

NEW WRITEUP - Privately held "Up and Comer" - FITLIFE FOODS

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Fitlife Foods - a dynamic differentiated privately held "Up and Comer" - enjoy!

Fitlife Foods is a “lifestyle brand”, providing a unique dining and meal occasion experience. This company is at a relatively early stage compared to most situations we follow. However, Fitlife is so directly serving a receptive market with products that are impressive, differentiated, and competitively defensible, we believe the probability of long term success is very high and coverage of this situation will be, at the very least, educational, for all of us.

David Osterweil, now 40 years of age, previously Director of Business Development at Bloomin’ Brands, was always physically active and health conscious. The vision for Fitlife was spawned from a visit in 2009 that he and his wife made to a health spa in Massachusetts. Impressed by the quality of the food, the lack of artificial or detrimental ingredients, the variety and portion control, he visualized the opportunity to provide consumers similar products available within a typical retail venue. Two years later, after partnering with Chef Andrew Ruga to create a range of products, they opened their first Fitlife Foods store in downtown Tampa.

Today, there are 16 locations, each approximating 1,200 square feet in Florida, between Fort Lauderdale and Tampa/Orlando, served by a 15,000 square foot culinary center in Plant, FL that produces more than 60 varieties of healthy made-from-scratch meals (breakfast, lunch and dinner) and snacks. 39 original sauces and 13 different healthy spice blends (no salt) provide attractive flavor profiles. Meals come in small, medium and large, ranging in price from \$7 to \$13. Stores, in addition to providing the products, include one on one “wellness coaching” at no charge, called “Project U”. A store level wellness coach helps customers create a meal schedule to fit their health goals. While a significant, but not overwhelming, fifteen percent of sales are related to Project U, the service provides a “culture of wellness umbrella” for the brand.

The Company ended 2017 with 15 locations, up from 12 and 6 in 2016 and 2015. Total run rate revenue is forecasted to be at \$14 million for 2018, for an average of \$900k per store (which includes 1 franchised locations and 1 kiosk). Within the last twelve months, subscription programs were added as well as digital ordering. The expanded culinary center has the capacity to produce up to 120k units per week, which would amount to \$40M of annualized revenue. Subscription delivery was launched in July, 2017, and grew in 20 weeks to more than a \$1.5M annual run rate with an average order value of over \$100. The customer profile at Fitlife includes: 41% of customers have been shopping with Fitlife for over a year, 79% have an undergraduate degree, 20% are “weight loss minded”.

A qualified group of executives has been added, to complement Osterweil and Ruga, as the company has grown, including Chris Hourigan (CFO), Penny Primus (Director of Product Marketing), Skyler Stice (VP of Culinary Center), and Dana Lockyear (VP Retail Operations). The Company has not disclosed profitability at the store level or at the corporate level. It is obvious that the Company views the expansion path as a marathon (Osterweil has run many) rather than a sprint, and is building production capacity and distribution methodology to support a powerful omni-channel and differentiated business than the single track prepared meal companies. The corporate breakeven point is no doubt dependent on the overhead necessary at the culinary center, and the operating profit should grow exponentially once a critical mass of volume is reached. The buildout cost of an individual store is a modest \$300,000, but there is a multi million investment in the culinary center to serve the system.

It is interesting that Fitlife rolled out a franchise program in mid-2017, but has more recently backed off from that plan, choosing apparently to expand the production capacity at the culinary center and continue to build company operated locations with a “last mile” delivery focus. Considering that retail outlets are tethered to a commissary, which likely has to be operated by Fitlife, and the high volume per square foot through the retail stores, it seems to make sense, strategically, to maintain complete control of the process from culinary center to customer.

Expansion capital was provided by a group of investors in 2014, including some with ties to the local Florida gym community, and more recently (2015) by the well regarded private equity firm, KarpReilly. We have been very impressed with the competitive positioning, the product appeal and the implementation at the Fitlife store level. We believe this model has a high probability of success, will be a fascinating growth story to follow, and look forward to a commissary (and stores) being built in the NY metropolitan area.

Roger Lipton