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Unraveling the Hidden Risks Behind Jenny Craig's Default

While Jenny Craig has struggled for several years, there was little indication in the financial media that bankruptcy was imminent. However, the EDF-X early warning system flagged Jenny Craig as a watchlist candidate with high credit risk more than four years ago. In this article, we highlight the value of timely early warning signals as well as underlying business factors behind credit risk trends for firms without readily available financial statement information.

Early warning credit risk, portfolio management, trade payment insights
August 4, 2023
Issue 013

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Challenge

The weight management and nutrition giant Jenny Craig (Jenny C Holdings, LCC) filed for Chapter 7 bankruptcy in May 2023. Increased competition and changing consumer preferences left the firm's lifestyle products out of favor. Meanwhile, these difficulties were compounded by the strain of significant debt obligations. The financial press picked up troubling signals a couple of weeks before the company ultimately filed for bankruptcy. But until then, there were few indications of distress.

A challenge often encountered by lenders and investors in monitoring private companies is the lack of periodically published and audited financial information. Despite this challenge, there is a need for measuring credit risk and obtaining early warning signals that facilitate forward-looking decision-making. In the case of Jenny Craig, the absence of available financial information was also complicated by its history of evolving corporate structure; the firm has passed between private equity firms since being sold by Nestle SA in 2013.

Insights

Moody's EDF-X offers a streamlined solution to the problem of critical forward-looking decision making. The platform prescores firms based on the most appropriate model and provides early warning analytics that highlight the riskiest names before a significant credit stress event occurs. The EDF-X early warning system combines two decision rules into an actionable early warning framework. The first decision rule is the distance between the firm's point-in-time one-year probability of default (PD) and a trigger[1] identifying the riskiest firms in its region/industry peer group. In the case of Jenny Craig, its peer group contains nearly 210,000 US consumer products retail and wholesale firms. The second decision rule is the year-on-year change in the firm's PD-implied rating, which measures the significance of a recent change in credit risk. The EDF-X EWS synthesizes relative-to-peers and absolute credit risk information into a simple, actionable signal that flags a firm as "severe," "high," "medium," or "low".

For private firms such as Jenny Craig for which financial information is unavailable, EDF-X leverages Moody's Pulse data to measure credit risk. Research has shown payment signals are particularly useful as early signals of credit deterioration even before such deterioration shows up in financial attributes. We look at key signals, such as the portion of prior month's tradeline balances paid off and the portion of such balances that are over 90 days late. Such metrics offer insights into underlying deleterious business trends well before a bankruptcy event.

Analysis

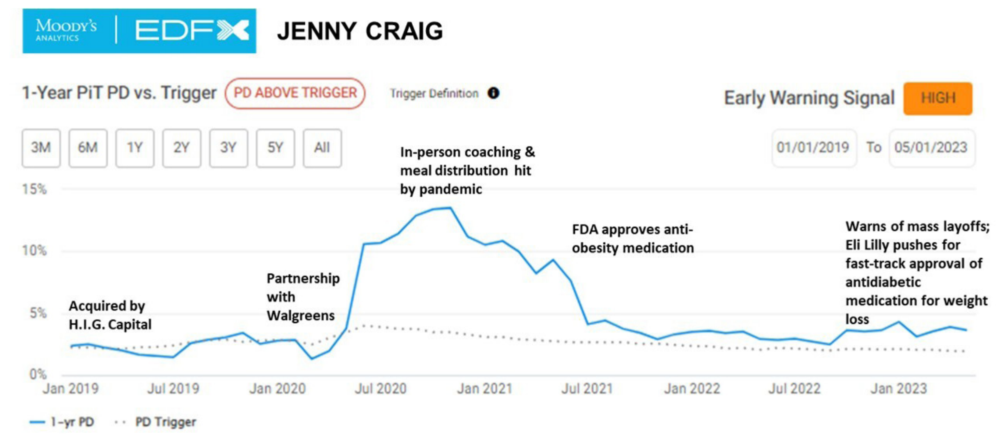
At its peak, weight management and nutrition giant Jenny Craig managed around 700 centers worldwide. The firm offered personalized meal plans, prepared meals, and coaching to its clients. Despite making some encouraging business deals, including partnering with Walgreens in January 2020 to offer services at 100 locations, the firm struggled to adapt to a shifting marketplace in recent years. Digital competitors offering plans and coaching through mobile devices proved more flexible and less costly than Jenny Craig's brick-and-mortar approach. Further, a market shift from weight loss management towards a focus on holistic health dampened demand. Such negative trends accelerated once the COVID-19 pandemic hit. The reality of lockdowns and social distancing, when combined with the rise of home-based fitness solutions, weighed heavily on Jenny Craig's in-person coaching and meal distribution. Alongside traditional competitors, such as Nutrisystem and Medifast, the company has also encountered competition from outside its traditional market since the onset of the pandemic. Rapid developments in weight loss and antidiabetic drugs, such as Wegovy and Mounjaro, have shaken up the industry pressuring Jenny Craig and its peers. Compounding matters, the firm had also accumulated roughly $250 million in debt with a loan coming due in October 2024. After failing to secure a buyer, the firm was forced to liquidate its North American operations.

> "EDF-X early warning system flagged Jenny Craig as a watchlist candidate with high credit risk more than four years ago."

[1]The trigger threshold is a PD level computed according to a pre-specified peer percentile, adjusting for credit cycle and small sample effects.

EDF-X's early warning system identified Jenny Craig as a deteriorating credit risk early on, as the firm's PD crossed its peer group trigger in early 2019 (Figure 1). The PD then experienced a steep spike and breached the trigger in May 2020 during the pandemic. Despite a subsequent drop in the PD as in-person business partially normalized, the PD has since remained above the trigger and the firm has been considered a high risk. To understand the trends behind Jenny Craig's deteriorating financial position, we examine the firm's payment data.

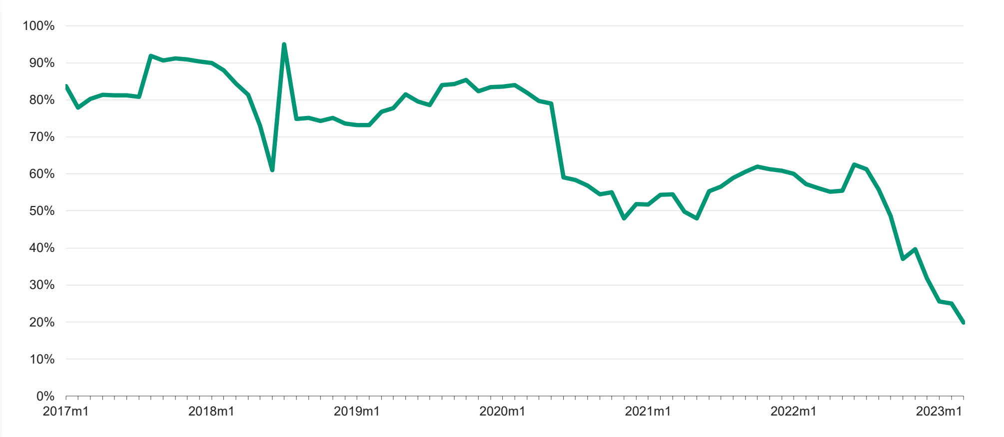
Figure 1 **EDF-X identified Jenny Craig's elevated credit risk as early as January 2019**



EDF-X leverages Moody's Pulse dataset, which includes detailed firmographic and business-to-business trade payment information for roughly eight million firms. Starting in 2013, Moody's Pulse dataset tracks trade patterns across firms using information from suppliers' tradelines. The dataset also includes consolidated tradelines by aging buckets (current, 1 to 30, 31 to 60, 61 to 90, and 90 plus days past due), reporting the dollar-weighted days beyond term, the number of tradelines considered, payment ratings, and whether a firm's payment behavior has improved or deteriorated in the recent months. Finally, Moody's Pulse dataset includes smoothed time series for firm spending by categories such as shipping, materials, and operations, which are useful metrics in identifying aggregate trends that affect a business.

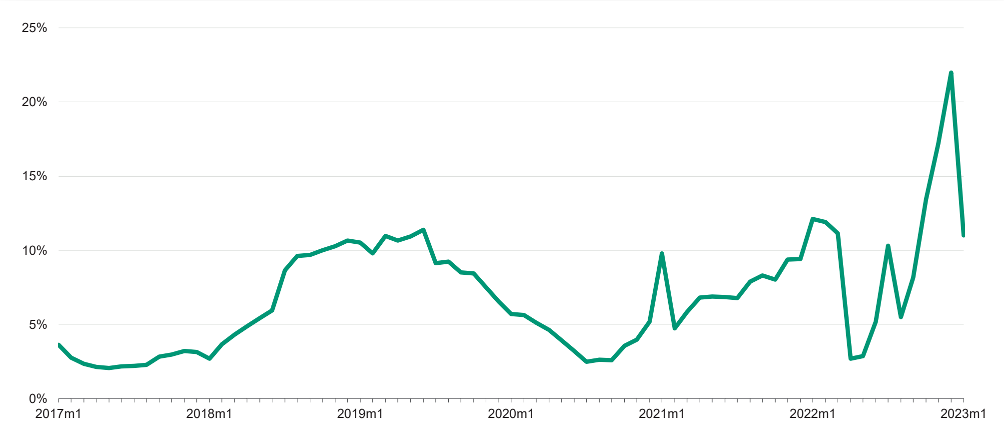
We focus on three signals that contributed significantly to changes in Jenny Craig's PD prior to its bankruptcy: the 12-month moving average share of tradeline balances from the past month that are paid off, the 12-month moving average share of tradeline balances that are more than 90 days past due date, and total spending. These signals indicate Jenny Craig was facing significant stress in mid-2020. The firm's payment rate sharply dropped shortly after the onset of the pandemic and then steadily declined in the second half of 2022 (Figure 2). Such behavior is an indication of a cash liquidity crunch as decreased earnings forced managers to direct funds to higher priority obligations such as payroll at the expense of other owed accounts.

Figure 2 **Share of prior month's balance paid during the current month – 12-month moving average, %**



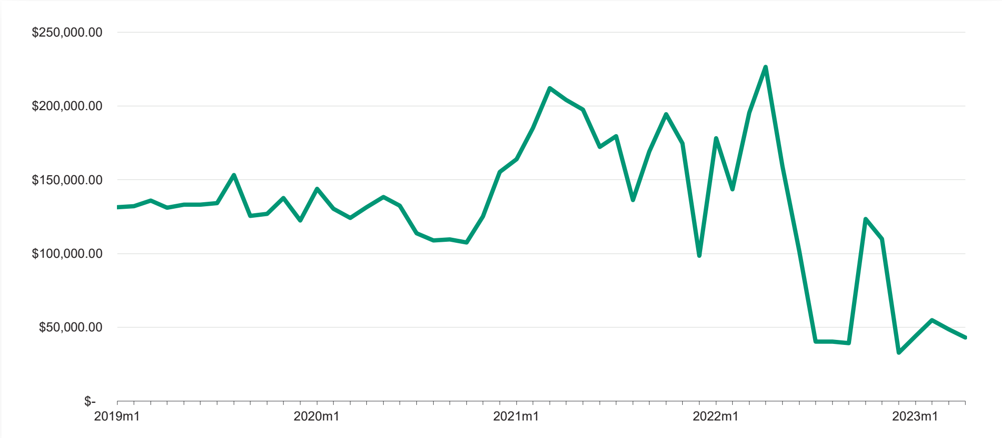
Financial stress is also evident in the late payment rate data. As seen in Figure 3, Jenny Craig's share of 90-day late payments steadily increased from late 2020 through early 2022, suggesting its financial position was deteriorating, leaving the firm further and further behind on accounts payable.

Figure 3 Share of balances 90 days delinquent – 12-month moving average, %



Finally, firm level spending data suggests Jenny Craig began to collapse in the summer of 2022. As seen in Figure 4, spending fell by more than 75% over the course of three months. This sharp shift in outlays is associated with firm closures.

Figure 4 Total monthly spend, $



By incorporating trade payment data and synthesizing the model outputs with the EDF-X early warning system, Jenny Craig would have been identified by users as a persistently elevated credit risk at least three years before its ultimate bankruptcy.

Key Takeaways

» Timely and forward-looking credit risk signals from EDF-X identified Jenny Craig as a credit risk as early as 2019.

» The firm has been persistently placed on a watchlist since May 2020, three years before it ultimately filed for bankruptcy.

» Full financial information for Jenny Craig is limited. However, by using detailed trade payment patterns available in Moody's Pulse dataset, EDF-X was able to offer an accurate and timely early warning signal.

Learn More About EDF-X

EDF-X, Moody's flagship solution for accelerated financial risk insights and early warning signals, pre-calculates credit measures for 450+ million companies globally – public and private, rated and unrated – using the best data available and provides customized views for a range of business and credit decisions.

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