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FEATURE

Bed Bath Might Be Headed for Bankruptcy. It Isn't the Start of a Trend.

By Teresa Rivas Follow & Sabrina Escobar Follow Jan. 8, 2023 2:00 am ET

Bed Bath won't be a harbinger of a cascade of defaults among retailers, experts say.
Scott Olson/Getty Images

For investors following the Bed Bath & Beyond saga, news that the troubled home goods retailer is teetering on the edge of bankruptcy isn't a surprise.

Among other red flags, *Barron's* warned over the summer the company would need a Christmas miracle to make it very far into 2023.

Yet the good news is that Bed Bath & Beyond BBBY -22.49% 's (ticker: BBBY) problems are its own, rather than a broader trend in retail. Instead of being a canary in the coal mine, it looks more like a lone dodo.

Certainly debt is creeping higher for the group, and there are still a few smaller players that are looking more precarious. However, a bunch of near-term bankruptcies look unlikely for the simple reason that there aren't many companies facing debt maturities over the next year that look unable to service them. Without the risk of default in the near future, bankruptcy isn't in the cards.

Indeed, as we've reported over the past year, from a debt perspective at least, publicly traded retail firms have looked very healthy. The pandemic culled the weakest players already, and those that remain largely used the stimulus-fueled boom times of 2020 and 2021 to lower their leverage or reissue debt at low rates with maturities years away.

So it is worth noting that however tough 2023 is shaping up to be for retailers from a sales perspective, their balance sheets likely won't be high on investor worry lists, a fact that is echoed by activity in the bond market.

The way that debt trades is one way to gauge how market participants are feeling about a company's prospects. Over the summer we noted that Bed Bath's bonds were tumbling as investors worried the company wouldn't be around to honor its debts when they come due—a concern that seems increasingly legitimate.

Not surprisingly that pattern has continued more recently. According to Dow Jones Market Data, the past three months haven't been kind to Bed Bath's bonds: Its issues maturing in August 2034 and August 2044 have both sunk well over 50%. Yet the nearest term August 2024 bonds saw the worst pain, falling more than 63%, emphasizing the acute nature of Bed Bath's woes.

That is a marked contrast to the bonds of major retailers. *Barron's* looked at the top 10 retailers by market cap and found that over the past three months their short-term debt, or bonds maturing over the next year, notched gains or losses of less than 1%.

That ranged from a 0.8% decline for bonds issued by Lowe's (LOW) and Walmart (WMT) maturing this month and in May, respectively, to a 0.8% increase for Amazon.com (AMZN) maturing in May and June.

Those aren't the kind of big swings indicative of nervous creditors, and little wonder since there is little reason to fear a cash crunch at those companies in the coming months.

Moreover, three of the 10 biggest retailers don't have any debt coming due this year at all: The nearest maturity date for bonds from Costco Wholesale (COST), Dollar General (DG) and Target (TGT) aren't until May, September, and July of 2024, respectively.

Of course it is also worth noting that investors tend to favor operators with strong balance sheets even more during times of economic softness. That should further favor the big well-capitalized retailers in 2023, given worries about the sector's outlook.

While Bed Bath isn't a harbinger for widespread defaults across the sector, experts warn that an economic slowdown could pressure smaller retailers that, like Bed Bath, have highly leveraged balance sheets and are struggling to turn business around.

"A lot of companies out there are really heavy on long-term debt," said Daniel Gielchinsky, partner at DGIM Law with experience in bankruptcy cases. "It isn't viable—you just end up being a business whose sole function is to pay back your debt."

Gielchinsky cautions investors away from companies with high debt to equity ratios and declining cash flow, as well as retailers that rely heavily on brick and mortar or have a significant chunk of expenses tied to leases.

He points to Party City (PRTY), which has roughly $2 billion in long-term debt and negative cash flow of about $212 million. The company's bonds have a Caa3 rating from Moody's, reflecting s a high risk of default.

Morgan Stanley is also "fundamentally cautious" on Party City bonds, citing similar reasons as Gielchinsky in a rersearrch note published earlier this week.

Morgan Stanley is likewise cautious on notes from Hanesbrands (HBI), Rite Aid (RAD), Gap (GPS), and Victoria's Secret (VSCO). Although Morgan Stanley isn't forecasting these companies will default soon, credit analyst Jenna Giannelli is avoiding the bonds given macroeconomic uncertainties and risks tied to the companies' financial health.

Party City, Hanesbrands, Rite Aid, Gap, and Victoria's Secret didn't immediately respond to a request for comment from *Barron's*.

Bed Bath investors may not be sleeping well, but other retailer creditors will continue to rest easy for now.

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