Nutrisystem launched its SUCCESS program, which offered a wider assortment of fresh frozen meals to customers. In addition, during this same year, Nutrisystem developed the Nutrisystem D Program, designed specifically for clients with Type 2 diabetes, and in 2012 the company enhanced its product offerings and added certified diabetes educators to counsel clients. Programs are offered at Costco through prepaid program cards. Furthermore, in 2013, Nutrisystem began offering Jumpstart weight loss kits, with 15 entrees, available at 2,000 Walmart locations. In 2014, the company launched its Nutrisystem Fast 5 kit, which helps users lose five pounds within a week. In addition, Nutrisystem launched a weight loss app that integrates with wellness devices.

During the past five years, the Weight Loss Services industry has benefited from the growing number of overweight or obese Americans. Currently, about 69.0% of adults are considered obese or overweight, according to data from the Centers for Disease Control and Prevention (CDC). According to a CDC Vital Signs report, obese individuals incur higher medical expenditures per capita compared with healthy individuals, prompting public payers to focus on lowering the prevalence of overweight and obese beneficiaries to cut costs. Many physicians have also promoted weight loss as a form of preventive care to lower patients' risk for obesity-related ailments, such as heart disease, stroke and Type 2 diabetes. Nevertheless, the industry has contended with rising competition from do-it-yourself weight loss apps and nutrition plans, which have cut into industry revenue growth. Further exacerbating this trend, many clinics and hospitals have offered similar services, including nutrition programs, exercise planning and counseling, constraining industry revenue growth.

As a result, during the five years to 2016, industry revenue is expected to contract at an annualized rate of 1.0% to \$2.3 billion. In 2016, however, revenue is anticipated to rise 2.1%, partly due to healthcare reform, which has required health insurers to cover obesity screenings and counseling without cost sharing (e.g. co-payments), making industry services more accessible to consumers. As a result, more obese individuals have received weight loss guidance from physicians and had access to referrals for services, including weight loss clinics. As a result, some health insurers have partnered with industry operators by referring patients and providing them with weight loss clinic membership discounts. Profit is expected to decline from 11.1% of industry revenue in 2011 to 7.8% in 2016, due to the poor performance of many key players, which have traditionally kept the average profit margin high for the industry.

Despite heavy market saturation, low barriers to entry have enticed a considerable number of new entrants to the industry. Over the five years to 2016, the number of industry companies is expected to grow 2.3% per year on average to 4,451. Online weight loss services do not require the significant overhead costs associated with a brick and mortar store, allowing businesses to enter the industry with minimal start-up costs. As many new companies enter the industry, larger companies have been consolidating their operations to reduce costs. Enterprise growth is therefore anticipated to outpace establishment growth over the five-year period.

Company News and Developments

December 2014

Nutrisystem announces the nationwide launch of Fast 5+. It is the company's week one of the My Way program that's designed to aid customers lose five pounds with their money back guaranteed. It was projected to make its commercial debut in December for the 2015 Diet Season.

December 2015

The company has announced that it has acquired the South Beach Diet brand from SBD Holdings Group Corp. for \$15 million. Over the following year, Nutrisystem will begin to develop South Beach Diet meal programs, products, and services with the intent to launch both direct-to consumer and retail channels in 2017.

January 2016

Nutrisystem adds 16 new food items to its menu of ready to go and fresh frozen options. In 2015, customers provided ~25,000 reviews of menu items and were given an average rating of 4/5 stars. The VP of Food Development and Quality is looking to continually update and diversify their food portfolio to provide variety that speaks to various tastes and preferences.

February 2016

Nutrisystem expands its footprint in the health and wellness segment with the new Shake360 product. The program is focused on addressing a growing customer segment interested in optimal nutrition and clean eating. It will capitalize on their knowledge around selling shakes to current program customers and branches out to millennials whose interests extend beyond just weight loss

also sell food supplements and other weight-reduction products. This industry does not include fitness centers, health resorts and spas, or medical or surgical weight-reduction services.

In terms of market share, Weight Watchers holds 24.8%, NutriSystem 20.9%, and MediFast International 11.9%. The rising rate of obesity is expected to push industry growth at an annualized rate of 2.5% for employees.

Online Weight Loss Services Industry

This industry provides internet membership programs to consumers to assist them in losing weight or maintaining a desired weight. Online weight loss services generate revenue through subscription-based accounts and products sales. This industry does not include fitness tracking applications nor companies that generate their primary revenue through external advertisements and promotions.

Major companies in this industry include NutriSystem, Jenny Craig, and Weight Watchers international. NutriSystem holds the largest market share at 40.5%. As there are low barriers to entry in this industry, the competition level is high for companies providing online weight loss services. Nutrisystem's revenue is expected to grow at an average annual rate of 4.1% in the next five years to 2016.

Nutrisystem Industry Analysis

Weight Loss Services in the US Industry

Companies in this industry provide nonmedical services to clients and assist these individuals with losing or maintaining a desired weight. Services typically include individual or group counseling, menu and exercise planning, and weight and body measurement monitoring. Industry operators may