



Bed Bath & Beyond

Fugazy, Fugasi

Background

- Founded in 1971 by Warren Eisenberg and Leonard Feinstein
- Headquartered in Union, New Jersey
- First 17 stores named Bed & Bath
- Added “Beyond” in 1987
- Went public in 1992
- 34 stores in 1992
- 1,496 stores operating today

Company Information

- Domestic Commodity Retailer
- Sells: domestics merchandise and home furnishings
- Industry leader in housing goods sales
- 15% market share
- Expanding online presence
- Created a niche

Breakdown of the Expansion

- 1,496 stores operate in all 50 states, the District of Columbia, Puerto Rico, Canada, and Mexico
- 1,014 Bed, Bath and Beyond
- 265 Cost Plus
- 90 buybuy Baby
- 77 Christmas Tree Shop
- 50 Harmon
- Linen Holdings
- Projected: 30 new Bed, Bath and Beyond stores in 2014

Business Model

- Two operating segments:
 - Institutional Sales: Linen Holdings
 - North American Retail: Bed, Bath and Beyond, Cost Plus, Christmas Tree Shops, Harmon, buybuy Baby

Business Model

- **Objective:** “be a customer’s first choice for products and services in the categories offered, in the markets, channels and countries in which the Company operates. The Company’s strategy is to achieve this objective through excellent customer service, an extensive breadth, depth and differentiated assortment in an omnichannel retail environment and the introduction of new merchandising offerings, supported by the continuous development and improvement of its infrastructure.”

- Managements Discussion and Analysis, Form 10-k

This Means...

- Great customer service
- Wide variety of products
- Many substitutes for products
- Products that support other products
- One stop shop for all housing needs

Capitalizing on the Niche: Moat

- Merchandise Presentation
- Touch-and-Feel Presentation
- No central distribution system

Competitors

- Department
 - J.C. Penney, Macy's
- Specialty stores
 - Pier 1 Imports, Williams-Sonoma
- Discount
 - Big Lots
- National Chain
 - Wal-Mart, Target
- Online
 - Amazon

Risk Factors

- General Risks
 - Poor economic conditions
 - Changes in customer preferences
 - Competitor technology advancements
 - Acquisition conflicts
 - Damaged relationships with suppliers
- BBBY Risks
 - Bad weather
 - Data security
 - Housing Market

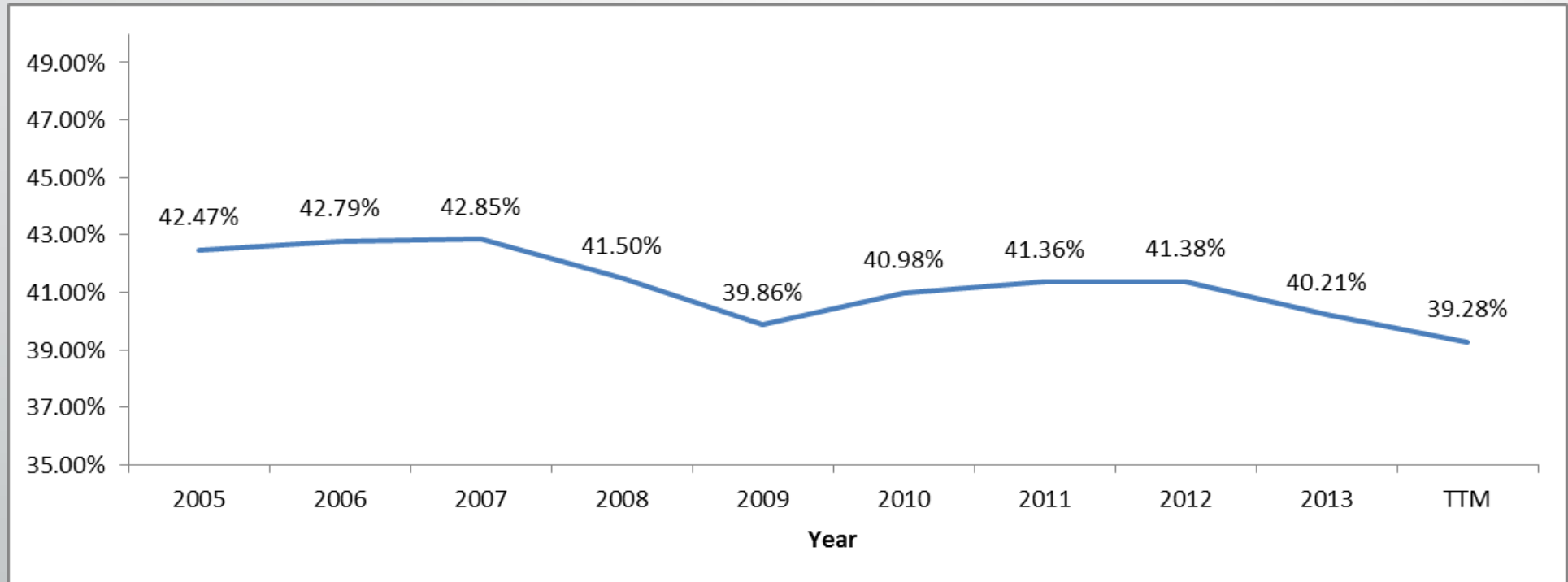
Recent News

- 2004-2014 Q1: bought back \$6.6 billion shares
- Announced a \$2 billion share repurchase program
- June: Issued \$1.5 billion in debt
- Q2 earnings release: \$1.17 EPS
- Stock price rises 7.4%

Interpretation of Financial Statements

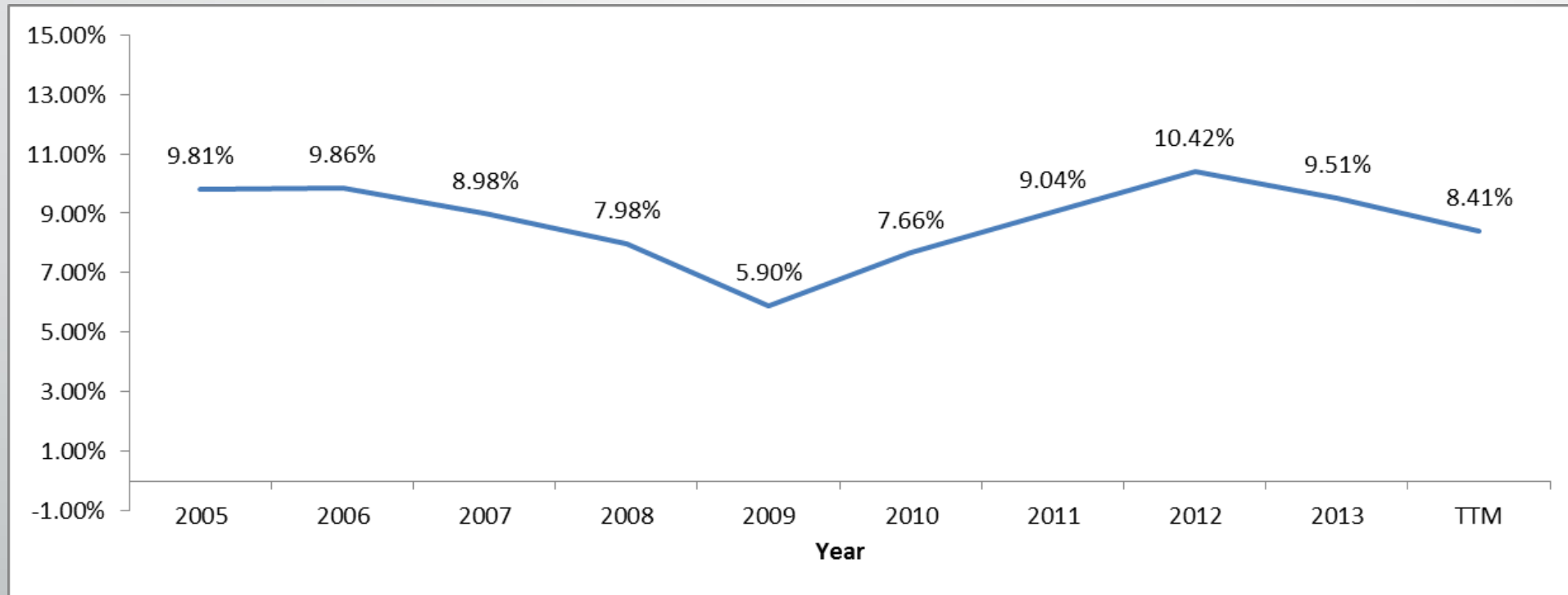
<u>TTM</u>	Value	Threshold	Pass?
Gross Profit Margin	39.28%	≥ 20%	Yes
% SGA	65.73%	≤ 80%	Yes
% R&D	0.00%	≤ 10%	Yes
% Depreciation	5.05%	≤ 10%	Yes
Interest % of OP	0.00%	≤ 15%	Yes
Net Profit Margin	8.41%	≥ 10%	No
Current Ratio	2.99	≥ 1	Yes
Obligation Ratio	5.55	< 5 years	No
Adj. Debt to Shareholder Equity	0.43	< 0.8	Yes
Return on Equity	33.39%	≥ 15%	Yes
Return on Capital	22.11%	≥ 15%	Yes
Dividend Payout Ratio	0.00%	≤ 60%	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	6.82%	≤ 25%	Yes
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

Gross Profit Margin



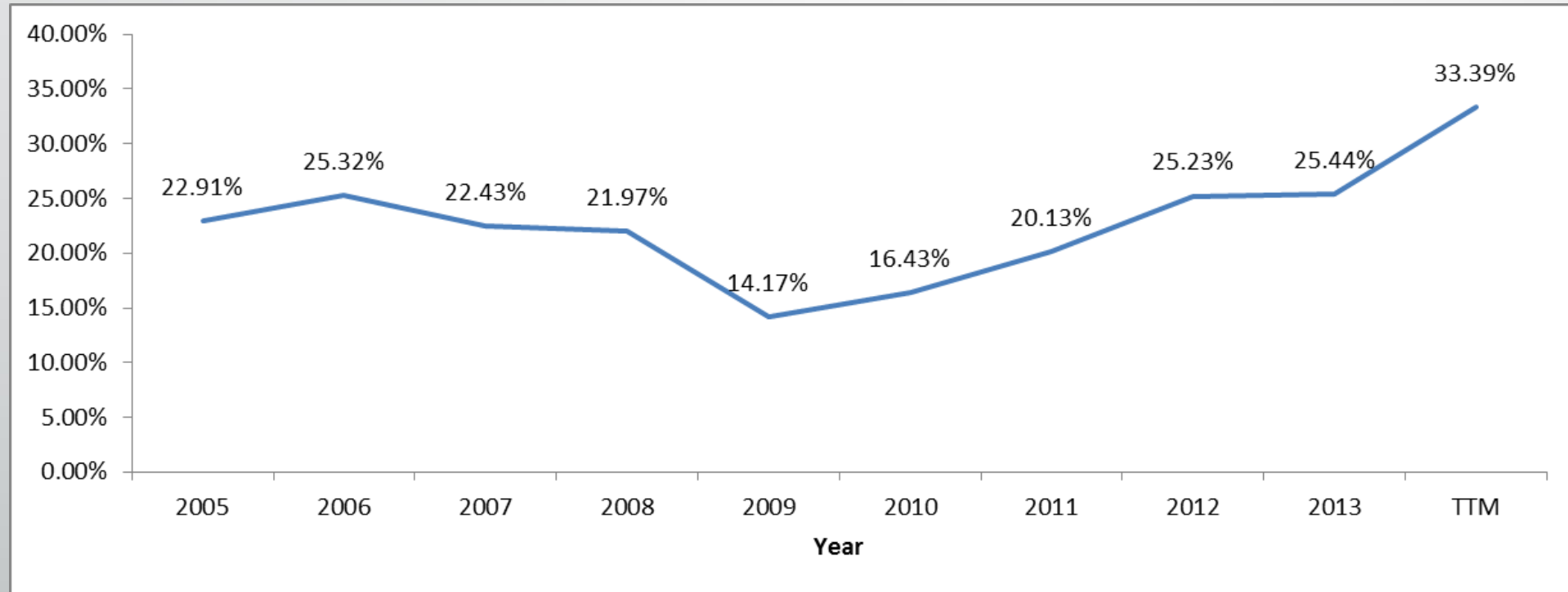
Gross Profit Margin as % = $\frac{\text{Gross Profit}(\$)}{\text{Revenue}(\$)}$

Net Profit Margin



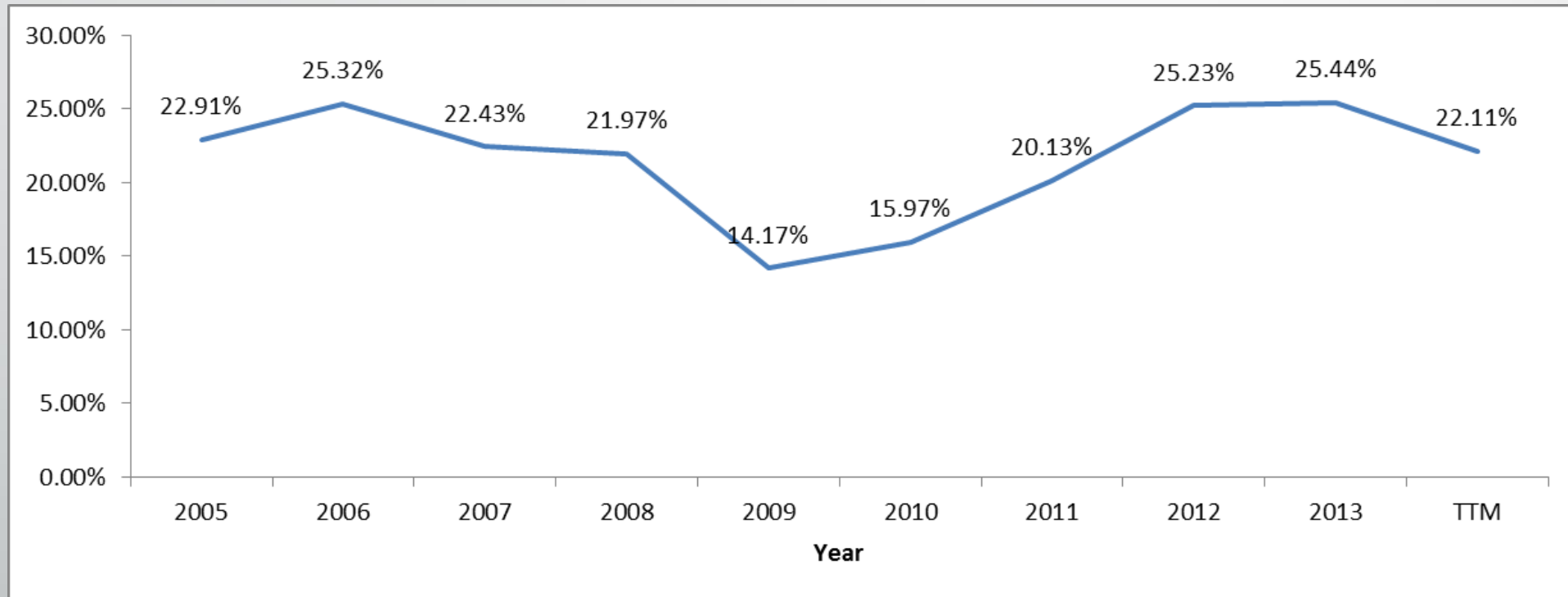
Net Profit Margin as % = $\frac{\text{Net Profit}(\$)}{\text{Revenue}(\$)}$

Return on Equity



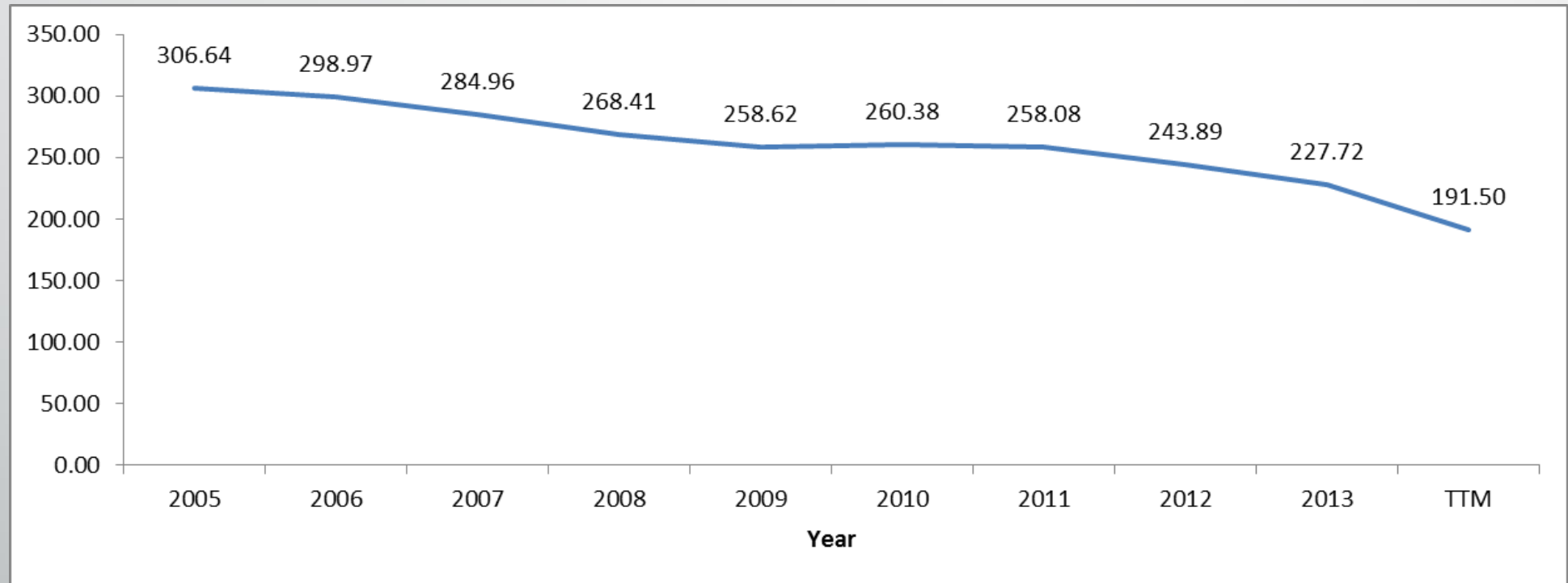
Return on Equity as % = $\frac{\text{Net Profit}(\$)}{\text{Total Equity}(\$)}$

Return on Capital



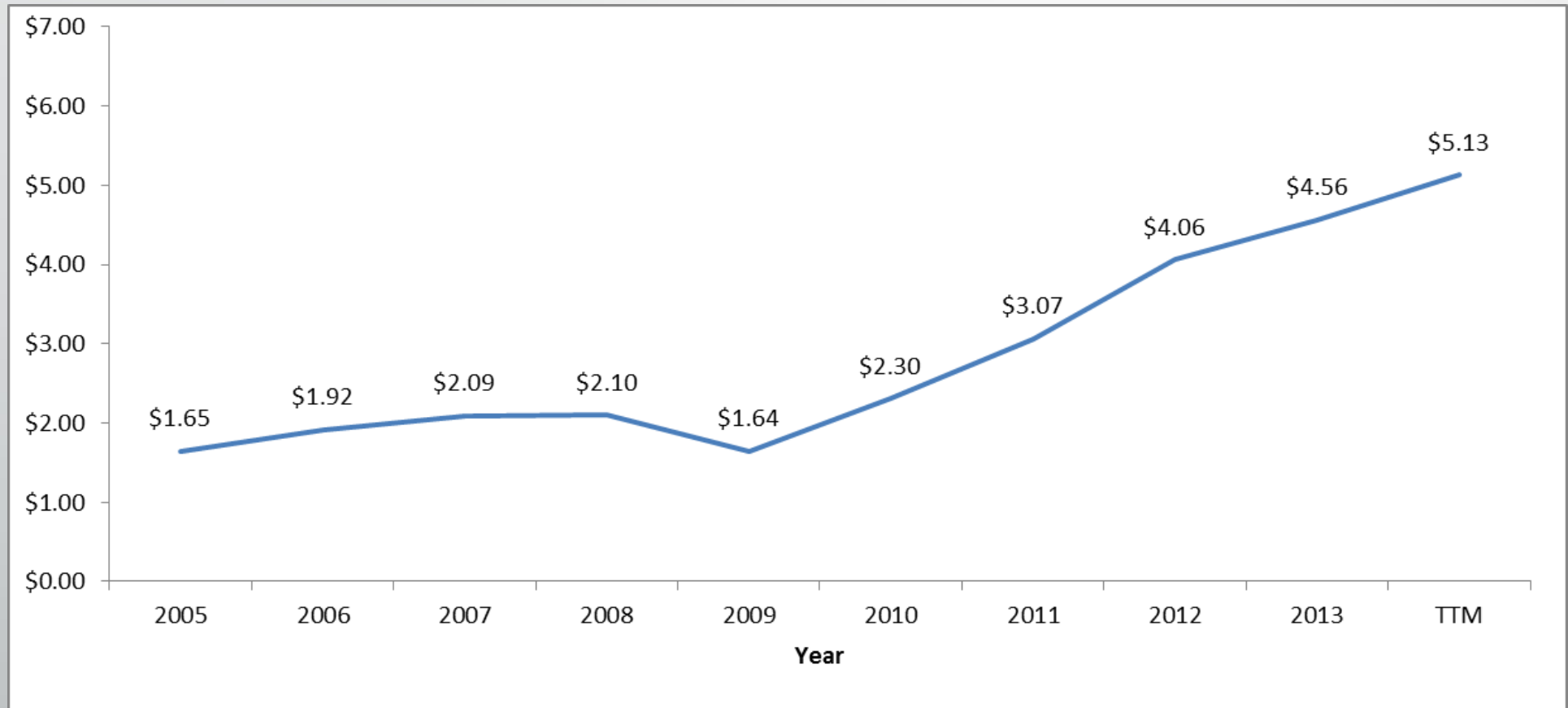
Return on Capital as % = $\frac{\text{Net Profit}(\$)}{\text{Total Equity} + \text{Long Term Debt}(\$)}$

Shares Outstanding



Millions of Shares

Earnings Per Share



$$\text{Earnings Per Share} = \frac{\text{Net Profit}(\$)}{\text{Total Shares Outstanding}}$$

Buffettology

Statistical Array Analysis	
Sales per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing
Dividends Declared per Share	N/A
Capital Spending per Share	Stable
Book Value per Share	Increasing
Revenues (Sales)	Increasing
Gross Profit Margin	Stable
Operating Profit Margin	Stable
Number of Stores	Increasing
Net Profit	Stable
Net Profit Margin	Stable
Working Capital	Stable
Shareholder's Equity	Increasing
Return on Total Capital	Increasing
Return on Shareholder's Equity	Increasing
Common Shares Outstanding	Decreasing
Long-Term Debt	Increasing
LT Debt Payable in 5 years	No*
All Dividends to Net Profit under 60%	Yes

Qualitative Review

What type of business is this: commodity or sustained competitive advantage?	Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	No
Does it require heavy capital infusion?	No
Does it require lots of research and development?	No
Can inventory become obsolete?	No
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor? If the answer is "no" your business has a sustained competitive advantage.	No

DuPont Analysis

Company	Total Asset Turnover (Revenue/Total Assets)	Net Profit Margin (Net Income/Revenue)	Financial Leverage Multiplier (Total Assets/Total Equity)	Return on Equity
Bed Bath & Beyond	1.66	.084	2.39	33.39%
Amazon	2.15	.004	3.52	3.03%
Williams-Sonoma	2.09	.063	1.84	24.19%
Pier 1 Imports	2.05	.052	2.71	28.85%

DuPont Analysis

BBBY	Total Asset Turnover (Revenue/Total Assets)	Net Profit Margin (Net Income/Revenue)	Financial Leverage Multiplier (Total Assets/Total Equity)	Return on Equity
TTM	1.66	0.084	2.39	33.39%
2013	1.74	0.095	1.54	25.43%
2012	1.66	0.104	1.46	25.23%

Industry Breakdown

Company	BBBY	Amazon	Williams-Sonoma	Kohl's	Macy's	Pier 1 Imports
Market Cap (\$mil)	\$13,295	\$148,979	\$6,211	\$12,491	\$20,545	\$1,111
P/E(ttm)	13.60	830.60	22.30	14.90	14.40	11.90
P/S	1.18	1.81	1.41	0.69	0.77	0.68
EV/EBIT	7.85	230.61	12.92	9.59	9.56	6.48
ROA (%)	15.05	0.51	13.04	6.03	7.06	10.70
ROE (%)	25.92	1.87	23.82	14.65	25.53	21.70
Operating Margin (%)	13.46	0.75	10.37	9.04	9.72	8.55
Net Margin (%)	8.41	0.22	6.34	4.60	5.37	5.14
# of Guru holdings	7	9	0	7	3	1

Conscious Investor – 3-year Default

JS Bed Bath & Beyond Inc 

Home Furnishing Stores

Last trade 2014-09-26

Return Analysis

	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	1.650	1.920	2.090	2.100	1.640	2.300	3.070	4.060	4.560	4.790	\$4.800	3	8.62%	98.99%
SPS (\$)	17.505	20.675	23.883	27.224	27.756	29.779	34.802	40.337	49.278	56.006		3	17.83%	98.89%
	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14			Current	
NPM (%)	9.8	9.9	9.0	8.0	5.9	7.7	9.0	10.4	9.5	8.9			8.9%	
ROE (%)	22.9	25.3	22.4	22.0	14.2	16.4	20.1	25.2	25.4	25.9			25.9%	
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0%	
Debt/Eq. (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0%	
	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14	High/Low		Current	
P/E High	26.90	24.50	20.70	20.00	21.20	18.90	16.60	15.70	16.60	16.90	16.84		13.90	
P/E Low	20.50	18.20	14.80	11.70	9.90	8.30	8.60	11.00	11.90	11.80	11.45			
Price High	44.43	46.99	43.32	41.90	34.73	43.42	50.95	63.83	75.84	80.82	\$80.82		\$66.70	
Price Low	33.88	34.85	30.92	24.49	16.23	19.11	26.50	44.79	54.33	56.37	\$54.96			

	Price	EPS _{ttm}	P/E Ratio	HGrowth	Payout	STRETD [®]
Default	\$66.70	\$4.800	14.18	8.62%	0.0%	6.23%
Safety	\$66.70	\$4.800	12.17	7.48%	0.0%	3.13%



CI – 6-year Default

JS Bed Bath & Beyond Inc 

Home Furnishing Stores

Last trade 2014-09-26

Return Analysis

	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	1.650	1.920	2.090	2.100	1.640	2.300	3.070	4.060	4.560	4.790	\$4.800	6	24.67%	91.53%
SPS (\$)	17.505	20.675	23.883	27.224	27.756	29.779	34.802	40.337	49.278	56.006		6	15.98%	97.69%
	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14			Current	
NPM (%)	9.8	9.9	9.0	8.0	5.9	7.7	9.0	10.4	9.5	8.9			8.9%	
ROE (%)	22.9	25.3	22.4	22.0	14.2	16.4	20.1	25.2	25.4	25.9			25.9%	
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0%	
Debt/Eq. (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0%	
	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14	High/Low			Current
P/E High	26.90	24.50	20.70	20.00	21.20	18.90	16.60	15.70	16.60	16.90	16.84			13.90
P/E Low	20.50	18.20	14.80	11.70	9.90	8.30	8.60	11.00	11.90	11.80	11.45			
Price High	44.43	46.99	43.32	41.90	34.73	43.42	50.95	63.83	75.84	80.82	\$80.82			\$66.70
Price Low	33.88	34.85	30.92	24.49	16.23	19.11	26.50	44.79	54.33	56.37	\$54.96			

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	\$66.70	\$4.800	14.18	24.67%	0.0%	18.61%
Safety	\$66.70	\$4.800	12.17	11.69%	0.0%	6.02%



CI- 10-year Default

JS Bed Bath & Beyond Inc 

Home Furnishing Stores

Last trade 2014-09-26


Return Analysis

	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	1.650	1.920	2.090	2.100	1.640	2.300	3.070	4.060	4.560	4.790	\$4.800	10	13.14%	84.28%
SPS (\$)	17.505	20.675	23.883	27.224	27.756	29.779	34.802	40.337	49.278	56.006		10	12.88%	95.42%
	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14			Current	
NPM (%)	9.8	9.9	9.0	8.0	5.9	7.7	9.0	10.4	9.5	8.9			8.9%	
ROE (%)	22.9	25.3	22.4	22.0	14.2	16.4	20.1	25.2	25.4	25.9			25.9%	
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0%	
Debt/Eq. (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0%	
	2/05	2/06	2/07	2/08	2/09	2/10	2/11	2/12	2/13	2/14	High/Low		Current	
P/E High	26.90	24.50	20.70	20.00	21.20	18.90	16.60	15.70	16.60	16.90	16.84		13.90	
P/E Low	20.50	18.20	14.80	11.70	9.90	8.30	8.60	11.00	11.90	11.80	11.45			
Price High	44.43	46.99	43.32	41.90	34.73	43.42	50.95	63.83	75.84	80.82	\$80.82		\$66.70	
Price Low	33.88	34.85	30.92	24.49	16.23	19.11	26.50	44.79	54.33	56.37	\$54.96			


	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	\$66.70	\$4.800	14.18	13.14%	0.0%	9.58%
Safety	\$66.70	\$4.800	12.17	9.42%	0.0%	4.44%



CI - Kill it

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	\$66.70	\$4.800	14.18	13.14%	0.0%	9.58%
Safety	\$66.70	\$4.800	12.17	9.42%	0.0%	4.44%
 Saved	\$63.85	\$4.790	11.00	8.00%	0.0%	2.62%


CI – Kill it again

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	\$66.70	\$4.800	14.18	13.14%	0.0%	9.58%
Safety	\$66.70	\$4.800	12.17	9.42%	0.0%	4.44%
 Saved	\$63.85	\$4.790	9.50	7.00%	0.0%	-0.01%

DCF – 10 year Book Value Growth

Earnings Per Share : \$?

Growth Rate In the Next: Years % ?

Business Predictability  ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

DCF Reverse DCF ^{NEW} ←

Tangible Book Value: \$ Add to Fair Value

Growth Value: \$ 48.92

Terminal Value: \$ 33.69

= Fair Value: \$ 82.6

Margin Of Safety: 22%

Financial Data of Bed Bath & Beyond Inc

Annual Rates (per share)	10 yrs	5 yrs
Revenue Growth (%)	13.10	16.30
EBITDA Growth (%)	13.60	18.00
EBIT Growth (%)	13.80	19.20
Earning Growth (%)	13.20	20.50
Free Cash Flow Growth (%)	19.20	13.40
Book Value Growth (%)	12.30	7.30

DCF – Break Even

Earnings Per Share : \$?
 Growth Rate In the Next: Years : % ?
 Business Predictability  ?
 Terminal Growth Rate: % ?
 Years of Terminal Growth: ?
 Discount Rate: % ?

DCF Reverse DCF NEW

Tangible Book Value: \$ Add to Fair Value
 Growth Value: \$ 40.63
 Terminal Value: \$ 23.85
= Fair Value: \$ 64.48
 Margin Of Safety: 0%

Financial Data of Bed Bath & Beyond Inc

Annual Rates (per share)	10 yrs	5 yrs
Revenue Growth (%)	13.10	16.30
EBITDA Growth (%)	13.60	18.00
EBIT Growth (%)	13.80	19.20
Earning Growth (%)	13.20	20.50
Free Cash Flow Growth (%)	19.20	13.40
Book Value Growth (%)	12.30	7.30

DCF – Break Even 2

Earnings Per Share : \$?
 Growth Rate In the Next: Years : % ?
 Business Predictability  ?
 Terminal Growth Rate: % ?
 Years of Terminal Growth: ?
 Discount Rate: % ?

→

DCF Reverse DCF ^{NEW}
Tangible Book Value: \$ Add to Fair Value
 Growth Value: \$ 32.47
 Terminal Value: \$ 15.32
= Fair Value: \$ 64.49
 Margin Of Safety: 0%

Financial Data of Bed Bath & Beyond Inc

Annual Rates (per share)	10 yrs	5 yrs
Revenue Growth (%)	13.10	16.30
EBITDA Growth (%)	13.60	18.00
EBIT Growth (%)	13.80	19.20
Earning Growth (%)	13.20	20.50
Free Cash Flow Growth (%)	19.20	13.40
Book Value Growth (%)	12.30	7.30

Long-term Debt Analysis

- In July 2014, Bed Bath & Beyond issued \$1.5 billion in long-term debt, haven't had long-term debt in over 20 years
 - The first tranche of \$300 million matures in 2024 and pays an interest rate of 3.749%.
 - The second one is also for \$300 million; it matures in 2034, and pays 4.915%.
 - The third tranche is for \$900 million; it matures in 2044, and pays 5.165%.



Intra-Portfolio Valuations

Price/Earnings

Ticker	Price / Earnings
WRLD	7.3
AIG	9.1
IBM	12.0
BBY	12.1
BBBY	13.9
BRK.B	15.4
WMT	16.1
ORCL	16.3
PETM	16.9
MSFT	17.7
CTB	18.5
LO	19.7
WAG	20.5
NSRGY	20.8
PEP	21.0
MDT	21.5
AAP	21.7
KO	22.6
BDX	22.7
CHRW	

Ticker	5-Year Price / Earnings Range
BBY	7.4 -
IBM	11.4 - 16.0
BRK.B	11.8 - 50.4
BBBY	11.8 - 21.7
ORCL	13.3 - 25.3
WRLD	5.8 - 13.0
PETM	13.2 - 25.0
CTB	3.3 -
CHRW	14.9 - 36.1
WAG	10.0 - 25.9
LO	10.9 - 22.1
MSFT	8.8 - 20.4
AAP	11.5 - 24.0
BDX	12.6 - 24.9
PEP	15.1 - 21.6
MDT	9.9 - 23.2
WMT	11.0 - 16.6
KO	11.9 - 22.7

Price/Sales

Ticker	Price / Sales
BBY	0.3
WMT	0.5
CTB	0.6
CHRW	0.8
WAG	0.8
PETM	1.0
AAP	1.2
BBBY	1.2
AIG	1.2
WRLD	1.3
BRK.B	1.7
IBM	2.0
PEP	2.2
NSRGY	2.3
BDX	2.7
LO	3.2
MDT	3.7
KO	4.1
MSFT	4.5
ORCL	

Ticker	5-Year Price / Sales Range
CHRW	0.6 - 1.5
BBBY	1.0 - 1.9
WRLD	1.0 - 2.3
IBM	1.6 - 2.4
KO	3.3 - 4.8
ORCL	3.6 - 5.5
WMT	0.4 - 0.6
PEP	1.5 - 2.4
AAP	0.6 - 1.4
BDX	2.0 - 2.8
MSFT	2.9 - 5.0
WAG	0.4 - 1.0
PETM	0.5 - 1.3
LO	1.9 - 3.5
BBY	0.1 - 0.4
MDT	2.0 - 3.9
BRK.B	1.1 - 1.8
CTB	0.2 - 0.6
AIG	0.0 - 1.3

Price/Free Cash Flow

Ticker	Price / Cash Flow
WRLD	3.0
CTB	6.4
BBY	7.4
WMT	10.4
BDX	10.6
BBBY	10.8
ORCL	11.6
IBM	11.7
PETM	11.8
MSFT	12.1
BRK.B	12.2
AIG	13.8
NSRGY	13.9
MDT	14.9
PEP	15.4
WAG	16.0
KO	17.1
AAP	17.2
LO	20.2
CHRW	

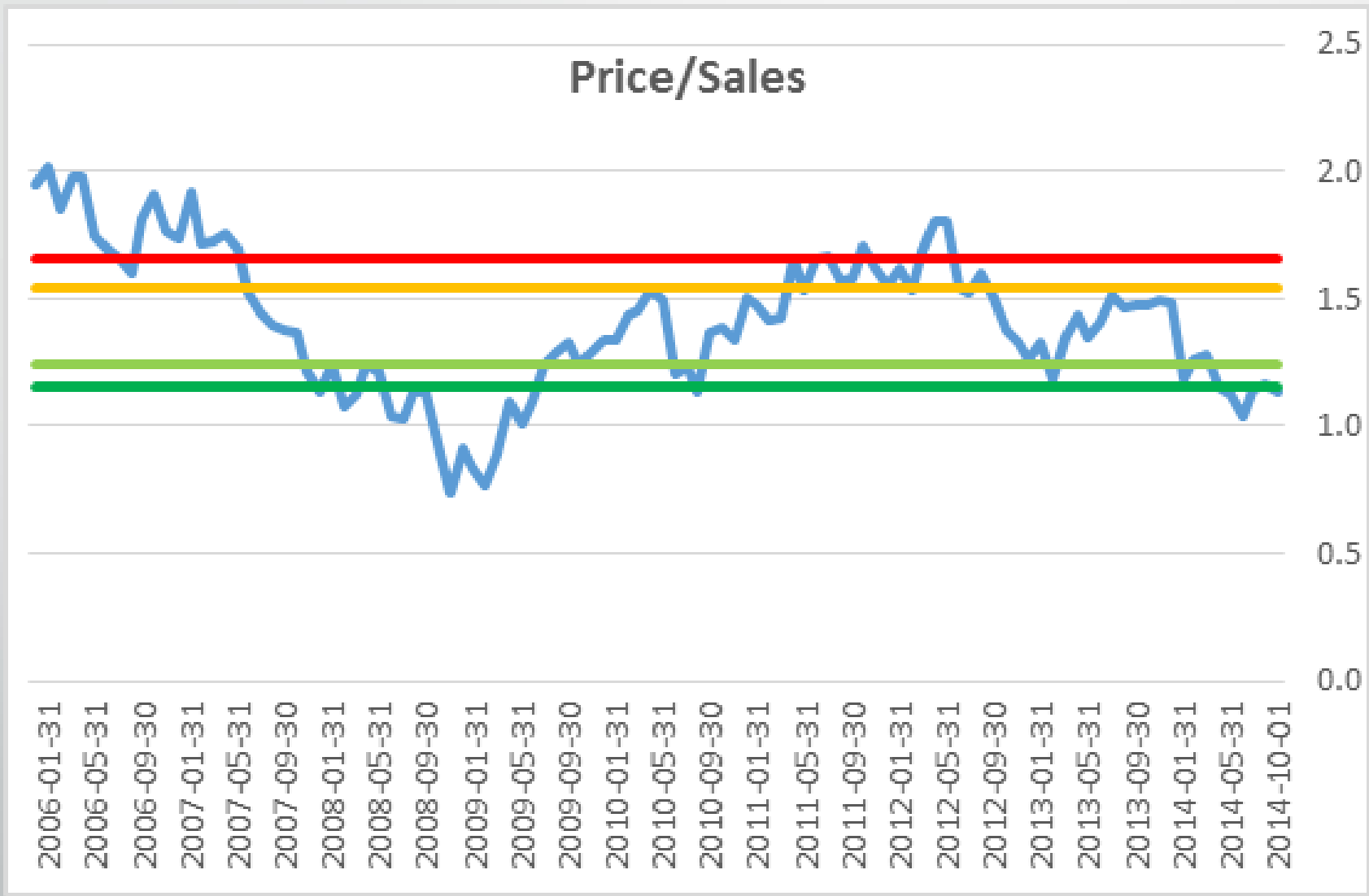
Ticker	5-Year Price / Cash Flow Range
ORCL	9.6 - 19.0
CHRW	18.1 - 50.1
BBBY	9.2 - 15.0
BDX	8.7 - 14.9
WRLD	2.2 - 5.6
CTB	2.2 - 26.9
KO	13.2 - 19.0
WMT	7.2 - 11.7
AIG	0.2 - -
IBM	7.5 - 12.8
WAG	6.4 - 20.2
MSFT	7.1 - 13.3
LO	9.3 - 22.7
BBY	1.3 - 11.6
PETM	5.6 - 12.8
MDT	8.0 - 15.7
AAP	4.7 - 19.9
BRK.B	7.4 - 12.6
PEP	11.1 - 15.5

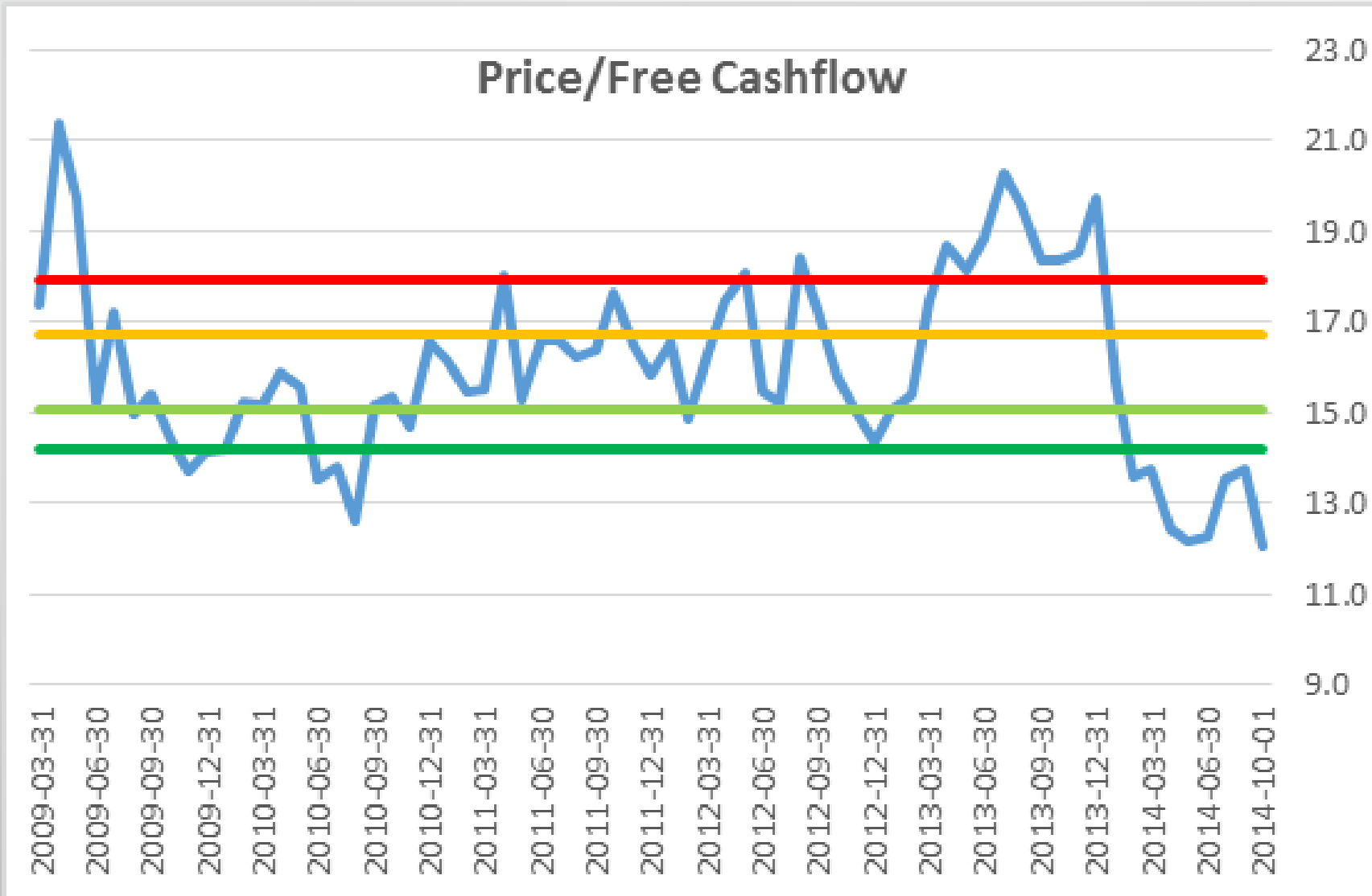
52-Week Price Range

Ticker	52-wk Range
WRLD	\$67.63 - \$107.98
WAG	\$53.76 - \$76.39
BBBY	\$54.96 - \$80.82
BBY	\$22.15 - \$44.66
NSRGY	\$66.55 - \$80.65
WMT	\$71.51 - \$81.37
ORCL	\$32.00 - \$43.19
IBM	\$172.19 - \$199.21
LO	\$44.12 - \$67.46
PETM	\$55.00 - \$77.32
BDX	\$98.30 - \$120.66
MDT	\$52.44 - \$67.11
AIG	\$46.80 - \$56.56
CTB	\$20.55 - \$31.49
CHRW	\$50.21 - \$69.50
AAP	\$80.28 - \$139.58
BRK.B	\$108.12 - \$142.45
MSFT	\$32.70 - \$47.57
KO	\$36.83 - \$42.57
PEP	

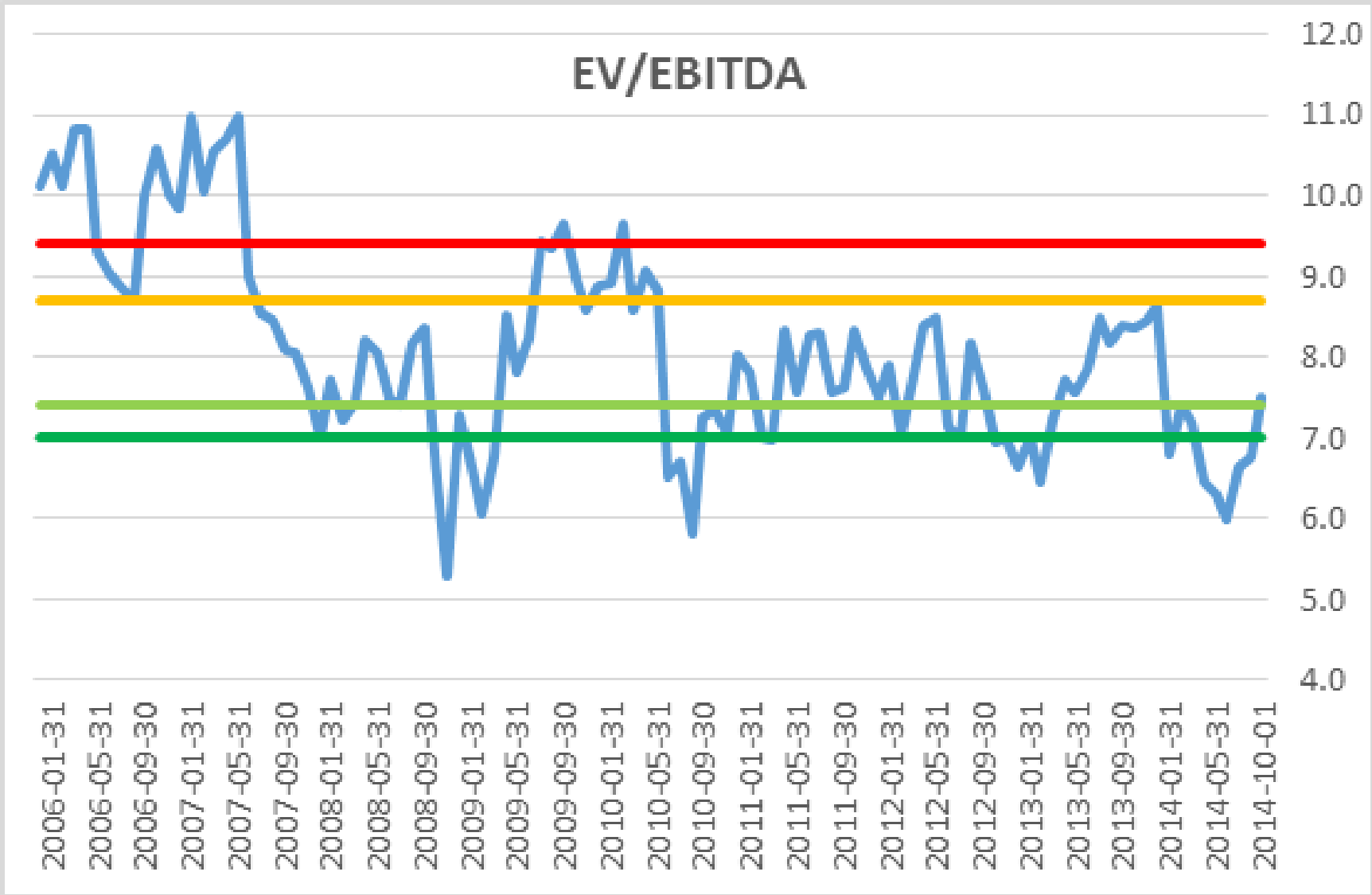
Price/Earnings











Valuation Summary

	Historical Rank	Current Multiple
P/S	17%	1.14
P/E	15%	13.51
P/B	58%	4.48
P/CFO	0%	9.19
P/FCF	0%	12.06
EV/Rev	17%	1.16
EV/EBITDA	32%	7.49
EV/EBIT	19%	8.60
Overall	20%	

Conclusion

- Unique specialty product mix, wide variety
- Strong financials
- Great valuations
- Issuing debt to return more value to shareholders

Recommendation

- Limit order at \$65.30