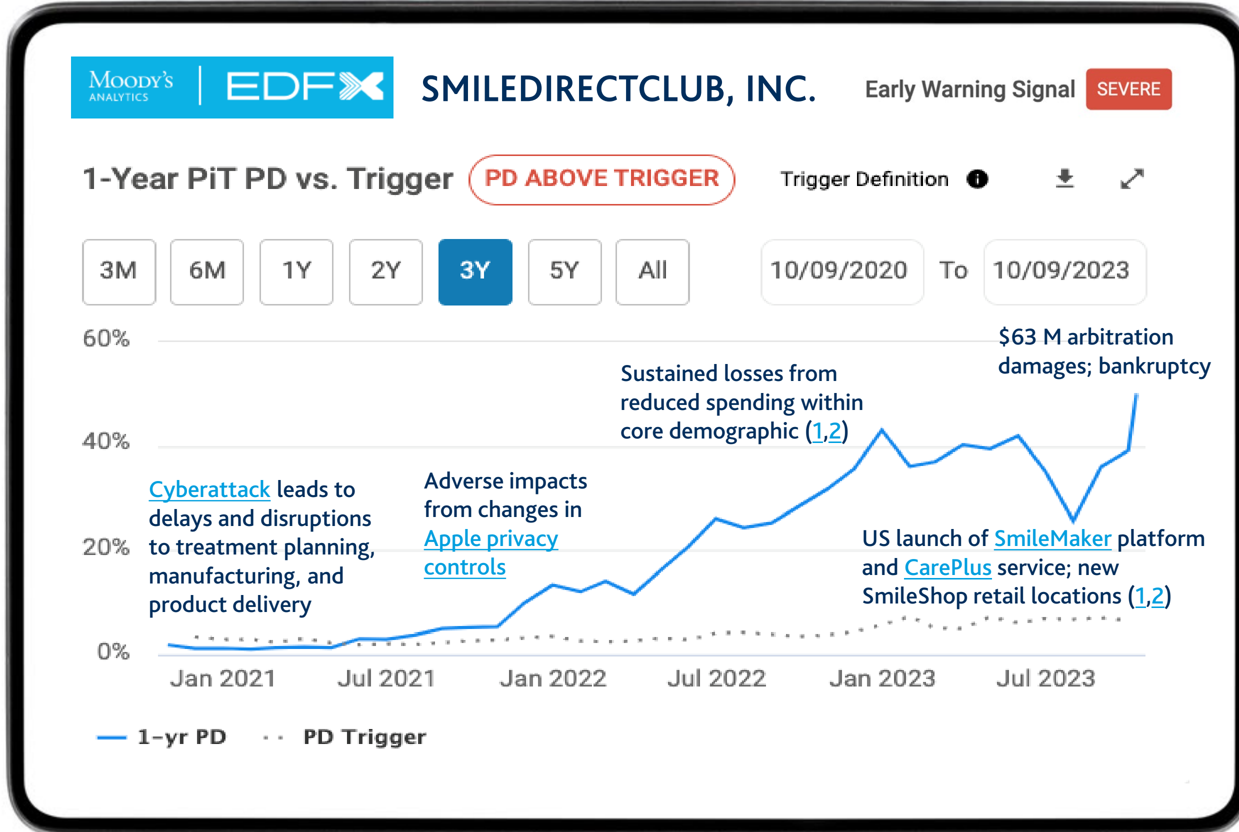
MOODY'S ANALYTICS | EDFX

CASE STUDY: SMILEDIRECTCLUB

SmileDirectClub Faced Shifting Consumer Spending Trends And Legal Challenges That Left It Unable To Obtain Third-party Financing



ANALYSIS

Founded in 2014, SmileDirectClub, Inc. (SDC) is an oral care company and creator of the first D2C medtech platform for teeth straightening. The EDF-X early warning system has persistently flagged the firm as a watchlist candidate with elevated credit risk from May 2021 onward. SDC enjoyed many innovative strides, with over 50 patents in orthodontic treatment planning, aligner manufacturing, smile scanning technologies, and its proprietary telehealth platform, among others.

Despite its telehealth care model, the company still struggled amid the pandemic-driven e-commerce boom between macroeconomic headwinds of supply chain disruptions and labor shortages. In addition, SDC faced several legal challenges, including a consumer protection lawsuit that it settled, and an arbitration proceeding brought by a competitor for which it was ordered to pay $63 Million in damages. Reduced spending from the low- to middle-income target demographic led to sustained losses, with annual revenue falling by over 37% from 2019 to 2023.

While SDC pushed cost-cutting measures and innovations that refocused toward higher-income segments, it was ultimately unable to mitigate its top-line challenges. With limited liquidity and unable to obtain third-party financing, SDC filed for Chapter 11 bankruptcy with over $1 Billion in liabilities (mostly in unsecured convertible notes).

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