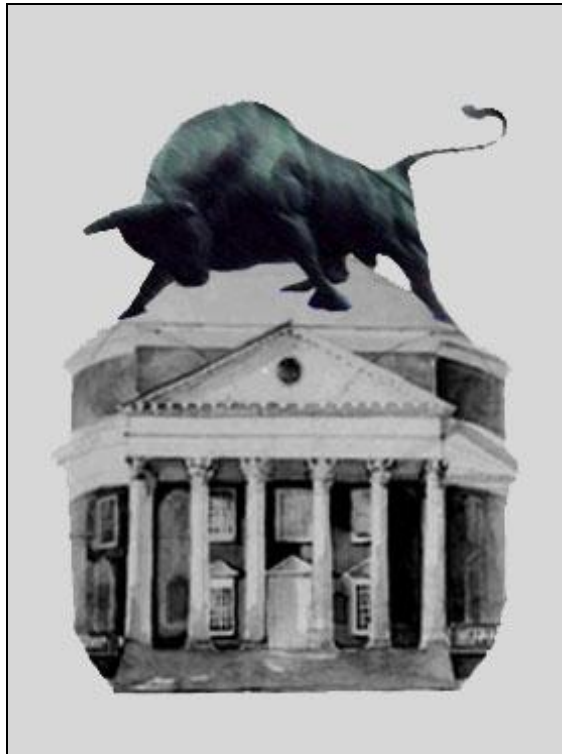


McIntire Investment Institute

At the University of Virginia



Weight Watchers International, Inc. (NYSE: WTW)



Prepared by Tim Chen | 8 September 2011



Roadmap

1. Company Overview

2. Investment Thesis

3. Q2 Update

4. Long-term Story

5. Short-term Catalyst

6. Valuation

Weight Watchers provides weight management services worldwide

Operates two businesses: meetings and Weight Watchers Online

Recently introduced PointsPlus in November 2010

Key market is North America

Key drivers are attendance, paid weeks, and active subscribers



Stock Summary

5-Year Stock Chart

Sep 08, 2006 - Sep 01, 2011 +17.54 (40.73%)



Basic Stock Information

WTTW								
(\$ in millions except per share data)								
Stock Price (9/8/11)						\$ 58.51	Float	34.5
F.D. Shares Outstanding						73		
Market value						\$ 4,271.23	Short Interest	
Cash						\$ 60.38	Shares (mm)	2.9
Debt						\$ 1,190.00	% of float	8.4%
Enterprise Value						\$ 5,521.61	Dividend Yield	1.10%
							Beta	1.23
	FY ends Jan	2009	2010	2011E	2012E	2013E		
EV/Revenue		3.95x	3.80x	3.06x	2.80x	2.55x		
EV/EBITDA		14.16x	13.18x	9.65x	8.75x	8.06x		
P/E		25.44x	22.86x	14.70x	12.92x	11.55x		
Revenue		\$ 1,398.87	\$ 1,452.00	\$ 1,805.35	\$ 1,973.02	\$ 2,162.35		
EBITDA		\$ 390.00	\$ 419.00	\$ 572.12	\$ 630.94	\$ 684.94		
EPS		\$ 2.30	\$ 2.56	\$ 3.98	\$ 4.53	\$ 5.07		



Q2 earnings release pummels stock

Q2 Result:

WTW beat estimates by \$0.05 (\$1.17 vs \$1.12) but raised guidance moderately.

Market expectation:

Investors were expecting a beat and raise.

Stock drops 20%. It is now trading at 15x forward EPS but previously at 21x forward. However, at 9/8/11 market close of \$58.51, it is still trading at a 67% premium over its share price of \$35 when it launched PointsPlus.

WTW is a Compelling Short; Price Target of \$34

The long-term story focuses on the slow, secular decline of the meetings business partially due to cannibalization from WeightWatchers Online (WWO), poor internal management, and WWO's lack of competitive advantage over free online weight-loss platforms.

Catalyst: can WeightWatchers keep its monthly pass members, who have an average duration of 8 months, on the program and is the Jennifer Hudson campaign durable enough as the main marketing tool to sustain growth.

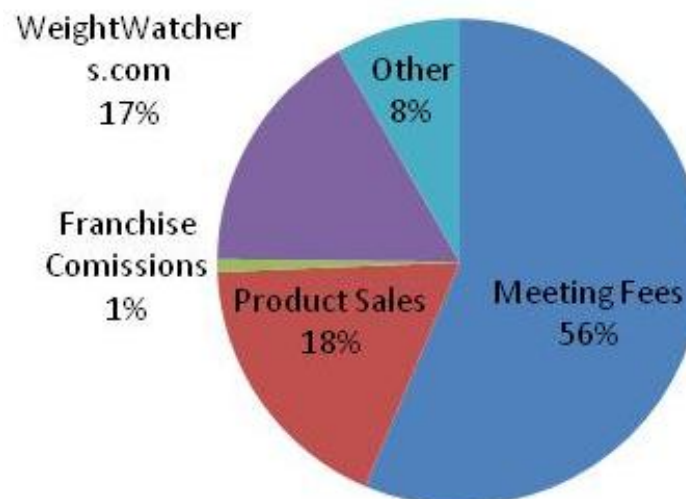
WTW has two main businesses and three key drivers

Key Market: North America

Key Drivers:

- Meetings: attendance, paid weeks
- WWO: active subscribers

2010 Revenue Mix



Revenue Mix	FY2006	FY2007	FY2008	FY2009	FY2010	Mar-11 E	Jun-11 E
Meeting Fees	58.6%	60.0%	59.6%	58.4%	56.4%	53.4%	53.7%
Product Sales	23.8%	23.0%	21.9%	17.9%	18.0%	20.1%	17.4%
Franchise Comissions	1.6%	1.2%	1.0%	0.9%	0.8%	1.0%	0.9%
WeightWatchers.com	10.5%	10.3%	12.0%	14.0%	16.5%	18.3%	21.0%
Other	5.5%	5.5%	5.5%	8.7%	8.3%	7.3%	7.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Long term story: As WTW aims to reposition itself as a health and wellness company, the company will continue to exhibit attrition in membership while its strategy to strengthen membership retainment via WeightWatchers Online renders the company vulnerable to free alternatives

Organic attendance has declined historically and few franchises remain to be acquired

Growth in attendance between '06 and '08 was bought through franchise acquisitions

- <17% franchises remain
- Count attendances as own; collect 100% revenues instead of 10% royalties

Organic growth in attendance:

- North America: declined 12% from '03 to '10
- International: declined 25% since peak in 2004 because used as testing ground

Year	Members (M)	Wording	Mtgs/wk (k)	Leaders (k)	
2006		1.5 approx	50		15
2007		1.5 over	50		15
2008		1.4 over	50		16
2009		1.3 almost	50		15
2010		1.2 over	45		12



A reverse conversion to the PAYGO model will significantly damage revenues

Monthly Pass

- Unlimited meetings each month
- Automatically renews at \$39.95 each month, that's \$9.22 per week on average.
- Includes FREE Registration
- FREE eTools - Internet weight-loss companion

\$9.22

Per week on average**

Sign Up Now

17-Week Pass

- 17 consecutive weeks of meetings for \$194 (Only \$11.41 per week) †
- FREE Registration

\$11.41

Per week †

Pay As You Go

- Regular weekly fee
- Pay regular weekly meeting fee plus discounted Registration fee of \$1.00 to join.*

\$13.00

Weekly Fee††

	MP	PAYGO
Registration	\$0	\$25
Price	\$39.95/mo	\$13/wk
Avg duration	8 mo.	11 wks
Total revenues	\$ 319.60	\$168.00

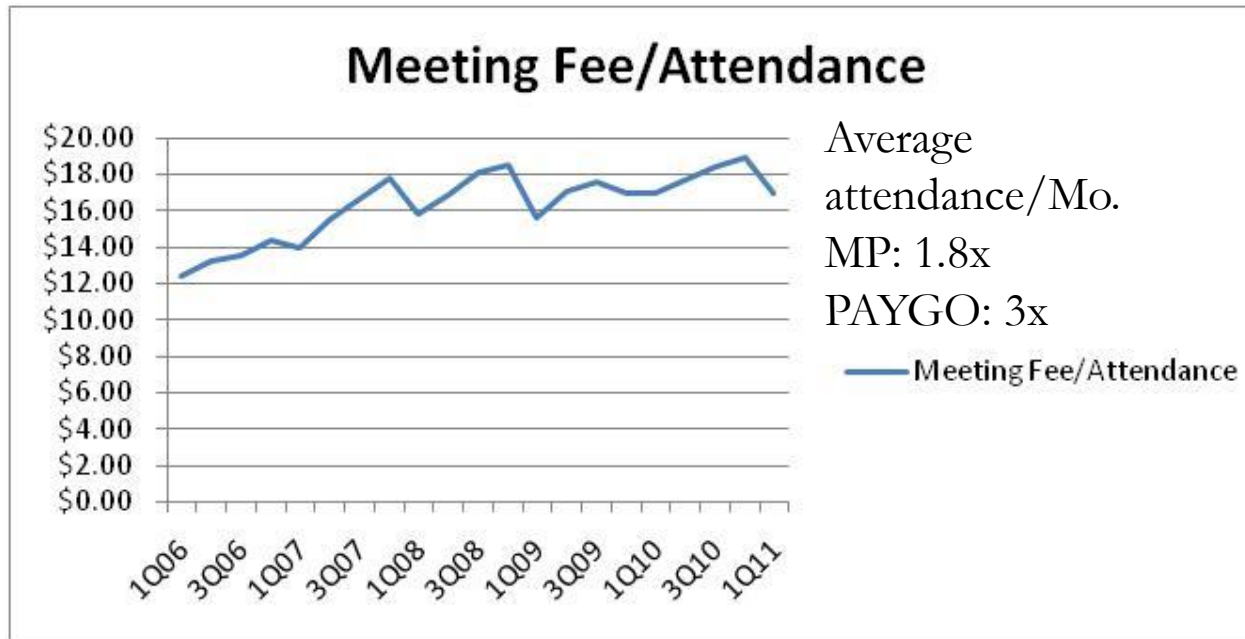
- MP members are worth more than PAYGO members
- MP was launched in Q3 2006

Reasons for reverse conversion:

- MP member realized PointsPlus is uneconomical given actual attendance
- A poor economic outlook would render MP first to go in discretionary spending



MP saturation and unsustainable recent growth make reverse conversion or membership decline plausible

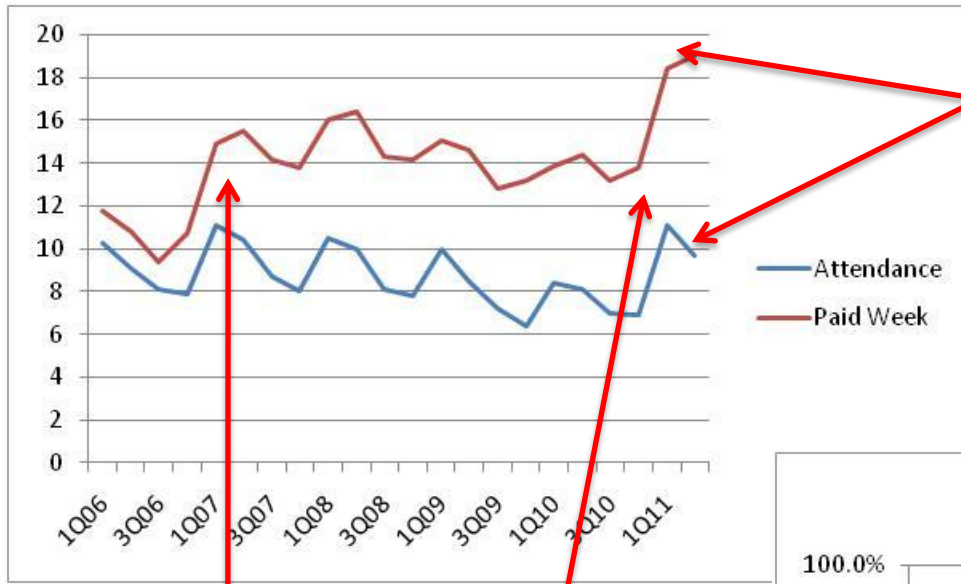


2005-2008

- Average meeting fee/attendance rose 7.1%, 18.9% and then 8.4%
- Average meeting fee \$12.45 → \$17.96

2008-2010 shows stagnant growth → saturation?

MP saturation and unsustainable recent growth make reverse conversion or membership decline plausible

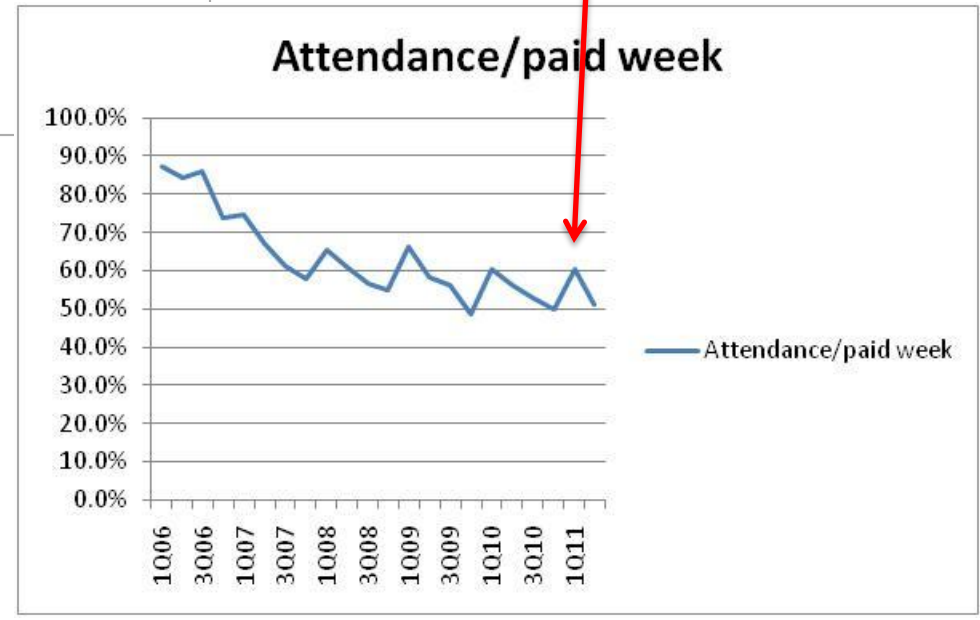


Members aren't attending more, they are just paying more. Average MP duration is 8 months

Real organic growth Q1 (bulls rally) but back down in Q2

Effect of MP

Effect of PointsPlus



WTW masks its weak internal management, red tape, and poor treatment of leaders with new products and marketing

Two cultures at WTW:

1. Traditional corporate meetings base culture
2. Start-up WWO culture



Heavy Artal involvement



High employee turnover



IT bottleneck



Poor treatment of leaders, leading to high turnover



Unsustainable business

WVO cannibalizes the higher-margin meetings business

WVO strategy: take advantage of demographic shift from one at-home parent going to meetings to two working adults needing a more convenient weight-loss solution. WVO has been growing 20% yoy since 2005

SIGN UP FOR \$1 when you buy our 3-month savings plan

3-Month Savings Plan

Sign-up fee	\$29.95
First 3 months (Monthly fee \$17.95)	\$53.85
Your Savings	-\$28.95*
Total	\$54.85

Special Offer
Sign Up For \$1
Choose this option to get our best offer and you can start reaching your goals today.

HURRY!
OFFER ENDS SATURDAY!

Standard Monthly Plan

Sign-up fee	\$29.95
Monthly Fee	\$17.95
Total	\$47.90

ONLINE	Standard	3Mo. Savings \$1 Regfee
Registration fee	\$29.95	\$1
First 3 mo.	\$53.85	53.85
Cost/mo.	\$17.95	\$17.95
Average duration	9 mo.	9 mo.
Total cost	\$191.50	\$162.55

Every MP member who doesn't renew = loss of 49% in revenues (MP generates \$319.60/yr).

If

- WVO GM 90%
- Meetings GM 50%

Then

- WVO member worth \$146.30
- MP member worth \$159.80

WVO competes with multiple free weight-loss platforms

WWO competes in a low barriers to entry and low switching cost industry

Macro-societal factors move towards a more mobile lifestyle

WWO's purpose: strengthen membership retainment

Over 60% of members each year are rejoins. The Re-engagement program offers promotions such as 1mo. free off an 11 week duration.

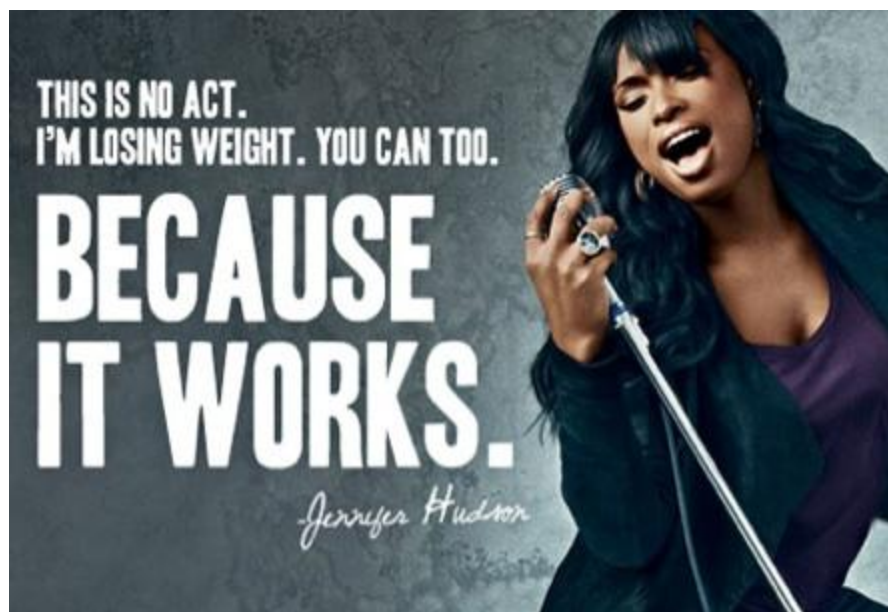
Competes with SparkPeople.com and multiple iPhone apps.

WTW mobile lacks value; you have to be a member to use it



Catalyst: The Jennifer Hudson Campaign and PointsPlus' recent success set very tough comps on high growth expectations

Can the Jennifer Hudson campaign sustain MP members past their 8 mo. duration mark and continue the explosive growth in membership?



I believe that in the back half of the year, WTW will not be able to sustain the interest of its MP and WWO past their 8 mo. inflection point in order to beat consensus estimates.

Valuation: at current prices

WTW has more potential for downside

Attendance Drivers	Mar-11 E	Jun-11 E	Sep-11 E	Dec-11 E	EFY2011E	EFY2012E	EFY2013E	EFY2014E	EFY2015E	
shrink-look at '03 or shrink years right after growth cycle										
Attendance Growth: North America			28.0%	19.0%	24.9%	34.0%	13.0%	5.0%	0.0%	End of '10 PointsPlus launched in US
x Shrink	33.1%	19.4%	-2.5%	-3.2%	11.7%	-10.8%	2.0%	-3.0%	-3.0%	exhibits '03 and '04 pullback for '11 and '12; return to -3% CAGR from '03-'10; Dukan influence via celebs
x Stable	33.1%	19.4%	10.0%	5.0%	16.9%	5.0%	2.0%	0.0%	-3.0%	Grow until end of quarter (decline growth) and then stabilize
x Grow	33.1%	19.4%	28.0%	19.0%	24.9%	34.0%	13.0%	5.0%	0.0%	Use high growth rates during boom years '01-'03 (goes public '01) w/ Points
Attendance Growth: United Kingdom			10.0%	5.0%	11.9%	3.0%	3.0%	2.0%	0.0%	End of '10 ProPoints launched in UK
x Shrink	24.1%	8.5%	-13.9%	-8.7%	2.5%	-10.0%	-3.0%	-3.0%	-3.0%	Dukan popular in UK similar to Atkins in NACO '04; Kate Middleton used it before Wedding
x Stable	24.1%	8.5%	-2.5%	-3.2%	6.7%	-10.0%	-10.0%	-3.0%	0.0%	Dukan diet initial stages of affecting UK, similar to Atkins affect on NACO '03
x Grow	24.1%	8.5%	10.0%	5.0%	11.9%	3.0%	3.0%	2.0%	0.0%	Not yielding to Dukan but losing some share
Attendance Growth: Continental Europe			-5.0%	5.0%	-9.9%	5.0%	2.0%	0.0%	-3.0%	End '09 and during '10 ProPoints launched in Europe - poor mktg, failed vs Dukan in FRA
x Shrink	-21.4%	-18.0%	-13.9%	-8.7%	-15.5%	-7.0%	-5.0%	-3.0%	-3.0%	ProPoints failed in FRA; DUKAN™ Atkins; assume perf = NACO '04
x Stable	-21.4%	-18.0%	-10.0%	-3.8%	-13.3%	-5.0%	-3.0%	-3.0%	-3.0%	ProPoints failed in FRA but may gain if Dukan wears off; return to historic overall -3% attendance
x Grow	-21.4%	-18.0%	-5%	5%	-9.9%	5.0%	2.0%	0.0%	-3.0%	Recovers v Dukan Diet
Attendance Growth: Other			7.6%	0.0%	9.4%	10.0%	5.0%	3.0%	0.0%	end of '10 launched in Australia; 3 locations in China - 2 in shanghai 1 in nanjing - JV w/ Danone (owns 51%)
x Shrink	16.7%	13.2%	-2.7%	-6.0%	5.3%	-3.0%	-3.0%	-3.0%	-3.0%	shrink by avg growth rate/quarter during '03-'10 dead years, return to historic -3% CAGR
x Stable	16.7%	13.2%	3.0%	1.0%	8.5%	1.0%	0.5%	0.0%	-3.0%	Grow until end of quarter (decline growth) and then stabilize
x Grow	16.7%	13.2%	8%	0%	9.4%	10.0%	5.0%	3.0%	0.0%	Goes public '01, intl' exp growth in '03, used '03 peak rates (less marketing focus overseas)
Meeting Fee Drivers										
Meeting Fee Growth per Attendee: NACO			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
x Shrink	-0.8%	7.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	High churn rate on attendance
x Stable	-0.8%	7.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	low churn
x Grow	-0.8%	7.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	growth on attendance/keep members hooked for longer duration
Meeting Fee Growth per Attendee: Intern			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	no opinion
x Shrink	3.3%	19.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Return to stagnant
x Stable	3.3%	19.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Slow growth
x Grow	3.3%	19.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Some growth
Product Sales Drivers										
PSG: NA by per attendance % growth			3.0%	1.0%	0.5%	1.0%	1.0%	1.0%	1.0%	Product sales erode b/c new program=frontload sales in Q1; continue decline; Q4 usually low b/c holiday
x Shrink	9.8%	-12.0%	0.1%	-1.0%	-0.8%	-1.0%	-1.0%	-1.0%	-1.0%	Q3 Q2-Q3 exhibit decline in product after 'hooked on supplies'
x Stable	9.8%	-12.0%	0.0%	0.0%	-0.5%	1.0%	1.0%	0.0%	0.0%	Product sales slowly erode as shift towards online
x Grow	9.8%	-12.0%	3.0%	1.0%	0.5%	1.0%	1.0%	1.0%	1.0%	Follow '01-'04 growth story but fast return to normal at 2012 as shift towards online
PSG: Int'l by per attendance % growth			3.0%	3.0%	5.1%	1.0%	1.0%	2.0%	1.0%	End '09 and during '10 ProPoints launched in Europe (2010 end in UK)- poor mktg, failed vs Dukan in FRA

Valuation: at current prices

WTW has more potential for downside

Franchise Comissions Drivers										Most in US(?), how do they perform 2011 v 2010	
Franchise Comissions Growth				10.0%	0.0%	12.0%	0.0%	0.0%	0.0%	0.0%	
x Shrink	38.0%	0.0%	0.0%	-5.0%	8.3%	0.0%	0.0%	0.0%	0.0%	0.0%	Decline; one-quarter trick
x Stable	38.0%	0.0%	0.0%	-3.0%	8.8%	0.0%	0.0%	0.0%	0.0%	0.0%	Novelty wears off slowly, continues decline
x Grow	38.0%	0.0%	10%	0%	12.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Peak growth/ loss in Q4 bc high churn rate, back to pre PP 2010 Q4 level
Other Drivers										heavy traffic from US ~95%+	
Weightwatchers.com, Gross Growth				50.0%	30.0%	55.2%	20.0%	12.5%	10.0%	5.0%	
x Shrink	66.4%	74.4%	10.0%	5.0%	38.9%	3.0%	3.0%	3.0%	3.0%	3.0%	9mo. Duration, one trick pony, see loss at Q4: lost both new and 'rejoiners
x Stable	66.4%	74.4%	20.0%	10.0%	42.7%	10.0%	5.0%	0.0%	0.0%	0.0%	9mo. Duration, see decent churn rates at Q4
x Grow	66.4%	74.4%	50%	30%	55.2%	20.0%	12.5%	10.0%	5.0%	5.0%	9mo. Duration, see strong churn rates at Q4
Other including Licensing Growth				5.0%	-1.6%	9.1%	1.0%	1.0%	1.0%	1.0%	
Shrink	18.3%	14.8%	5.0%	-1.6%	9.1%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	no opinion
Stable	18.3%	14.8%	5.0%	-1.6%	9.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
Grow	18.3%	14.8%	5.0%	-1.6%	9.1%	1.0%	1.0%	1.0%	1.0%	1.0%	

3 Scenarios:

1. Shrink: high churn rate + secular decline in membership
2. Stable: medium churn rate + membership hitting a plateau
3. Grow: low churn rate + membership increases

Valuation: at current prices

WTW has more potential for downside

Ticker	wtw		
Price	58.51		
	Shrink	Stable	Grow
2011 Sales	\$ 1,653	\$ 1,710	\$ 1,810
Costs	\$ 728	\$ 753	\$ 794
Gross Profit	\$ 925	\$ 956	\$ 1,017
GM	56%	56%	56%
Marketing Expens	\$ 245	\$ 253	\$ 268
SG&A	\$ 209	\$ 216	\$ 228
EBIT	\$ 472	\$ 488	\$ 521
Interest expense	\$ 63	\$ 63	\$ 63
Pre-tax profit	\$ 409	\$ 425	\$ 458
Taxes	\$ 159	\$ 166	\$ 179
Net Income	\$ 249	\$ 259	\$ 279
Diluted Shares	73	73	73
EPS/share	\$ 3.41	\$ 3.55	\$ 3.83
Consensus EPS	\$ 3.97	\$ 3.97	\$ 3.97
Miss by	\$ 0.56	\$ 0.43	\$ 0.14
Multiple	10	15	20
Price	\$ 34.14	\$ 53.22	\$ 76.57
	-41.6%	-9.0%	30.9%
	downside		upside

WTW is a Compelling Short; Price Target of \$34

