BED BATH & BEYOND INC

Bed Bath & Beyond Inc. is a leading seller of products for the home, including sheets, pillows, blankets and window treatments. Fiscal 2021 sales were $9.2 billion. The company also sells china, small appliances, other household products and specialty foods and beverages. The company, which is based in Union, New Jersey, ended 4Q21 with 1,020 stores, including 834 Bed Bath & Beyond stores, 54 Harmon stores (which sell health and beauty products) and 132 buybuy BABY stores. After the end of 3Q21, the company agreed to sell Cost Plus.

Analyst's Notes

Analysis by Christopher Graja, CFA, January 10, 2022

ARGUS RATING: HOLD

- Lowering FY22 and FY23 estimates
- On January 6, Bed Bath & Beyond missed consensus on the top and bottom lines and lowered its full-year outlook. Third-quarter sales of $1.88 billion fell 28% and came in below the StreetAccount consensus of $1.95 billion and our estimate of $1.97 billion.
- The 3Q adjusted loss of $0.25 per share came in below the StreetAccount consensus for a profit of $0.01 and our estimate for a profit of $0.03 per share. The company's guidance was $0.00-$0.05 for the period, which ended on November 27.
- Bed Bath reduced full-year guidance for adjusted (non-GAAP) EPS to a loss of $0.15 to breakeven from a profit of $0.70-$1.10 and $1.40-$1.55 prior to that. The pre-release consensus was $0.74. Our estimate was $0.78.
- We are lowering our FY22 estimate to a loss of $0.12 from a profit of $0.78 on an adjusted basis. Our sales forecast is now about $7.9 billion down from $8.4 billion. We are reducing our 4Q estimate to $0.10 per share from $0.68. Our estimate for full-year adjusted EBITDA is about $300 million on $42 million of adjusted EBIT.

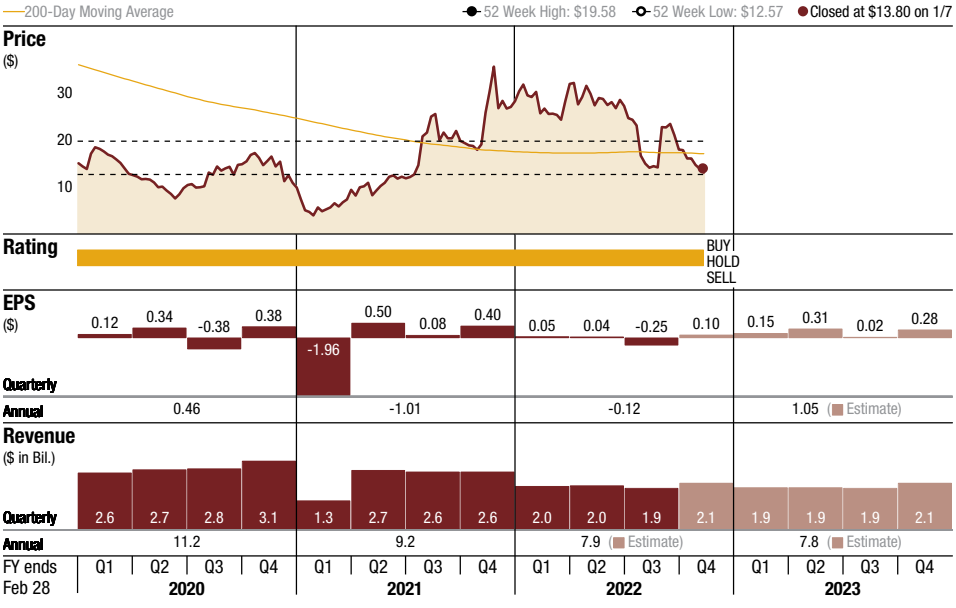
INVESTMENT THESIS

We are maintaining our HOLD rating on Bed Bath & Beyond Inc. (NGS: BBBY). The company entered the coronavirus crisis with the need to significantly improve its merchandising and e-commerce capabilities. New CEO Mark Tritton has been moving quickly and aggressively to cut costs and generate cash by restructuring operations, cutting inventories, selling real estate, reducing debt and selling an ancillary business. He has also made important hires and improved the company's private brands, which should help gross margin.

The COVID-19 epidemic made his job more difficult. Even before COVID-19, and the lockdown period that caused stores to close, store traffic had been very disappointing. We view traffic or transactions as a key indicator of a retailer's relevance to its customers. We

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	**HOLD**	BUY
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	**Market Weight**	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 71% Buy, 29% Hold.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	**$13.01**
Target Price	**--**
52 Week Price Range	**$12.57 to $53.90**
Shares Outstanding	**104.51 Million**
Dividend	**$0.00**

Sector Overview

Sector	**Consumer Discretionary**
Sector Rating	**MARKET WEIGHT**
Total % of S&P 500 Market Cap.	**13.00%**

Financial Strength

Financial Strength Rating	**LOW**
Debt/Capital Ratio	**70.6%**
Return on Equity	**13.6%**
Net Margin	**-4.6%**
Payout Ratio	**--**
Current Ratio	**1.58**
Revenue	**$8.44 Billion**
After-Tax Income	**-$391.46 Million**

Valuation

Current FY P/E	**--**
Prior FY P/E	**--**
Price/Sales	**0.16**
Price/Book	**2.26**
Book Value/Share	**$5.75**
Market Capitalization	**$1.36 Billion**

Forecasted Growth

1 Year EPS Growth Forecast
N/A
5 Year EPS Growth Forecast
5.00%
1 Year Dividend Growth Forecast
-100.00%

Risk

Beta	**1.54**
Institutional Ownership	**105.83%**

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Analyst's Notes...Continued

also view the holiday season as extremely important. This was far from a typical holiday with supply chain disruptions, and the company's performance did improve in November, the last month of the quarter, but the company's 3Q performance was weaker than we hoped. On the plus side, the pandemic-related shutdown has sent a lot of shoppers online to find products, and Bed Bath has won new customers and seen an increase in conversion as shoppers who visit the company's site actually make purchases.

Our store checks may be an important catalyst for our ratings. Even with e-commerce improving rapidly, the company has a lot of store space and we would like to see signs of stronger traffic.

RECENT DEVELOPMENTS

On January 6, Bed Bath & Beyond missed consensus on the top and bottom lines and lowered its full-year outlook. Third-quarter sales of $1.88 billion fell 28% and came in below the StreetAccount consensus of $1.95 billion and our estimate of $1.97 billion.

FY22 is the first year of a three-year turnaround plan under CEO Tritton who was previously Target's chief merchant. 'Sales momentum was not where we wanted it to be.' Mr. Tritton said in the 3Q earnings release. Supply chain disruptions and product shortages were a mid-single digit drag on the quarter's 7% comparable sales decline. On a more positive note, he said that the pace of the comparable sales decline improved in November, which is the last month of the fiscal quarter. Sales grew in the period from Thanksgiving through Cyber Monday. Bed Bath also adjusted prices and promotions, which led to a better-than-expected gross margin.

The company cut its full-year sales forecast to $7.9 billion from $8.1-$8.3 billion and from $8.2-$8.4 billion before that. BBBY cut its guidance for adjusted EBITDA to $290-$310 million from $425-$465 million and a prior range of $500-$525 million.

Bed Bath reduced full-year guidance for adjusted (non-GAAP) EPS to a loss of $0.15 to breakeven from a profit of $0.70-$1.10 and $1.40-$1.55 prior to that. The pre-release consensus was $0.74. Our estimate was $0.78.

The company provided 4Q22 adjusted EPS guidance of $0.00-$0.15. The pre-release consensus was $0.70. Our estimate was $0.68. BBBY expects adjusted EBITDA of $80-$100 million in 4Q, with depreciation in a range of $64-$69 million.

The 3Q adjusted loss of $0.25 per share came in below the StreetAccount consensus for a profit of $0.01 and our estimate for a profit of $0.03 per share. The company's guidance was $0.00-$0.05 for the period, which ended on November 27. BBBY's 3Q GAAP loss of $2.78 per share compared with a GAAP loss of $0.61 last year. GAAP results were hurt by restructuring costs.

Comparable sales were down 7% year-over-year for the full company. The StreetAccount consensus called for a 0.9% increase. The company estimated that it had a $100 million sales drag from supply chain issues.

The company saw a 9% decrease in digital sales from 3Q20.

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2017	2018	2019	2020	2021
Revenue	12,216	12,349	12,029	11,159	9,233
COGS	7,639	7,906	7,925	7,617	6,115
Gross Profit	4,576	4,443	4,104	3,542	3,118
SG&A	3,441	3,682	3,681	3,732	3,224
R&D	—	—	—	—	—
Operating Income	1,135	761	423	-191	-106
Interest Expense	70	66	69	65	77
Pretax Income	1,066	696	-157	-765	-337
Income Taxes	381	271	-19	-151	-186
Tax Rate (%)	36	39	—	—	—
Net Income	685	425	-137	-614	-151
Diluted Shares Outstanding	150	140	134	124	121
EPS	4.58	3.04	-1.02	-4.94	-1.24
Dividend	0.38	0.57	0.63	0.67	0.17
GROWTH RATES (%)					
Revenue	0.9	1.1	-2.6	-7.2	-17.3
Operating Income	-19.8	-32.9	-44.5	—	—
Net Income	-18.6	-38.0	—	—	—
EPS	-10.2	-33.6	—	—	—
Dividend	—	53.3	9.6	6.3	-74.6
Sustainable Growth Rate	15.7	9.4	8.0	—	-14.5
VALUATION ANALYSIS					
Price: High	$42.36	$24.08	$19.57	$26.16	$53.90
Price: Low	$19.07	$10.46	$7.31	$3.43	$13.38
Price/Sales: High-Low	0.5 - 0.2	0.3 - 0.1	0.2 - 0.1	0.3 - 0.0	0.7 - 0.2
P/E: High-Low	9.2 - 4.2	7.9 - 3.4	— - —	— - —	— - —
Price/Cash Flow: High-Low	7.6 - 3.4	2.9 - 1.3	4.7 - 1.8	6.7 - 0.9	36.4 - 9.0

Financial & Risk Analysis

FINANCIAL STRENGTH	2019	2020	2021
Cash ($ in Millions)	509	1,000	1,353
Working Capital ($ in Millions)	1,832	1,360	1,325
Current Ratio	1.88	1.55	1.58
LT Debt/Equity Ratio (%)	58.1	187.4	211.5
Total Debt/Equity Ratio (%)	58.1	213.6	239.7
RATIOS (%)			
Gross Profit Margin	34.1	31.7	33.8
Operating Margin	3.5	-1.7	-1.2
Net Margin	-1.1	-5.5	-1.6
Return On Assets	-2.0	-8.5	-2.1
Return On Equity	-5.0	-28.4	-9.9
RISK ANALYSIS			
Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	2.8	2.1	1.5
Oper. Income/Int. Exp. (ratio)	-1.3	-10.8	-3.4
Payout Ratio	24.2	—	

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Analyst's Notes...Continued

Digital sales represented 35% of the 3Q22 total. Store comps were down 5%. Core sales were down 14% from the prior-year quarter, with about half of the decline from planned store closings. As a reminder, the company's new 'core' banners include Bed Bath & Beyond, buybuy Baby, Harmon Face Values, and Decorist.

The company called out a 10% comp sales decrease under the Bed Bath & Beyond banner in 3Q. The Baby business delivered growth in the mid-teens.

The company's adjusted gross margin of 35.9% was up 50 basis points and topped the consensus of 34.2% and our estimate of 35.2%. Gross margin benefited from higher mix of private brands and price increases partially offset by higher freight costs.

The adjusted expense rate of 37.2% was above our estimate of 33.5% and the StreetAccount consensus of 33.5%. Most of the pressure was from lower-than-expected sales.

Adjusted EBITDA of $40.6 million included the addback of $63.6 million of adjusted depreciation. The StreetAccount consensus was $78.9 million. The adjusted margin was 2.2% compared with consensus of 4%.

Interest expense of $15.8 million was below our estimate of $16 million and down from $17.8 million in 3Q20. The company's adjusted tax rate was 36.5% of earnings before taxes. Our estimate was 26%.

In the fiscal third quarter, Bed Bath used $311 million of cash from operations, compared to cash generation of $43.5 million in the same period last fiscal year.

EARNINGS & GROWTH ANALYSIS

We are lowering our FY22 estimate to a loss of $0.12 from a profit of $0.78 on an adjusted basis. Our sales forecast is now about $7.9 billion down from $8.4 billion. We are reducing our 4Q estimate to $0.10 per share from $0.68. Our estimate for full-year adjusted EBITDA is about $300 million on $42 million of adjusted EBIT - in the middle of bottom of the company's reduced $290-$310 million guidance range. The company's adjusted EPS guidance now ranges from a loss of $0.15 to breakeven for the year.

We are reducing our FY23 EPS estimate to $1.05 from $1.75. We are reducing our sales forecast and making a reduction to our estimate of operating margin.

Our five-year estimate for average annual EPS growth is 5%. This is a bit of a challenge because we are coming out of the pandemic and a year of negative earnings. The store closings and business divestitures will reduce the sales base, but the proceeds from the divestitures are helping the company to improve its financial strength and they should leave the company with a more profitable business with the potential to grow.

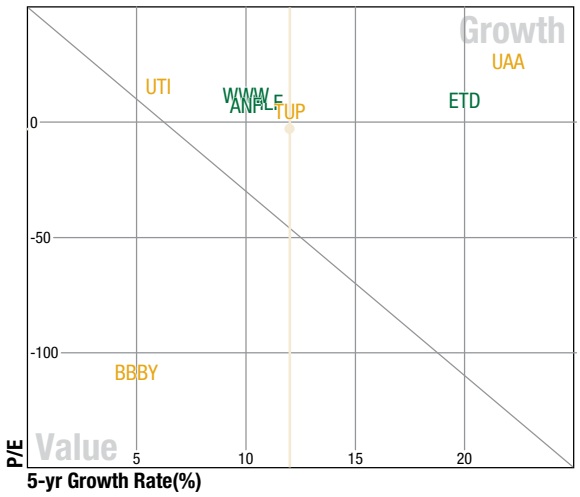
FINANCIAL STRENGTH & DIVIDEND

We recently reduced our financial strength rating on BBBY to Low from Medium-Low because the company's ability to execute its turnaround plan and return capital to shareholders was strained by the COVID-19 epidemic. Management has done an excellent

Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare BBBY versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how BBBY stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how BBBY might fit into or modify a diversified portfolio.**

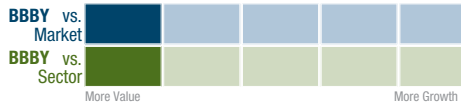


Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
HLF	Herbalife Nutrition Ltd	5,010	11.0	8.6	8.2	10.0	BUY
UAA	Under Armour Inc	3,686	22.0	26.4	7.8	-48.6	HOLD
WWW	Wolverine World Wide, Inc.	2,201	10.0	11.8	-3.8	15.0	BUY
ANF	Abercrombie & Fitch Co.	1,991	10.0	7.2	7.6	-11.1	BUY
BBBY	Bed, Bath & Beyond Inc.	1,360	5.0	-108.4	-4.6	975.0	HOLD
TUP	Tupperware Brands Corporation	730	12.0	4.6	.9	9.5	HOLD
ETD	Ethan Allen Interiors, Inc.	668	20.0	9.6	9.9	2.9	BUY
UTI	Universal Technical Institute	259	6.0	15.8	4.4	18.0	HOLD
Peer Average		**1,988**	**12.0**	**-3.0**	**3.8**	**121.3**	

P/E

P/E not available

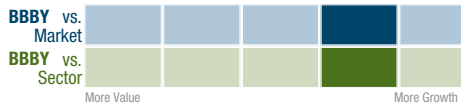
Price/Sales



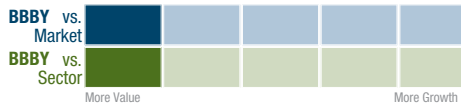
Price/Book



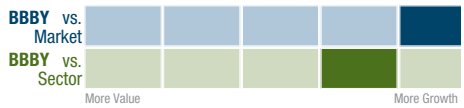
PEG



5 Year Growth



Debt/Capital



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Analyst's Notes...Continued

job of selling noncore businesses. Our bias had been for raising our assessment back up to Medium-Low. Based on the 4Q guidance, we will want to see stronger comp sales before we raise our assessment.

The company ended 3Q with about $600 million in cash and equivalents. It had total liquidity of about $1.5 billion, including cash and $900 million of available capacity on the new revolving credit facility. On December 25, liquidity was $1.6 billion helped by an increase in cash.

We expect BBBY to focus on strengthening the core business and increasing financial flexibility. Bed Bath has suspended the dividend. We think that was a prudent decision. Maintaining financial flexibility is more important. The company unfroze the share repurchase plan in October of 2020. The company has a three-year goal to repurchase $1 billion of shares. The company repurchased $130 million of shares in 1Q, $100 million in 2Q, and $120 million in 3Q. Bed Bath plans to repurchase another $275 million in 4Q. We would not object to lower buyback activity until the company restores investment-grade ratings.

In June 2020, the company entered into a new $850 million credit facility that is backed by assets including accounts receivable, inventory and certain deposit accounts. The company amended the facility on August 9, 2021. The new facility matures in 2026. There was no debt outstanding at the end of 3Q22, but there were $92 million in letters of credit.

In November of 2019, Standard & Poor's cut Bed Bath's credit rating to BB, which is below the investment-grade range. The rating is now B+. The outlook is stable. The Moody's rating is Ba3, three notches below the lowest investment-grade rating. The outlook is now stable.

Investment-grade ratings are important; they make it easier for companies to make deals and finance new projects and they provide access to commercial paper and other financial markets, which allow the company to maintain a more efficient balance sheet.

Investment-grade ratings also make it easier to borrow new money or refinance existing debt because there are many investors who can only own investment-grade bonds.

The company has operating leases, which Argus treated as debt for many years before newly adopted accounting guidelines required the company to recognize the asset and liability values of leased assets on the balance sheet rather than treating them as off-balance-sheet items.

Debt, including leases, was 70% of capital at the end of 4Q21, down from 74% at the end of 1Q21. Debt was 85% of capital at the end of 3Q.

We estimate that lease-adjusted debt was about 1.9-times EBITDAR (operating income plus rental expense plus depreciation) at the end of FY11, 1.7-times at the end of FY12, 1.8-times at the end of FY13 and 2-times at the end of FY14. Adjusted debt was approximately 2.6-times EBITDAR at the end of FY15, 2.9-times at the end of FY16, 3.0-times at the end of FY17, 3.8-times at the end of FY18, 4.6-times adjusted EBITDAR at the end of FY19 and 3.5-times at the end of FY20.

EBITDA was still negative for FY21, the company now expects EBITDA of $290-$310 million for FY22, down from previous guidance of $425-$465 million. The company's new goal is to get debt below 3-times more rapidly than its previous goal for FY24. That now seems unlikely to happen in FY22 based on the EBITDA guidance and 3Q debt of $3.1 billion. Note that our measure has moved from EBITDAR to EBITDA. The company's guidance is on an EBITDA basis.

BBBY paid FY18 dividends of $0.575 per share and FY19 dividends of $0.63 per share. FY20 dividends totaled $0.67 per share, reflecting one payment at the old rate of $0.16 and three payments at the increased rate of $0.17 per share. The company has suspended the dividend. The FY21 dividend was $0.17, reflecting the dividend the company declared in January 2020 and paid on April 14. Our FY22 and FY23 dividend estimates are zero. We would not rule out the possibility of the board reinstating the dividend.

MANAGEMENT & RISKS

The biggest risk currently facing BBBY is that store traffic was weak and the stores were underperforming in the strong economic environment before the pandemic. The company's online business has picked up some slack. But competition from Amazon, Target, Williams-Sonoma and Wayfair remains intense.

The company has hired some very capable executives and we believe that shoppers are willing to spend to make their homes safer and more comfortable. We also expect U.S. consumers to be eating more meals at home for the foreseeable future. This could be beneficial to sales of everything from espresso makers to spatulas, but BBBY must reestablish itself as a destination for innovative, well-priced merchandise and use analytics to drive add-on purchases and repeat business.

Calendar 2019 was a tumultuous year for Bed Bath. The company's founders lost their seats on the board and CEO Steven Temares stepped down under pressure from activists. The company initially appointed Mary Winston as Interim CEO and named Mark Tritton as president and CEO in October. Mr. Tritton, who was also added to BBBY's board, was most recently the chief merchant at Target and previously EVP of Nordstrom's Product Group.

The board has been expanded to 14 members from 10. It includes 13 directors who were added in the prior two years, and just one with a tenure greater than three years (Independent Chairman Patrick Gaston, who has been a director since 2007). The new board is more diverse and very qualified. It includes seven women, which we view as important for a company whose customers are mostly women.

On February 27, 2020, Mr. Tritton announced a major restructuring plan including the elimination of about 500 jobs. The goal is to reduce SG&A by about $85 million and ultimately save several hundred million dollars. Having a lean cost structure is incredibly important. The company must also have the right cost structure for the likely size of the business going forward. On July 23, 2019, the company announced that it was cutting 7% of its corporate staff, including COO Eugene Castagna. He previously served as the company's CFO.

On March 4, 2020, Bed Bath named Joe Hartsig as chief merchandising officer for the entire company, and president of the company's Harmon Stores, which sell cosmetics, health, and beauty products. Mr. Hartsig was most recently the chief merchant at Walgreen's, where he was responsible for Walgreen's front-of-store merchandise. His goal will be to differentiate the company's product assortment as rival Williams-Sonoma's West Elm chain has done so well. The company also used the word 'curate' in the press release. To us, that means that it will probably de-clutter the stores,

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Analyst's Notes...Continued

which will be a source of cash as the company sells through merchandise and doesn't replace it.

In April 2020, BBBY appointed John Hartmann as chief operating officer. Mr. Hartmann joined Bed Bath from True Value, where he modernized the hardware's supply chain. He has also held senior positions at Home Depot, Cardinal Health and the FBI.

Robyn D'Elia signed the 10-K as CFO and Treasurer on April 29, 2020. On April 30, the company announced that she would be replaced effective May 4 by Gustavo Arnal. He was previously CFO at Avon, and has also held senior positions at Walgreens Boots and Procter & Gamble.

Bed Bath is successfully recruiting managers and merchants to lead the turnaround. The fact that BBBY is attracting talent is an endorsement for CEO Tritton's vision.

In July 2020, the company announced that it hired Neil Lick to develop and launch private brands. He spent 22 years at Williams-Sonoma.

In August 2020, BBBY announced that it completed the sale of PersonalizationMall.com. On August 25, the company announced that it was cutting about 2,800 jobs across headquarters and stores. The move is expected to reduce SG&A by $150 million annually as part of the previously announced plan to improve EBITDA by $250-$350 million (excluding one-time costs) over the next two-to-three years.

In December 2020, the company announced an agreement to sell Cost Plus World Market.

One lesson we have learned over the years is that consumer companies can't cut their way to prosperity. The biggest problem facing Bed Bath is internet competition. It isn't just that there are more vendors selling more stuff (and there are), BBBY is chasing the competition, rather than leading it, and facing escalating costs to play a game it used to dominate. With his background as a merchant, Mr. Tritton should be inclined to invest as well as cut.

The growing popularity of web shopping has certainly coincided with a period of weak store traffic across retail, and particularly at Bed Bath. This trend will be taken to an extreme while coronavirus is contagious or perceived as being contagious. A consequence is that the company's merchants have always done a great job of selling in-store shoppers more than they planned to buy, and often at an attractive margin to the company. When foot traffic is weak, the company loses the ability to sell high-margin snacks, gadgets and accessories to buyers making an impulse decision. The company is trying to replicate the treasure hunt experience online, but it is hard to replicate the pull of gummy bears or cashews at the end of a work day or when you and your child have been shopping for a few hours.

We believe that Bed Bath's historical edge has come from the merchandising skill of its store managers, who can make decisions based on local demographics. The company is playing catch up in developing analytics and distribution capabilities and that spending is weighing on earnings.

BBBY faces competition from Williams-Sonoma, Restoration Hardware, Pottery Barn, Macy's, Wayfair, and the Home Goods chain that is owned by TJX. Pier 1, which had been included in this list of competitors for years filed for Chapter 11 bankruptcy protection in February of 2020. At this point, we are also concerned about competition from stores such as Wal-Mart, Target, Kohl's and Lowe's which are selling an increasing range of decorating items. We don't believe that any of these retailers are likely to match BBBY's full line of product offerings or consistently match the company's merchandising of core products, but in the current online environment they can post furniture or other products on their website and have those items shipped directly from the manufacturers.

Computer hackers are a growing threat in retail and BBBY could see its costs rise and its reputation suffer if hackers breach its computer system and take customer credit or debit-card data. The company must also make sure that it keeps its physical warehouses and stock rooms secure as theft has been a growing concern for a number of retailers.

Saturation is another risk that we will be monitoring and BBBY, like all other traditional retailers must make hard decisions on what its store portfolio should look like in five years.

One risk that management can't control is weakness in consumer spending. Concerns about COVID-19 may hurt BBBY in two ways: reduced store traffic and a potential loss of online business to retailers with more developed online offerings. High cotton prices represent a risk to gross margin if the company can't pass higher merchandise costs on to shoppers.

KPMG has been the company's auditor since 1992.

COMPANY DESCRIPTION

Bed Bath & Beyond Inc. is a leading seller of products for the home, including sheets, pillows, blankets and window treatments. Fiscal 2021 sales were $9.2 billion. The company also sells china, small appliances, other household products and specialty foods and beverages. The company, which is based in Union, New Jersey, ended 4Q21 with 1,020 stores, including 834 Bed Bath & Beyond stores, 54 Harmon stores (which sell health and beauty products) and 132 buybuy BABY stores. After the end of 3Q21, the company agreed to sell Cost Plus.

The company's fiscal year ends on the Saturday closest to February 28. Fiscal 2020 ended on February 29, 2020. Fiscal 2021 ended on February 27, 2021. The current FY22 will end on February 26, 2022.

VALUATION

BBBY shares have slipped about 36% over the last year. Valuing Bed Bath is a difficult task, but let's assume that the company earns our estimate of $1.05 per share in FY23, and hits $2.00 in FY24 (this is down from $2.50 in our previous note). If we assume that the company will then generate steady growth of 2% with a 70% payout and a 9% cost of equity, the shares would be worth a terminal multiple of about 10-times earnings. If we discount that $20 to the present at 9%, the shares would be worth about $16.50, which is slightly above the current share price. While this scenario includes substantial uncertainty, it does present a framework for valuing the shares. One risk is that the company isn't generating the kind of comparable sales we would hope to see.

Even amid the coronavirus pandemic, management is aggressively working to generate shareholder value and improve e-commerce sales. We would also like to see an improvement in store traffic and sales, which would indicate that BBBY is gaining relevance with shoppers. We are maintaining our HOLD rating.

On January 10, HOLD-rated BBBY closed at $13.01, down $0.79.

Please see important information about this report on page 6

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About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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