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Bed Bath & Beyond Can't Pay Its Debts. Here's What Happens Next.

Last Updated: Jan. 30, 2023 at 9:21 a.m.

ETFirst Published: Jan. 28, 2023 at 1:00 a.m. ET

By [Sabrina Escobar](#)

[Bed Bath & Beyond](#) admitted what many industry analysts have suspected for quite some time—the company is quickly [running out of cash](#) and can't pay off its sizable debt.

While acknowledging the a problem may be progress, there's likely more pain—and narrowing options—ahead for the retailer.

"I am convinced that Bed Bath & Beyond is teetering on the brink of [bankruptcy](#)," said Daniel Gielchinsky, partner at DGIM law.

In a [delayed quarterly filing](#) with the Securities and Exchange Commission on Thursday, the retailer said its lenders were calling back their loans after the company failed to prepay an advance on a credit facility, triggering events of default. An event of default is a pre-defined circumstance that allows lenders to demand full repayment of the outstanding loan before it's due, as well as seize any collateral if the company is unable to pay the debt.

S&P Global Ratings downgraded Bed Bath's issuer credit rating to D from CC, saying it considers the company to be in default.

The retailer has \$2.57 billion in current liabilities, including \$550 million and \$375 million under two separate credit facilities. That's a chunk of change that Bed Bath simply doesn't have, according to the filing. The company is exploring "all strategic alternatives" to repay the debt, including bankruptcy.

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Cases such as Bed Bath's "are oftentimes very consistent," said Victor Sahn, a partner in the Bankruptcy and Reorganization practice group at Greenspoon Marder. Usually, the company will broker a sale with third parties before filing for bankruptcy, either selling the business off entirely or selling chunks of it, he said. Some companies may also secure a loan ahead of time that helps keep operations afloat while it restructures its debt. That was the case when [Party City](#) (PARTY) [filed for bankruptcy](#) earlier this year.

But in Bed Bath's case, there are so far no known buyers, Sahn said. On Friday, *The Wall Street Journal* [reported](#) the company was struggling to find financing to restructure the business. Private-equity firm Sycamore Partners had expressed interest in acquiring parts or all of the Buybuy Baby chain, according to [previous reports](#). At the time, Sycamore said it had no comment.

In an email to *Barron's*, a Bed Bath spokesperson said the company didn't comment on speculation, but that it continues to consider all paths and strategic alternatives.

The fact that no buyers have come forward yet suggests that suitors were turned off by the company's [business fundamentals](#) and loss of supplier confidence, said James Gellert, CEO of RapidRatings, a financial health analytics company.

"Any conversation for an 11th hour acquisition goes away when the clock strikes 12," Gellert said. "They're at 11:59."

To be sure, a lot can happen in a minute, especially when the situation is so volatile. "It never ends up where you think it's going to," said Deborah Weinswig, CEO of retail research firm Coresight Research. She pointed to the unlikely outcome of Kmart's 2002 bankruptcy, which ended with the company acquiring Sears department store for \$11 billion two years later.

But with few potential buyers and creditors recalling current loans, things are looking grim for the retailer. The best case scenario now would likely be for the company to file for chapter 11 bankruptcy protections, Gielchinsky said. By filing for chapter 11, Bed Bath could continue to operate—albeit in a more stunted fashion—while it looks for potential buyers or new loans.



It's also possible that the company can't find a buyer and is forced to file for chapter 7 bankruptcy, which is oftentimes called a liquidation bankruptcy. If this were to happen, Bed Bath would be forced to sell off all its assets to pay creditors and likely close its doors for good.

Either situation is bad news for Bed Bath & Beyond's stakeholders—from employees, vendors, and landlords to bondholders and shareholders. Bed Bath had already announced it plans to close 150 stores, and on Friday the company said in an email it would shutter an additional 87, resulting in thousands of laid off employees.

Filing for bankruptcy would set the stage for what could be a protracted battle between creditors as they seek to claim their share of the carcass. First lien holders might be able to claw back a couple of cents on the dollar, Sahn said, but those on the lower end of the totem pole will be left with slim pickings.

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