

Bed Bath & Beyond Inc. (BBBY)

\$11.79 (As of 02/12/20)

Price Target (6-12 Months): **\$10.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: D

Momentum: A

Summary

Shares of Bed Bath & Beyond have declined and underperformed the industry in the past three months. The stock was recently hit when the company posted soft financial numbers for the first two months of fourth-quarter fiscal 2019. Management stated that the company is facing short-term hurdles in its efforts to stabilize the business. Notably, it is witnessing soft store traffic trends, along with challenges in execution. The company reported comparable sales decline of 5.4% for the first two months. Gross margin for the aforesaid period decreased 300 basis points (bps) while adjusted SG&A, as a percentage of net sales, grew 190 bps. Nevertheless, Bed Bath & Beyond's transformation initiatives are well underway to deliver growth in the long term. Also, store-rationalization efforts to drive sales look encouraging.

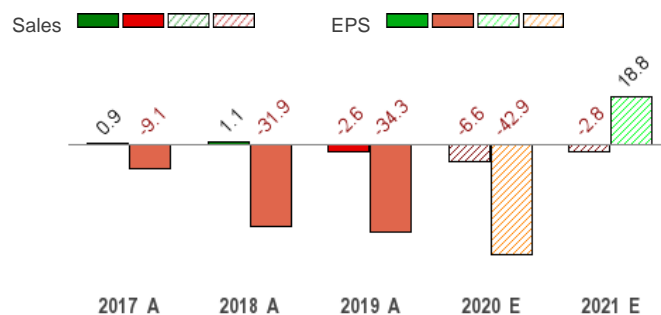
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.57 - \$7.31
20 Day Average Volume (sh)	8,975,929
Market Cap	\$1.5 B
YTD Price Change	-31.9%
Beta	1.41
Dividend / Div Yld	\$0.68 / 5.8%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Bottom 26% (188 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1,366.7%
Last Sales Surprise	-3.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/08/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,476 E	2,623 E	2,748 E	3,134 E	10,923 E
2020	2,573 A	2,719 A	2,759 A	3,182 E	11,239 E
2019	2,754 A	2,935 A	3,032 A	3,308 A	12,029 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.11 E	\$0.22 E	-\$0.21 E	\$1.26 E	\$1.39 E
2020	\$0.12 A	\$0.34 A	-\$0.38 A	\$1.10 E	\$1.17 E
2019	\$0.32 A	\$0.36 A	\$0.18 A	\$1.20 A	\$2.05 A

*Quarterly figures may not add up to annual.

P/E TTM	9.2
P/E F1	10.1
PEG F1	10.1
P/S TTM	0.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/12/2020. The reports text is as of 02/13/2020.

Overview

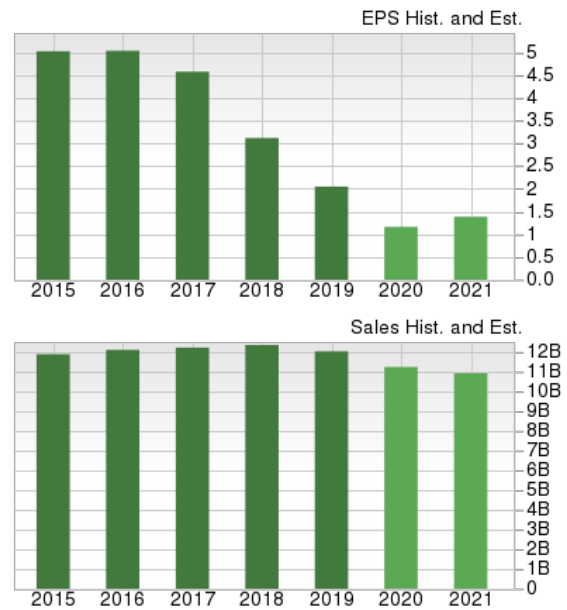
Bed Bath & Beyond Inc. is a leading operator of specialty retail stores in the United States and Canada. It is an omni-channel retailer, offering top-quality and differentiated products, services and solutions.

The company sells a variety of domestic merchandise and home furnishings under the names Bed Bath & Beyond ("BBB"), Christmas Tree Shops, Christmas Tree Shops and That! or and That! ("CTS"), Harmon, Harmon Face Values, or Face Values ("Harmon"), buybuy BABY ("Baby") and World Market, Cost Plus World Market or Cost Plus (collectively, "Cost Plus World Market").

The company provides a wide assortment of "everyday low price" products, primarily including domestic merchandise (such as bed linens, bath accessories, and kitchen textiles) and home furnishings (such as cookware, dinnerware, glassware and basic house ware). Bed Bath's product portfolio also includes food, giftware, health and beauty care items, along with infant and toddler merchandise. Notably, Bed Bath & Beyond's products can be bought either in-store, online, or via a customer contact center.

Additionally, the company operates an e-commerce website, featuring specially commissioned, limited edition items from emerging fashion and home designers such as OneKings Lane; PersonalizationMall.com ("PMall"); Chef Central, a retailer of kitchenware and homeware items; and Decorist, an online interior design platform providing personalized home design services. It also operates Linen Holdings, a provider of various textile products and other goods to institutional consumers in the hospitality, cruise line, healthcare and other industries.

As of Nov 30, 2019, the company had 1,524 stores in operation, comprising 981 namesake stores across 50 states, the District of Columbia, Puerto Rico and Canada; 278 stores under the labels World Market, Cost Plus World Market or Cost Plus; 126 buybuy BABY stores; 81 stores under the labels Christmas Tree Shops, Christmas Tree Shops and That! or and That!; 55 stores under Harmon, Harmon Face Values or Face Values names; and three stores under the label One Kings Lane. Additionally, the company's joint venture operates 10 flagship stores in Mexico.



Reasons To Sell:

- ▼ **Soft Fourth Quarter Performance Update, Stock Down:** Shares of Bed Bath & Beyond have declined 14.6% in the past three months against the industry's growth of 3.4%. The stock was recently hit when the company posted soft financial numbers for the first two months of fourth-quarter fiscal 2019. Management stated that the company is facing short-term hurdles in its efforts to stabilize the business. The company reported comparable sales decline of 5.4% for the first two months. Comparable sales decreased around 11% (on a directional basis) from stores.

Gross margin for the aforesaid period decreased 300 basis points (bps) owing to lower merchandise margin due to increased promotions. Additionally, the company's gross margin was hurt by increased proportion of digital sales within its total sales mix. Adjusted SG&A, as a percentage of net sales, rose 190 bps due to increased fixed cost like occupancy and technology-related expenses, on lower sales. Moreover, higher advertising and consulting expense contributed to the increase.

- ▼ **Weak Comps Trend:** Bed Bath & Beyond has been witnessing soft comparable sales (comps) for a while due to decline in the number of store transactions. This trend was again reflected in the company's recent update for the first two months of fourth-quarter, wherein comps remained soft. Comparable sales decline in the first two months reflected a low double-digit percentage decline in transactions in stores, partly countered by a mid-single-digit percentage rise in the average transaction amount. The decline can be attributed to soft store traffic, issues related to inventory management and higher promotional activity and markdowns.

The company's comparable sales also include the shift of the Cyber Monday holiday week into the fiscal fourth quarter of 2019, compared with fiscal third quarter in the last year. Adjusting for this shift in both periods, comparable sales declined 13% for the first two months of the fiscal fourth quarter. The comps decline in fiscal third quarter was wider than fall of 6.7% and 6.6% in the preceding two quarters of fiscal 2019.

- ▼ **Currency Woes:** Owing to its exposure to international markets, Bed Bath & Beyond faces various risks associated with international operations, including legal and regulatory hurdles, changing global fashion trends and unfavorable currency fluctuations. Hence, persistence of these headwinds is likely to weigh on the company's results.

- ▼ **Seasonal Risks:** Bed Bath & Beyond's business is seasonal in nature and typically generates stronger results in the second and fourth quarters. As a result, the company is exposed to significant risks if the seasons fail to deliver favorably.
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Bed Bath & Beyond has been witnessing soft comps for a while now due to decline in the number of store transactions. Also, dismal comps trend is hurting the company's top-line performance.

Risks

- **Transformation Plan Drives Optimism:** Bed Bath & Beyond remains well on track with its transformation plan, positioning itself well for success in a dynamic retail landscape. As part of these efforts, the company has been reviewing the retail space and owned real estate portfolio to optimize asset base. Recently, it completed the sale-leaseback transaction with an affiliate of Oak Street Real Estate Capital, garnering net proceeds of more than \$250 million. The deal includes roughly 2.1 million square feet of commercial space with a distribution facility, corporate office in New Jersey and retail outlets. Management notified that it will continue to occupy the aforesaid space through long-term leases. Notably, Bed Bath & Beyond will reinvest these proceeds in its core business and ongoing transformation efforts. Also, the proceeds will enable the company to make share repurchases and reduce outstanding debt.

Moreover, management has set four major near-term priorities – stabilize and boost top-line growth; reset the cost structure; review and optimize its asset base with its portfolio of retail banners as well as refine the organization structure. It expects to boost revenue growth by focusing on portfolio strategy alignment including product assortment, customer engagement, learnings from Next Generation Lab stores and expanded online experience. Margins are likely to improve through changes in assortment mix to increase sales, supply chain, and modifications in pricing and coupon strategy. Improvements in store labor model, marketing initiatives and lower occupancy expenses are expected to optimize SG&A. Furthermore, the company will focus on spending in human capital, data, process improvements, repositioning its flagship brand and reinforcing the global sourcing capabilities.

- **Store-Rationalization Efforts to Drive Sales:** Bed Bath & Beyond is in the process of strategically expanding its store count apart from increasing productivity of existing stores by adjusting the breadth and depth of its merchandise offerings to suit customer preferences. In fiscal third quarter, Bed Bath & Beyond inaugurated four stores — one namesake, two Cost Plus World Market and one One Kings Lane stores. Simultaneously, it closed 14 outlets, including 13 namesake and one Cost Plus World Market stores. In fiscal 2019, the company is on track to open nearly 10 total stores, including two flagship outlets. In the long run, it expects to operate more than 1,300 Bed Bath & Beyond stores across the United States and Canada, and also plans to expand other concepts from coast to coast. Moreover, the company remains focused on expanding, renovating and relocating stores to adapt to the changing market conditions. Additionally, the Next Generation Lab stores, where it is testing various experiences and visual merchandising, are expected to boost customer experience, and in turn, drive sales and profitability.
 - **Impressive Shareholder-Friendly Moves:** Bed Bath & Beyond's ability to generate optimum operating cash flow has helped in the execution of its long-term strategies such as store expansion, enhancement of product and brand offerings as well as building operational infrastructure. Additionally, the company remains committed to maximize shareholders' value through share repurchases. During fiscal third quarter, the company bought back stock worth nearly \$1.2 million or about 87,000 shares. Moreover, it declared a quarterly cash dividend of 17 cents per share, payable of Apr 14, 2020. These moves underscore the company's cash flow generation capacity, confidence in future prospects and focus on maximizing shareholders value.
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Last Earnings Report

Bed Bath & Beyond Reports Q3 Loss, Misses Sales

Bed Bath & Beyond reported dismal third-quarter fiscal 2019 results, wherein the company incurred a loss. Moreover, the top line lagged the Zacks Consensus Estimate and declined on a year-over-year basis.

Results were mainly hurt by the calendar shift of the Thanksgiving holiday in 2019. Apart from this, the company's business was challenged with certain self-inflicted issues such as noncompetitive pricing and dearth of convenient shopping choices. Management stated that sales and profitability are likely to be under pressure in fiscal fourth quarter.

Quarter Ending **11/2019**

Report Date	Jan 08, 2020
Sales Surprise	-3.17%
EPS Surprise	-1,366.67%
Quarterly EPS	-0.38
Annual EPS (TTM)	1.28

Q3 in Detail

Bed Bath & Beyond reported adjusted loss of 38 cents per share in fiscal third quarter, against the Zacks Consensus Estimate of an earnings of 3 cents. Also, the reported figure compared unfavorably with adjusted earnings of 2 cents in the year-ago quarter.

Net sales fell nearly 9% to \$2,759.3 million and lagged the Zacks Consensus Estimate of \$2,859 million. The downside was caused by comparable sales (comps) decline of 8.3%. Comps fell due to lower store transactions, somewhat offset by a rise in the average transaction amount. In fact, comps in stores fell in high single-digit percentage range, while the metric at the company's digital channel fell in mid-single digit percentage range.

Notably, quarterly sales were significantly hurt by calendar shift of the Thanksgiving holiday, which fell short of one week compared with the year-ago period. Adjusting for this shift, including Thanksgiving and Cyber Monday weeks, comps fell 3.6% in the reported quarter. The decline of 3.6% resulted from a fall of 6.5% in store sales, somewhat offset by a rise of 9.4% in digital sales.

Nevertheless, comps on a shifted basis increased 7.1% during the five-day shopping period from Thanksgiving to Cyber Monday.

Further, gross profit declined nearly 9% to \$913.8 million in the reported quarter. Also, adjusted gross margin contracted 80 basis points (bps) to 32.3%, mainly driven by lower merchandise margins on increased promotional activity and partly offset by a decline in net direct to customer shipping expense.

Adjusted SG&A expenses dropped 2.3% to \$931.8 million, driven by gains from its cost structure and optimization efforts. As a percentage of net sales, SG&A increased 140 bps to 33.8% mainly owing to higher occupancy, advertising and technology-related costs. Further, the company incurred operating loss of \$29.8 million against income of \$49.5 million in the year-ago quarter.

Financial Position

Bed Bath & Beyond ended fiscal third quarter with cash and investments of roughly \$920 million. Long-term debt totaled \$1,488.3 million and total shareholders' equity came in at \$1,848.2 million as of Nov 30, 2019.

At the end of first nine months of fiscal 2019, the company generated cash flow of about \$257.1 million from operating activities and deployed nearly \$188.4 million toward capital expenditures.

For fiscal 2019, capital expenditures are anticipated between \$275 million and \$300 million compared with \$350-\$375 million expected earlier.

Share Buyback & Dividend

In the reported quarter, Bed Bath & Beyond repurchased stock worth nearly \$1.2 million, reflecting about 87,000 shares.

Additionally, the company's board declared a quarterly dividend of 17 cents per share, payable Apr 14, 2020, to its shareholders of record as on Mar 13.

Store Update

In third-quarter fiscal 2019, Bed Bath & Beyond inaugurated four stores — one namesake, two Cost Plus World Market and one One Kings Lane stores. Simultaneously, it closed 14 outlets, including 13 namesake and one Cost Plus World Market stores.

As of Nov 30, 2019, the company had 1,524 stores in operation, comprising 981 namesake stores across 50 states, the District of Columbia, Puerto Rico and Canada; 278 stores under the labels World Market, Cost Plus World Market or Cost Plus; 126 buybuy BABY stores; 81 stores under the labels Christmas Tree Shops, Christmas Tree Shops and That! or and That!; 55 stores under Harmon, Harmon Face Values or Face Values names; and three stores under the label One Kings Lane.

Additionally, the company's joint venture operates 10 flagship stores in Mexico.

During the current fiscal year, the company is on track to open nearly 10 total stores, including two flagship outlets.

Recent News

Bed Bath & Beyond Provides Update on Q4 Performance – Feb 11

Bed Bath & Beyond provided financial numbers for December and January - the first two months of fourth-quarter fiscal 2019. The company reported comparable sales decline of 5.4% for the first two months. Comparable sales decreased around 11% (on a directional basis) from stores. Meanwhile, comparable sales improved 20% in the digital business. The company's comparable sales also reflect gains from shift of the Cyber Monday holiday week into the fiscal fourth quarter of 2019, compared with fiscal third quarter in the last year. Adjusting for this shift in both periods, comparable sales declined 13% for the first two months of the fiscal fourth quarter.

Gross margin for the aforesaid period decreased 300 basis points (bps) owing to lower merchandise margin due to increased promotions. Additionally, the company's gross margin was hurt by increased proportion of digital sales within its total sales mix.

Bed Bath & Beyond Sale-Leaseback Deal to Enhance Capital – Jan 6, 2020

Bed Bath & Beyond has completed the sale-leaseback transaction with an affiliate of Oak Street Real Estate Capital, garnering net proceeds of more than \$250 million. The deal includes roughly 2.1 million square feet of commercial space with a distribution facility, office space and retail outlets. Management notified that it will continue to occupy the aforesaid space through long-term leases.

Notably, Bed Bath & Beyond will reinvest these proceeds in its core business and ongoing transformation efforts. Also, the proceeds will enable the company to make share repurchases and reduce outstanding debt. Per the company, the completion of this transaction marks the first step toward generating valuable capital in its business. This will facilitate Bed bath & Beyond to capitalize on its plans to strengthen organization and make it more efficient. This will enhance revenues, stabilize finances and boost shareholder's value.

Bed Bath & Beyond Announces Leadership Changes – Dec 17, 2019

Bed Bath & Beyond declared an extensive restructure of its leadership team, including the departure of six senior members. This brave pivot is part of the new President and CEO, Mark Tritton's new vision for the company, which will be shared in early 2020. The new team will be in charge of streamlining decision-making, accelerating the pace of transformation, and re-establishing Bed Bath & Beyond's authority in the home space through a more customer focused, omni-channel retail operation, a redefined product assortment, and a more convenient and inspirational shopping experience.

Valuation

Bed Bath & Beyond shares are down 31.8% in the year-to-date period and 29.2% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 0.3% and 5.9%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is down 12.7% while the sector is up 20.3%.

The S&P 500 index is up 5% in the year-to-date period and 22.2% in the past year.

The stock is currently trading at 8.56X forward 12-month earnings, which compares to 15.21X for the Zacks sub-industry, 26.22X for the Zacks sector and 19.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15X and as low as 3.72X, with a 5-year median of 8.56X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$10 price target reflects 7.26X forward 12-month earnings.

The table below shows summary valuation data for BBBY

Valuation Multiples - BBBY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.56	15.21	26.22	19.41
	5-Year High	15	20.29	26.22	19.41
	5-Year Low	3.72	13.74	19.07	15.18
	5-Year Median	8.56	16.08	23	17.47
P/S F12M	Current	0.14	1.13	1.09	3.58
	5-Year High	1.18	1.36	1.1	3.58
	5-Year Low	0.08	0.95	0.8	2.54
	5-Year Median	0.34	1.15	0.92	3
EV/EBITDA TTM	Current	3.5	15.41	15.71	11.36
	5-Year High	8.29	17.58	15.71	12.85
	5-Year Low	1.96	12.03	10.79	8.47
	5-Year Median	3.87	15.07	12.39	10.7

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 254)



Top Peers

DICKS Sporting Goods, Inc. (DKS)	Outperform
Genesco Inc. (GCO)	Outperform
Zumiez Inc. (ZUMZ)	Outperform
Burlington Stores, Inc. (BURL)	Neutral
Five Below, Inc. (FIVE)	Neutral
Hibbett Sports, Inc. (HIBB)	Neutral
Tractor Supply Company (TSCO)	Neutral
The Michaels Companies, Inc. (MIK)	Underperform

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	BBBY Underperform	X Industry	S&P 500	DKS Outperform	MIK Underperform	TSCO Neutral
VGM Score	A	-	-	F	A	B
Market Cap	1.50 B	1.32 B	24.53 B	3.97 B	730.99 M	11.66 B
# of Analysts	8	4	13	9	5	12
Dividend Yield	5.77%	0.00%	1.75%	2.43%	0.00%	1.42%
Value Score	A	-	-	C	A	C
Cash/Price	0.46	0.10	0.04	0.02	0.16	0.01
EV/EBITDA	5.04	7.24	13.98	10.37	6.74	14.88
PEG Ratio	9.97	1.51	2.09	2.08	0.35	1.73
Price/Book (P/B)	0.81	1.28	3.29	2.22	NA	7.44
Price/Cash Flow (P/CF)	1.39	6.15	13.69	7.53	1.49	15.33
P/E (F1)	9.97	11.42	19.19	11.89	2.24	19.46
Price/Sales (P/S)	0.13	0.36	2.68	0.46	0.14	1.40
Earnings Yield	9.92%	8.77%	5.21%	8.41%	44.78%	5.14%
Debt/Equity	1.75	0.92	0.71	1.89	-2.47	1.53
Cash Flow (\$/share)	8.51	3.35	6.92	6.01	3.35	6.43
Growth Score	D	-	-	F	B	A
Hist. EPS Growth (3-5 yrs)	-23.86%	11.59%	10.85%	3.60%	11.36%	11.81%
Proj. EPS Growth (F1/F0)	-43.11%	8.75%	7.30%	5.39%	5.30%	8.21%
Curr. Cash Flow Growth	50.18%	8.16%	8.56%	0.31%	0.85%	7.18%
Hist. Cash Flow Growth (3-5 yrs)	-1.95%	8.72%	8.36%	2.72%	8.72%	9.40%
Current Ratio	1.41	1.41	1.23	1.38	1.19	1.43
Debt/Capital	63.67%	55.02%	42.91%	65.39%	NA	60.48%
Net Margin	-7.06%	3.82%	11.81%	3.82%	5.30%	6.73%
Return on Equity	8.09%	11.33%	16.92%	17.68%	-22.75%	37.09%
Sales/Assets	1.49	1.54	0.54	1.37	1.54	1.56
Proj. Sales Growth (F1/F0)	-6.57%	0.85%	3.96%	1.53%	2.56%	5.64%
Momentum Score	A	-	-	D	A	F
Daily Price Chg	-20.61%	1.45%	0.64%	2.61%	2.68%	0.98%
1 Week Price Chg	7.44%	1.93%	2.47%	-0.02%	5.27%	3.87%
4 Week Price Chg	-24.28%	-0.11%	1.87%	-6.69%	-28.81%	9.01%
12 Week Price Chg	-7.89%	2.20%	6.69%	13.74%	-36.15%	1.72%
52 Week Price Chg	-27.49%	-13.93%	16.42%	22.42%	-61.87%	2.82%
20 Day Average Volume	8,975,929	450,741	2,019,212	1,291,705	3,591,413	1,814,765
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.06%	0.00%	2.96%	-3.85%
(F1) EPS Est 12 week change	-39.22%	-2.70%	-0.19%	9.26%	-9.36%	-4.13%
(Q1) EPS Est Mthly Chg	-1.24%	0.00%	-0.16%	0.00%	7.55%	-10.99%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	D
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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