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Jenny Craig Founders Are Selling Chain in \$115 Million Deal

By GREG WINTER

Sid and Jenny Craig have found a buyer for their weight-loss chain after a nine-month search, during which the company's shares slipped off the New York Stock Exchange.

A group of investors led by ACI Capital and DB Capital Partners, an investment wing of Deutsche Bank, announced yesterday that it would pay \$5.30 a share for Jenny Craig Inc., a 68 percent premium over its trading price last Friday and significantly more than the stock has been worth the last two years.

Under the terms of the deal, valued at about \$115 million, the Craigs will give up their 67 percent stake and take a back seat in the business they have clung to so tightly since starting it nearly 20 years ago.

Mr. Craig will remain on the board; Kent Kreh, the former head of his rival, Weight Watchers, will succeed him as chairman.

The Craigs will retain a minority stake in the company, but Mr. Craig will step down as chief executive.

"Sid felt it was time to basically pass the baton onto the next group," said Stephen A. Koffler, president of Koffler & Company, the investment firm hired to arrange a sale.

The company said the future role of Ms. Craig, who is currently on the board, had not been determined.

Increasingly snubbed by a public in search of quick weight loss, whether from a pill or a frothy shake, Jenny Craig has struggled to remain relevant the last several years.

Now that weight-loss guarantees pour freely from the Internet and so-called miracle pills abound at the pharmacy, the understated storefront centers and personal trainers that once gave Jenny Craig an advantage have come to represent its greatest weaknesses. The company, shackled by costly leases and trained employees whom it must pay, has shut roughly 100 of 767 stores worldwide. Its sales have dipped accordingly, leading to a string of losses.

It also ran into trouble with regulators. In 1997, it entered a consent decree with the Federal Trade Commission and promised not to inflate the benefits of its dieting plan.

Even with the wildly popular weight-loss drug combination known as fen-phen, Jenny Craig seemed to be caught in a trend it could not quite correctly time. First, it resisted as its competitors cashed in by promoting the drugs. Then, Jenny Craig followed suit, only to lose upward of \$15 million when the drugs were deemed unsafe in 1997.

Now consumers are turning to a new generation of safer prescription pills, while Jenny Craig has vowed not to venture beyond recommending that clients eat right and lose weight slowly.

Perhaps its worst public relations blunder came at the close of 1999, when it hired Monica S. Lewinsky as its spokeswoman. Only a month after the commercials appeared, they were snatched off the air. "Why would women look up to her as a role model?" said John LaRosa, president of Marketdata Enterprises, an industry research firm in Tampa, Fla. "It was a fiasco."

Jenny Craig's troubles showed up plainly in its stock price. After peaking above \$30 in the early 1990's, the shares have mostly been below \$5 since 1999. When the New York Stock Exchange threatened to delist the company unless its market value rose above \$50 million, the Craigs offered to buy out the 30 percent they did not own in June 2000. Then even they rescinded the offer two months later because the company's prospects appeared so bleak.

Last August, the Big Board finally did delist Jenny Craig, and the shares began trading over-the-counter. But even as the directors looked for a suitor, a turnaround began, led by the president, Patricia A. Larchet.

In the last two quarters, Jenny Craig has posted a profit, attracting bidders to the auction that ended yesterday. The stock rose 62.5 percent yesterday, to \$5.12.