

Street Takeaways - Bed Bath & Beyond Q4 earnings
Friday, April 17, 2020 07:29:51 PM (GMT)

- **Overview:**

- Shares traded +18.0% yesterday following BBBY's Q4 print in which comps of (5.6%) beat by +70 bps, revenue of \$3.11B beat by 0.7% and EPS of \$0.38 beat by \$0.18. Margin wise GM of 32.6% beat by +100 bps, SG&A of 33.1% missed by (260) bps and OM of 2.0% beat by +40 bps. To note, estimates may not be comparable due to uncertain impact of COVID-19 and dispersion of sell-side estimates. On a y/y basis, revenue fell by (6.1%), while OM declined by (450) bps, and EPS was (68.3%) lower. As a reminder, BBBY gave a Q4 update back on 11-Feb which sent shares trading down due to lower traffic and some executional issues. As management tried to address said issues, the impact of Covid emerged and added to the challenges the turnaround faces.
- With Covid leading to shutdowns across the country in March, QTD revenues are down significantly at (42%) so far in Q1, and worsened in April with it tracking (60%) so far. Despite the positive reaction to earnings, shares are still down (71.7%) YTD as the company faces the massive challenge of having a significant brick and mortar which was already in decline. Looking at updated estimates for Q1, consensus is now calling for a large comps drop of (48.2%). The focus now moves to how long shutdowns will last and how consumer attitudes will change as the country tries to start back up.
- Management is focused on increasing eCommerce which did grow +16% in March and has accelerated by more than 70% to date in April, but this still only accounts for a fraction of total sales. Initiatives to help improve sales with less traffic expected include BOPIS (buy online, pickup in store), curbside pickup, and converting certain locations to fulfillment centers which helps increase online shipping capacity.

- **Analyst Commentary:**

- **Telsey Advisory Group** analyst Cristina Fernandez
 - Comes away mixed, as eCommerce is improving, but BBBY will likely continue to lose share to Wayfair, Target, Amazon, and others.
 - Talks on Q1 being better than feared following the 11-Feb pre-announcement of traffic declines and execution mis-steps during the holiday season.
 - Notes \$0.10 of the EPS upside came from a lower tax rate vs their expectations, with the remainder coming from sales not being as bad as expected.
 - Maintains Market Perform and \$4 target.
- **Guggenheim** analyst Steven Forbes
 - Speaks on the Q being relatively in-line despite the headline upside.
 - Mentions how excluding the positive shift of Cyber Monday, comps would have declined (11.0%) y/y.
 - From their talks with management, thinks much of the current digital strength is being driven by existing customers (not new customers) who have moved online from retail.
 - Expands on how profitability will likely come under pressure given the investment needed to grow omni-channel.
 - States how certain key positions are still looking for new leadership, including chief marketing and brand officer, chief digital officer, and general counsel; roles that could prove difficult to fill as the current environment may have some candidates less willing to undertake a turnaround story.
 - Maintains Neutral.
- **KeyBanc** analyst Bradley B. Thomas
 - Focuses on how near-term results continue to be under-pressure and how this will make the turnaround tougher.
 - Touches on capex being deferred, costs being reduced, and a focus on liquidity as management tries to navigate through the pandemic.
 - Notes how the company holds a strong cash position which is a positive and still believes in new CEO Mark Tritton and his ability to improve merchandise and expenses.
 - Maintains Sector Weight.

- **Sell-side ratings:**

- Buy 25% vs XLP 45%
- Hold 55% vs XLP 46%
- Sell 20% vs XLP 9%
- The average target decreased (18.8%) to \$7.54, implying +53.8% upside
- **Valuation:**
 - *Current valuation vs 5-year historical avg*
 - **P/E**
 - NTM (3.3x) vs 9.1x & XLP avg 19.0x
 - 12-24M 24.1x vs 8.2x & XLP avg 17.7x
 - **EV/EBITDA**
 - NTM 27.1x vs 5.2x & XLP avg 13.3x
 - 12-24M 8.0x vs 6.0x & XLP avg 12.7x
- **Forward Estimates:**
 - Prior consensus vs updated estimates only
 - **FY21** (Feb '21):
 - Comps (410) bps to (17.6%)
 - Revenue (9.2%) to \$8.98B, (19.5%) y/y
 - GM +70 bps to 31.8%, flat y/y
 - SG&A (150) bps to 34.0%, (60) bps y/y
 - OM (140) bps to (2.0%), (310) bps y/y
 - EPS (\$0.62) to (\$1.61), (450.5%) y/y
 - **FY22** (Feb '22):
 - Comps +210 bps to +10.0%
 - Revenue (4.8%) to \$9.79B, +9.0% y/y
 - GM +50 bps to 31.9%, +20 bps y/y
 - SG&A (240) bps to 35.2%, +180 bps y/y
 - OM (40) bps to 0.4%, +240 bps y/y
 - EPS (\$0.22) to (\$0.22), +86.4% y/y

Industries: Retail (Specialty)

Primary Identifiers: BBBY-US

Related Identifiers: BBBY-US

Subjects: Street Takeaways, Street Takeaways - Earnings

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