

# 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

## Authors



Kyle Hillman

Associate Director

Kyle is a researcher in the Predictive Analytics unit at Moody's Analytics focusing on corporate and consumer credit trends.

[Kyle.Hillman@moodys.com](mailto:Kyle.Hillman@moodys.com)



Suneil Parimoo, PhD

Assistant Director

Suneil is a researcher in the Predictive Analytics unit at Moody's Analytics focusing on public firm credit risk and valuation models.

[Suneil.Parimoo@moodys.com](mailto:Suneil.Parimoo@moodys.com)



Anamaria Pieschacon, PhD

Managing Director

Anamaria is Managing Director of Corporate Credit Research in the Predictive Analytics unit at Moody's Analytics. She heads the single-obligor research team, managing the RiskCalc, CreditEdge, and EDF-X modeling and analytics processes.

[Anamaria.Pieschacon@moodys.com](mailto:Anamaria.Pieschacon@moodys.com)

## 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<sup>1</sup> 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

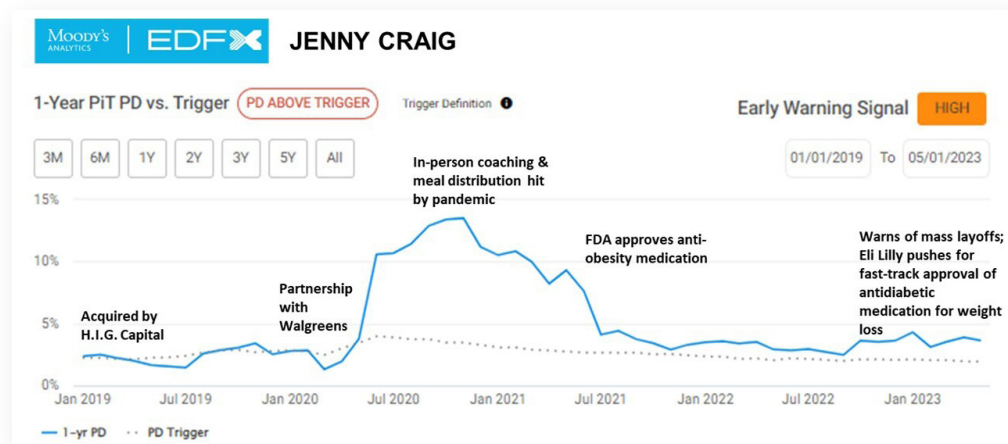
At its peak, weight management and nutrition giant Jenny Craig managed around 700 centers worldwide. The firm offered personalized meal plans, prepared meals, and coaching to its clients. Despite making some encouraging business deals, including partnering with Walgreens in January 2020 to offer services 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. ”

<sup>1</sup>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.

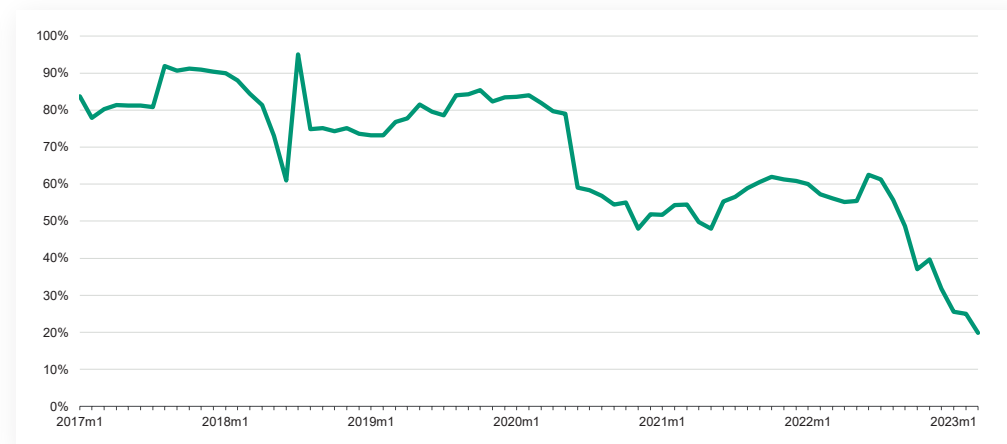
**Figure 1** EDF-X identified Jenny Craig's elevated credit risk as early as January 2019



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.

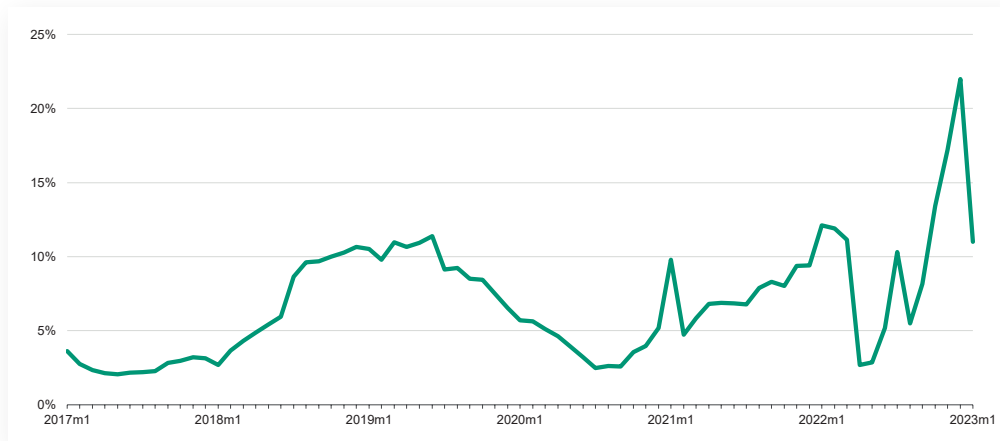
We focus on three signals that contributed significantly to changes in Jenny Craig's PD prior to its bankruptcy: the 12-month moving average share of tradeline balances from the past month that are paid off, the 12-month moving average share of tradeline balances that are more than 90 days past due date, 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, %



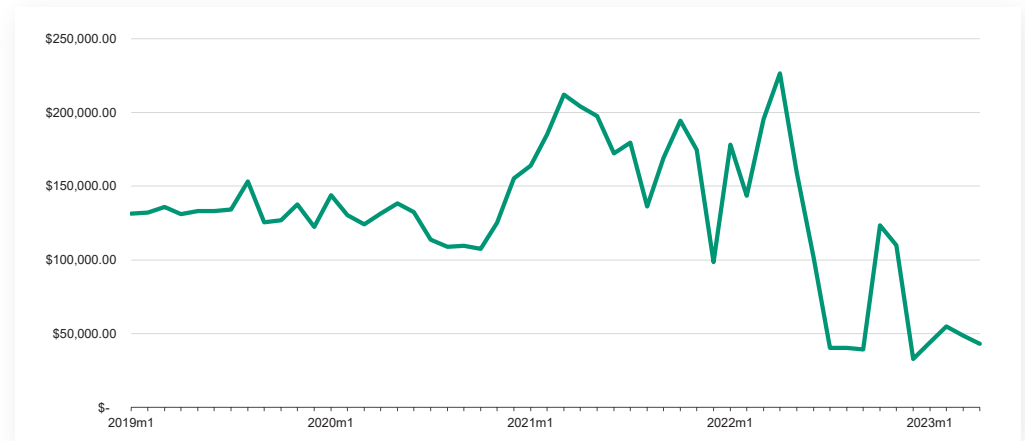
Financial stress is also evident in the late payment rate data. As seen in Figure 3, Jenny Craig's share of 90-day late payments steadily increased from late 2020 through early 2022, suggesting its financial position was deteriorating, leaving the firm further and further behind on accounts payable.

**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.

### Contact Us

Ryan Donahue – Customer Insights  
[ryan.donahue@moodys.com](mailto:ryan.donahue@moodys.com)  
 +1.212.553.3903

James Partridge – Risk Solutions Practice  
[james.partridge@moodys.com](mailto:james.partridge@moodys.com)  
 +1.416.681.2153

[See the full list of Analytics In Action articles](#)



© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.