



## Bed Bath & Beyond Inc. (NASDAQ: BBBY)

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# Agenda

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## BED BATH & BEYOND®

**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

**4** Valuation

**5** Recommendation

**6** Catalysts and Risks

# Bed Bath & Beyond Inc. (NASDAQ: BBBY)

## BBBY Business Description

- BBBY operates a chain of retail stores that sell domestic merchandise, home furnishings, and other consumables
- Operates 1,533 stores (including non-core) in all 50 US states, the District of Columbia, Puerto Rico, and Canada
- Sells products via physical brick and mortar locations and an e-commerce platform
- Founded in 1971 in New Jersey, US by Warren Eisenberg and Leonard Feinstein
- Core strategy is to be the “trusted expert for the home and heart-felt life events”

## From BBBY to the End Customer



## Key Members of Management

				
<b>Name</b>	Mary Winston	Robyn D'Elia	Barry Feld	Allan Rauch
<b>Position</b>	Interim CEO	CFO & Treasurer	CEO of Cost Plus	Chief Legal Officer
<b>Years @ BBBY</b>	<1	23	14	25
<b>Background</b>	Previously Executive VP and CFO at Scholastic Corporation	Previously VP Finance at BBBY	Previously CEO of Portrait Corporation of America	Director of Cost Plus

## BBBY's Major Non-Core Brands

Brand	# of Stores	Product Offering
	277	Furniture and Home Decor
	124	Toddler Clothing and Tools
	81	Year-Round Holiday Decor
	55	Discount Goods

# BBBY's Business Model

## BBBY's Core Value Proposition

- **Brand Strength and Reputation:** One of the most recognizable brands in the North American home furnishing retail industry
- **Breadth of Product Portfolio:** Extensive range of products, including bedding, kitchenware, home furnishings, furniture, and home decor products
- **Accessibility:** Operates an extensive network of retail locations in combination with an online retail store, providing a high level of accessibility for customers
- **Distribution Infrastructure:** Network comprises of proprietary and third-party facilities that enable an efficient delivery of products to stores and customers

## Business Model Evolution: Timeline of Events

- 1971: Leonard Feinstein and Warren Eisenberg open first Bed 'n Bath location
- 1985: 17 stores operate in New York, New Jersey, Connecticut, and California; the opening of the first superstore occurs (10x standard)
- 1987: Company name is changed to Bed Bath & Beyond, as a result of portfolio diversification; begins to offer an increased range of homeware products
- 1991: Sales reach US\$134 million
- 1992: The firm goes public in June 1992; in May of the next year, BBBY trades at nearly 2x IPO price
- 1994: Electric appliances are added to the store's product offering
- 1999: Sales exceed US\$1 billion
- 2000: The firm grows to 311 stores in 43 states

## Key Company Statistics

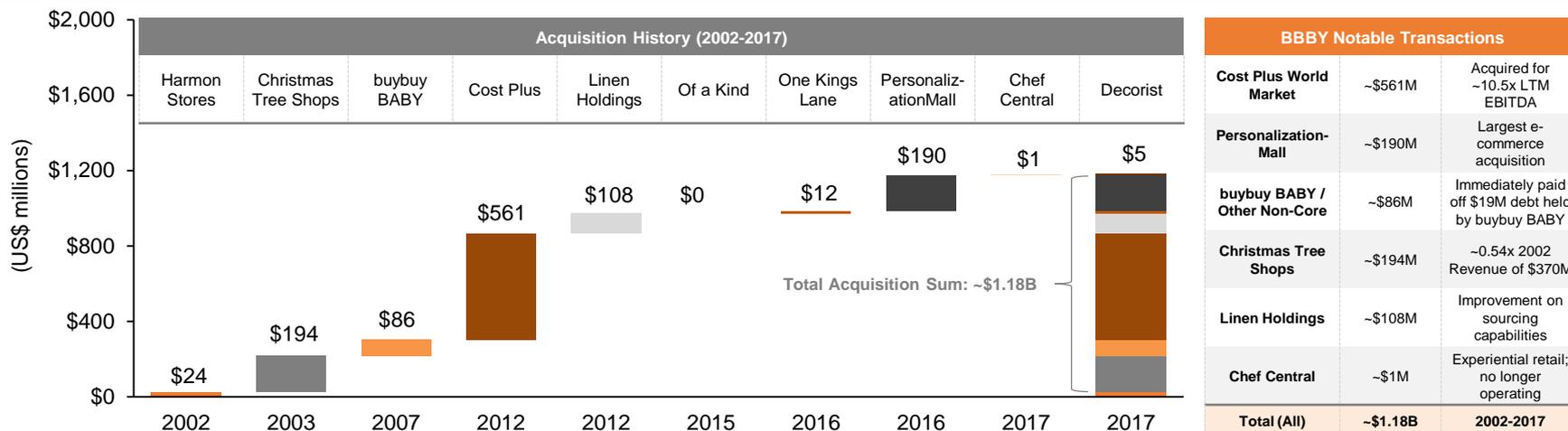
Primary Industry Classification: Homefurnishing Retail	
Number of Employees (2017)	~65,000
Number of Locations (BBBY and Non-Core)	1,533
Number of Suppliers	~11,200
Store Openings (2018A)	17
Store Closures (2018A)	37
<b>Anticipated Store Closures (2019E)</b>	<b>60</b>
Issuer Credit Rating (Local Currency LT)	<b>BB+ (10/24/2018)</b>
Issuer Credit Rating (Foreign Currency LT)	BB+ (10/24/2018)

## Complete BBBY Value Chain

Multi-Step Process from Supplier to Customer	
<b>Step 1: Purchase from Supplier(s)</b>	BBBY purchases merchandise from mostly domestic suppliers, as well as a few overseas suppliers; largest supplier accounts for ~3% of merchandise purchases
<b>Step 2: Shipment to Distribution Facilities</b>	A substantial portion of merchandise is shipped to stores through a combination of third party facilities and company-owned distribution facilities
<b>Step 3: Fulfillment of Online Purchase</b>	For online purchases, the majority of merchandise is either directly shipped to the customer from a third-party/company-owned distribution facility or vendor
<b>Step 4: Fulfillment of In-Store Purchase</b>	For brick and mortar purchases, merchandise is shipped to the physical stores; ~62,000 PT and FT associates facilitate the in-person sales process

# BBBY's Operating Portfolio

## Timeline of BBBY Acquisitions



### Core BBBY

- Brick and mortar stores, in addition to an online platform, under the core BBBY likeness
- 994 stores in all 50 states (2018 Annual Report), and additionally in Puerto Rico and Canada
- Began as Bed 'n Bath in 1971 and IPO'd in June 1992
- Historically has used coupon mailers and other discounting methods to bring customers into stores
  - Recently has announced a reduction in these as part of turnaround effort to increase profitability
- Branded stores continue to be bread and butter of BBBY

### Non-Core BBBY Portfolio

- BBBY has spent past ~decade on various acquisitions of retail chains that deliver a similar business model
  - buybuyBABY:** Infant and toddler merchandise (founded and run by former Chairman Feinstein's children prior to acquisition)
  - Cost Plus World Market:** Access to new geographies and expansion of existing products
  - PersonalizationMall:** Online retailer of gift-like products; largest e-commerce acquisition
  - Christmas Tree Shops:** Seasonal giftware
- Primary benefit of extensive portfolio is purchase discounts received from suppliers

# Management Overview I & Capital Allocation Strategy

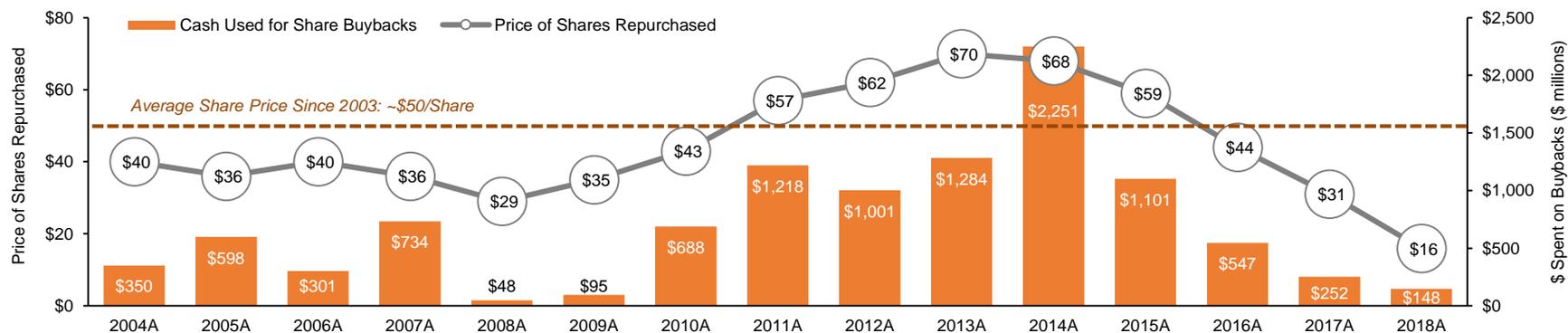
## Overview of BBBY's Management

Name	Position	Yrs @ BBBY	Biography
Mary Winston	Interim CEO	<1	<ul style="list-style-type: none"> <li>Previously EVP, CFO and CAO of Scholastic Corporation</li> <li>Experience in M&amp;A, cost restructuring; MBA @ Northwestern</li> </ul>
Robyn D'Elia	CFO & Treasurer	23	<ul style="list-style-type: none"> <li>Previously VP Finance, VP Controller and VP FP&amp;C at BBBY</li> <li>Prior to BBBY, worked in public accounting with Arthur Andersen</li> </ul>
Kevin Wanner	VP of Technology & Operations	19	<ul style="list-style-type: none"> <li>Has previously completed courses at various community colleges</li> </ul>
Susan Lattmann	Chief Administrative Officer	23	<ul style="list-style-type: none"> <li>Previously CFO and VP Finance at BBBY; has also served as Principal Accounting Officer, VP and Controller</li> </ul>
Allan Rauch	Chief Legal Officer	25	<ul style="list-style-type: none"> <li>Previously VP Legal and is Director of Cost Plus</li> <li>Bachelor's Degree and J.D. from University of Pennsylvania</li> </ul>
Barry Feld	CEO of Cost Plus	14	<ul style="list-style-type: none"> <li>Previously President and CEO of Portrait Corporation of America</li> <li>Graduate of Essex College</li> </ul>
Arthur Stark	Senior Advisor to CEO	42	<ul style="list-style-type: none"> <li>Previously President and Chief Merchandising Officer</li> <li>Joined BBBY in 1997</li> </ul>

Under management's proposed turnaround plan, all management positions would remain the same, with key changes occurring on the operational & financial side of the business

**Has led to criticism from hedge funds, institutional and retail shareholders; most common is lack of expertise in what is required to succeed in evolving retail landscape**

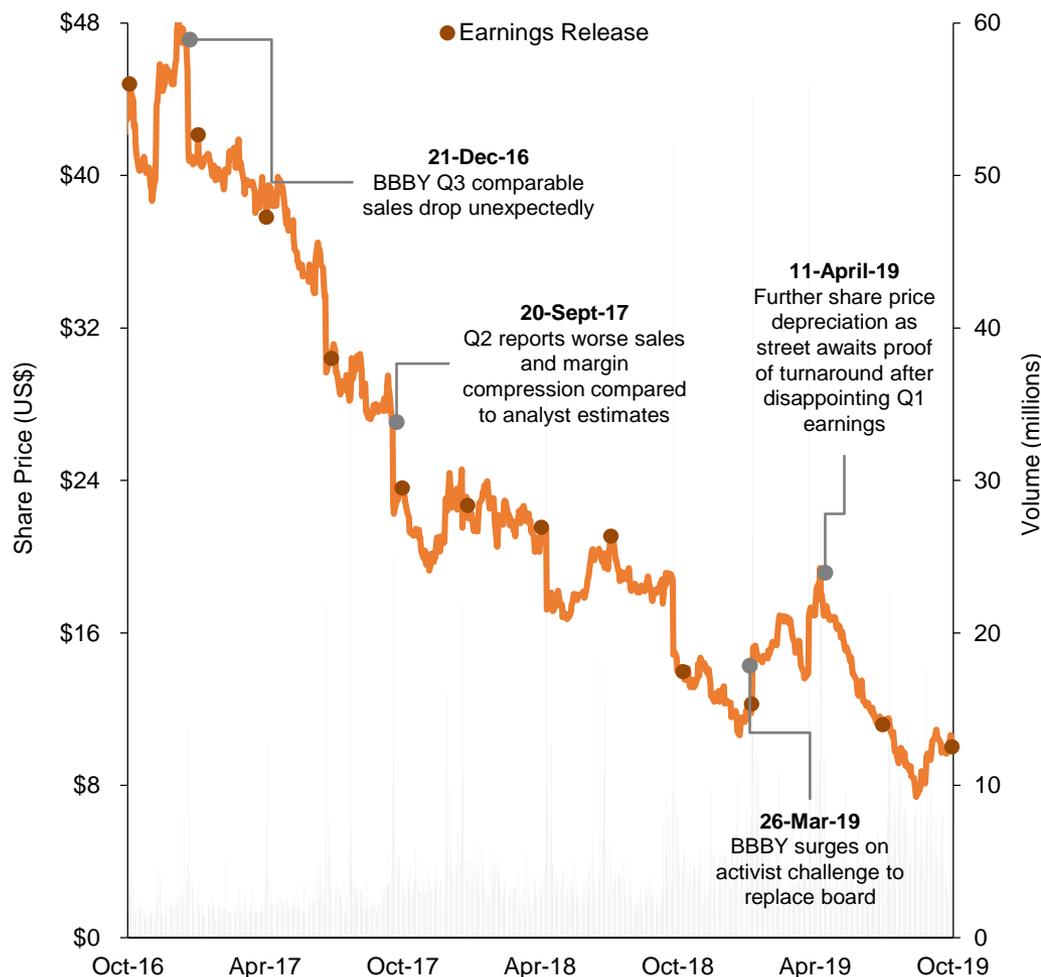
## Track Record of Core Facet of Capital Allocation Strategy: Share Buybacks



**BBBY's management has historically engaged in significant buyback activity, ramping up from 2011-14A; in December 2014, at an average cost of US\$68/share (currently US\$10.02), BBBY took on ~\$1.5B in senior unsecured notes to finance the increase in the repurchase program (versus historical repurchase activity)**

# PV Chart and Capitalization Table

## Price-Volume Analysis



## Market Data

(in US\$ millions)

### Capitalization

Share Price (02-Oct-2019)	(US\$)	\$10.02
Basic Shares Outstanding	(mm)	123
Diluted Securities	(mm)	-
<b>Market Capitalization</b>	<b>(US\$ mm)</b>	<b>1,236</b>
(-) Cash & Equivalents	(US\$ mm)	(984)
(+) Short-Term Debt	(US\$ mm)	-
(+) Long-Term Debt	(US\$ mm)	1,488
(+) Minority Interest	(US\$ mm)	-
<b>Enterprise Value</b>	<b>(US\$ mm)</b>	<b>1,740</b>

### Trading Multiples

EV / 2018A EBITDA	-	2.3x
EV / 2019E EBITDA	-	2.4x
EV / 2020E EBITDA	-	2.5x
P / 2018A EPS	-	-
P / 2019E EPS	-	7.5x
P / 2020E EPS	-	5.6x

### Market Data

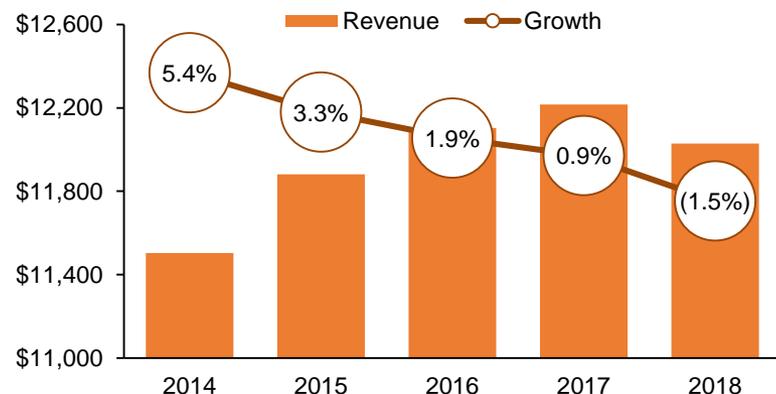
52-Week High	(US\$)	\$19.57
% of 52-Week High	(%)	51.2%
52-Week Low	(US\$)	\$7.31
Historical 2-Year Beta	-	1.05

Sources: Capital IQ, Press Releases

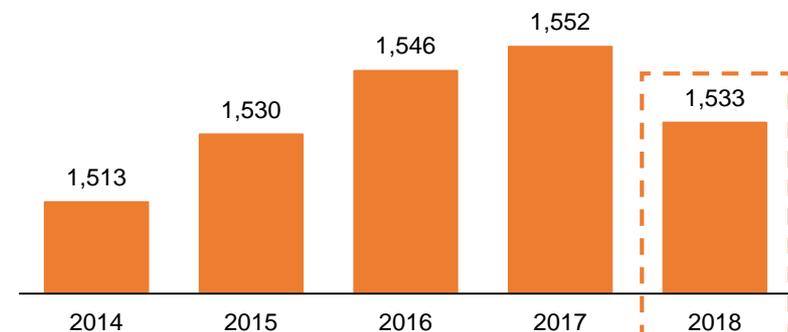
# Historical Operating Metrics

## Historical Revenue

US\$ mm per Cap IQ



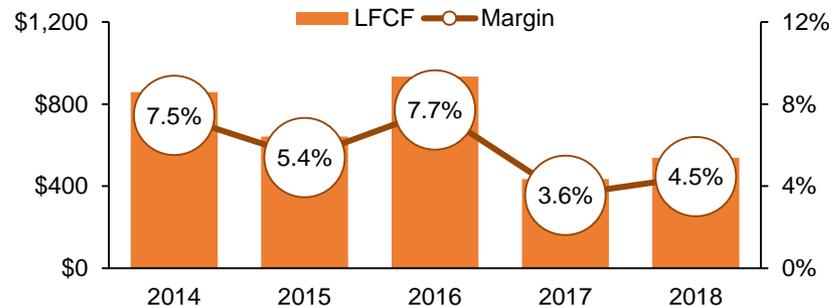
## Historical Brick-and-Mortar Stores Per Year



Drop-off in 2018 is attributed to management's newly-implemented strategic initiative of closing unprofitable stores

## Historical Levered Free Cash Flow

US\$ mm per Cap IQ



Despite turbulent market conditions, free cash flow margins have resisted significant downward pressure

## Historical Same-Store Sales

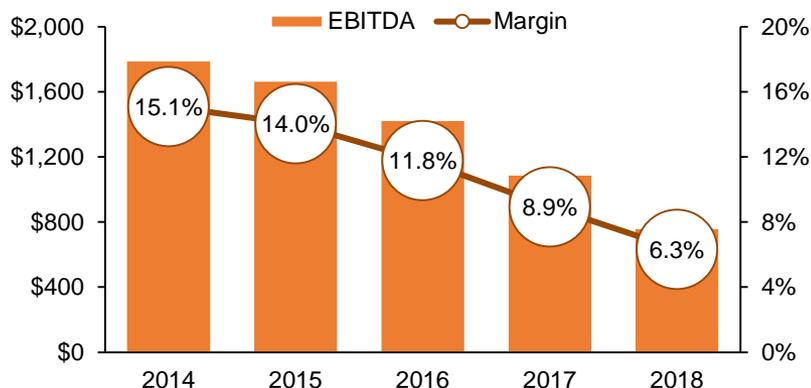


Slowing same-store sales growth has contributed to the recent decline in BBBY's share price and operating performance

# Historical Operating Metrics

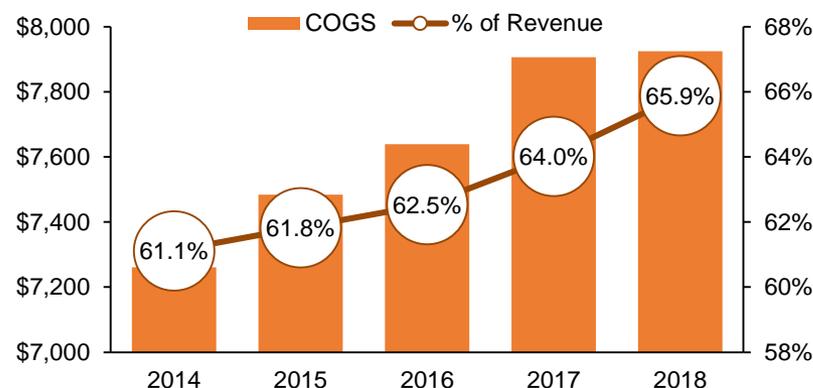
## Historical EBITDA

US\$ mm per Cap IQ



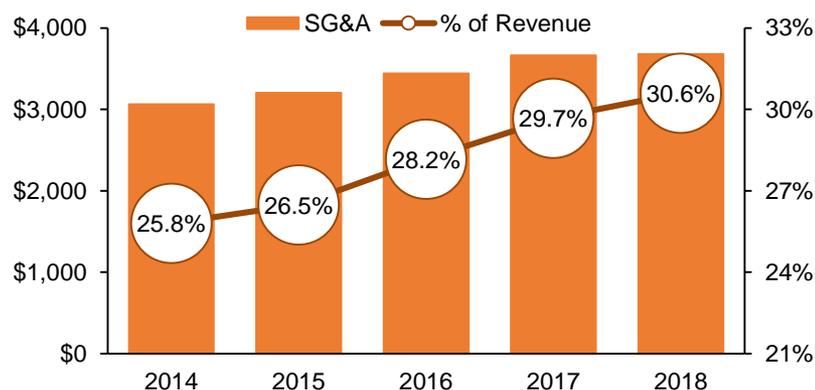
## Historical Cost of Goods Sold

US\$ mm per Cap IQ

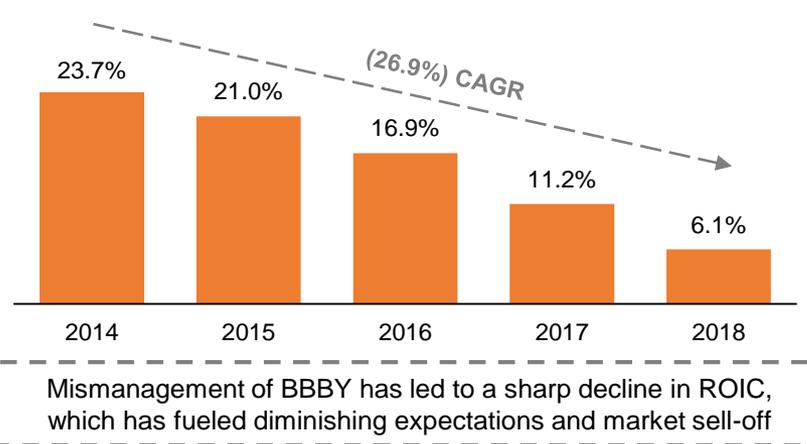


## Historical SG&A Expenses

US\$ mm per Cap IQ

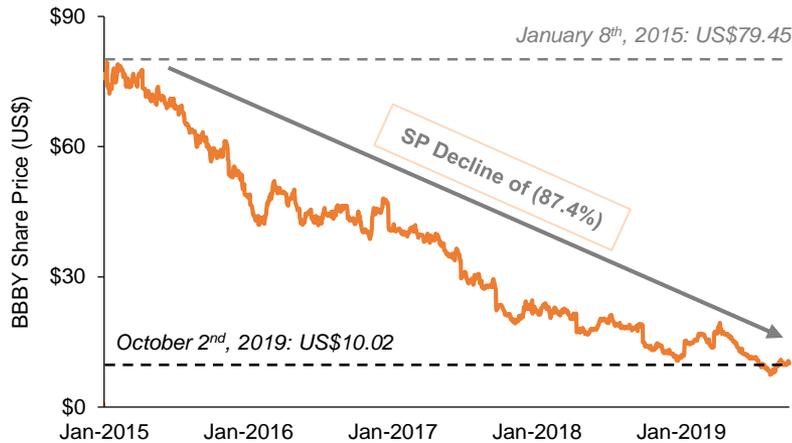


## Historical Return on Invested Capital (ROIC)



# BBBY's Market Sell-Off & Proposed Turnaround

## The Decline: January 2015 → Q2 2019



## The Alleged Turnaround: 4 Strategic Priorities

- 1 Stabilization of Sales and Top-Line Growth
  - Refresh of 160 core stores currently underway
  - Investments in digitization to create true omnichannel experience
- 2 Cost Structure Reset (RE, Sourcing, Overhead)
  - Reduction of G&A staff by 7%
- 3 Portfolio Review, Optimization of Asset Base
  - Inventory reset, divestment of non-profitable stores and non-core opportunities
- 4 Refinement of Organization Structure & New CEO

## The Decline: Why It Happened

- Following decades of success, BBBY has been decimated over the past ~4.75 years by the market
  - Has missed earnings guidance consistently
  - Investors have disputed the retailer's ability to thrive in retail landscape against e-commerce
  - Gross and operating margin compression
  - Inability to steal market share from competitors
- Declining comparable sales and lack of strategic shift from management has caused further sell-offs
- On a market cap. basis, ~\$13B of shareholder value has been destroyed by old management since 2015

## Limestone's View on Possible Future Outcomes

On-Going Concern (75%)	Bought Out/Taken Private (24.5%)	Solvent Liquidation (US) (0.5%)
<ul style="list-style-type: none"> <li>■ Most likely outcome given BBBY's brand equity and professional services hired to turnaround business (Goldman Sachs and others)</li> <li>■ Could maintain strong cash-flow generation even without top-line growth into the future (cost structure initiatives alone); likely cause of previous manag. complacency</li> </ul>	<ul style="list-style-type: none"> <li>■ Would help the turnaround without the scrutiny of market watching every quarter</li> <li>■ BBBY is extremely well-collateralized and trades near lowest SP level of this millennium</li> <li>■ Resultingly, relatively low PP compared to CF generation enables all bidders across IRR spectrum to potentially explore this opportunity</li> </ul>	<ul style="list-style-type: none"> <li>■ Extremely unlikely, but disparity between underlying book value and current market value, management/GS may deem this avenue the fastest/most effective way to unlock shareholder value given heavy short interest</li> <li>■ Most value-destructive <u>but would still generate a strong return @ current market price (see thesis I)</u></li> </ul>

# Shareholder Analysis

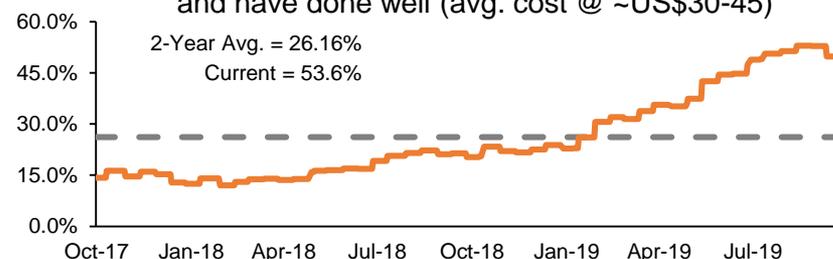
## Shareholder Summary

<i>(in millions)</i>	<b># of Shares Held</b>	<b>% of Shares Outstanding</b>
<b>Insiders</b>		
Eisenberg, Warren (Founder)	2.0	1.6%
Feinstein, Leonard (Founder)	1.9	1.5%
Temares, Steven (Former CEO)	1.0	0.8%
Other Insiders	1.0	0.8%
<b>Total Insiders</b>	<b>5.8</b>	<b>4.7%</b>
<b>Institutions</b>		
Vanguard Group	16.0	13.0%
FMR	15.9	12.9%
BlackRock	15.9	12.9%
Contrarius Investment Management	11.7	9.5%
Dimensional Fund Advisors	11.5	9.3%
State Street Global Advisors	4.8	3.9%
Hotchkis and Wiley Capital Management	4.5	3.7%
Renaissance Technologies	4.5	3.6%
AQR Capital Management	4.3	3.4%
BNY Mellon Asset Management	3.8	3.1%
Bridgewater Associates	3.7	3.0%
Legion Partners	3.6	2.9%
Other Institutions	72.2	58.5%
<b>Total Institutions</b>	<b>172.2</b>	<b>139.6%</b>
Public Float	117.5	95.3%
<b>Total Basic Shares Outstanding</b>	<b>123.3</b>	<b>100.0%</b>

Note: Total shares outstanding exceeds 100% of shares held by insiders and institutions because reporting requirements for holding data are not aligned with financial reporting of shares outstanding. The company has repurchased a substantial amount of shares over the past fiscal year and continues to, magnifying the discrepancy arising from the misalignment of reporting times.

## Commentary on Short Interest

- BBBY is amongst the most shorted equities globally
  - Most shorts initiated approximately 2-3 years ago and have done well (avg. cost @ ~US\$30-45)



**Despite the high short interest, Limestone believes that institutions are beginning the process of closing existing short positions due to the asymmetrical R/R profile at current price levels (thesis II)**

## Activism Activity

- In April 2019, Legion Partners, Macellum Capital Management and Ancora partnered together and published a 168-page presentation harshly criticizing BBBY's management – CEO then stepped down
  - Position disclosed then was ~7M shares of common stock of BBBY, approx. 5% of shares at the time; high possibility that one, if not all, asset managers have further invested to lower AC base
  - Areas of criticism include bloated SG&A, management expenses and capital allocation
- Activists (equity) will be instrumental in expediting catalyst timelines and generating shareholder returns

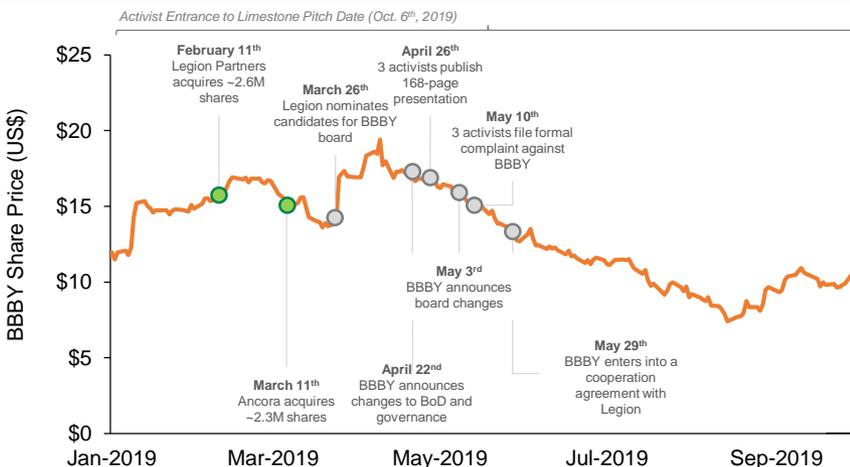
# The 'Investor Group' of Activists

## Implications of Entrance

- Uncommon for three activists to team up historically
- BBBY responded to 168-page presentation by announcing 5 new independent directors
  - Eventually entered into a cooperation & support agreement with Legion Partners; resultingly, Legion withdrew slate of 10 nominees
- Then-CEO Steve Temares stepped down/resigned
  - Interim CEO, Mary Winston, hired while official independent search committee is formed

Material changes result following initial entrance of three activists and application of substantial pressure; shares rally briefly following initial attack but eventually return back to normalized levels

## Events Thus Far Since Entrance & Proposed Timeline Moving Forward



## Highlights of 168-Page Activist Presentation

- Alleges extreme management incompetence and necessity to replace then-CEO Steven Temares
  - Alleges the existence of massive wealth transfer from shareholders to management since 2003
  - Engagement in value destructive buyback plan @ average 5x current share price, total US\$10.6B
  - Consistent pay increases over time period but only generated positive relative TSR in 4 out of 15 years; CEO salary 2x next highest in peer set
- Argues for substantial reconstitution of board given previous corporate governance failures
- Argues for ability to reach ~\$5 EPS with turnaround plan

Activist Projected Performance & 6-Pronged Turnaround Plan

	EPS (\$)	EBITDA (\$ millions)	EBITDA (%)
<b>2018A Figure</b>	<b>\$1.9</b>	<b>\$745.0</b>	<b>-6%</b>
(+) Line Reviews and Sourcing	\$1.36-2.22	\$243-398	220-360 bps
(+) Private Label	\$0.49-0.79	\$87-142	80-130 bps
(+) SG&A Efficiencies	\$0.63-1.18	\$114-212	100-190 bps
(-) Investments in Sales-Driving Initiatives	(\$0.58-1.80)	(\$105-323)	(100-300 bps)
(+) Share Repurchase Impact	\$1.29	-	-
(-) Sales Declines & Other	-	(\$75)	-
<b>2022E Figure (Activist Estimates)</b>	<b>\$5.4</b>	<b>\$1,053.0</b>	<b>-9-10%</b>
CAGR (2018-22)	29.2%	9.0%	12.2%

- Company Culture:** Adding key competencies and exploiting talent within organization
- Sales:** Improvement of sales by fixing assortment, marketing and shopping experience
- Gross Margin:** Lowering supply chain complexity and removing middlemen through vendor consolidation, increased direct sourcing, private label penetration and lower promotions
- SG&A:** Realizing SG&A efficiencies through reduction in corporate expenses and advertising spend
- Inventory:** Rationalization of inventory to improve turns
- Capital Allocation:** Reallocation of investment priorities (CAPEX and non-core assets)



# Management Overview II: BBY's CEO Search

## Activist Group Accelerates Company Turnaround with CEO Overhaul



**Steven H. Temares**



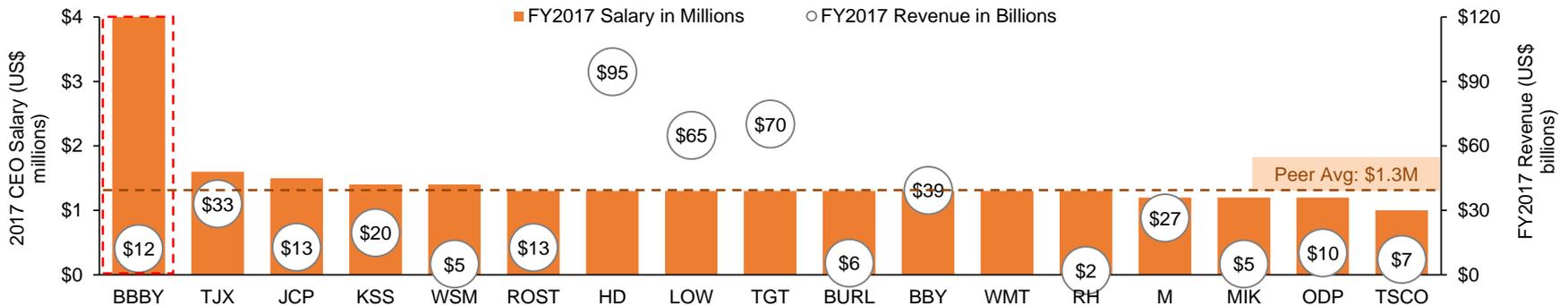
**Mary A. Winston**



**TBA**

- In May 2019, Temares stepped down as CEO and resigned from the board after facing immense pressure from activists
- BBY's executive management was largely criticized for receiving excessive compensation while BBY's management continued to destroy shareholder value
  - Over the past 14 years<sup>1</sup>, Temares had cumulatively earned \$186M, a significant premium to peer group compensation
- Temares' employment contract also entitled his estate to either a) half the base salary he would have earned over the next 10 years, or b) provided him with \$36 million if he were to be terminated prior to his death
- These events, combined with other seemingly self-interested provisions and events by the board and management, led the activists to prioritize the restructuring of BBY's board and management as the principal focus of the company's turnaround

### Temares' Compensation: Extremely Disproportionate Relative to Peers



Sources: Capital IQ, Legion Partners, Macellum Capital Management, Ancora, EDGAR, ISS  
 1. Excluding FY2018.

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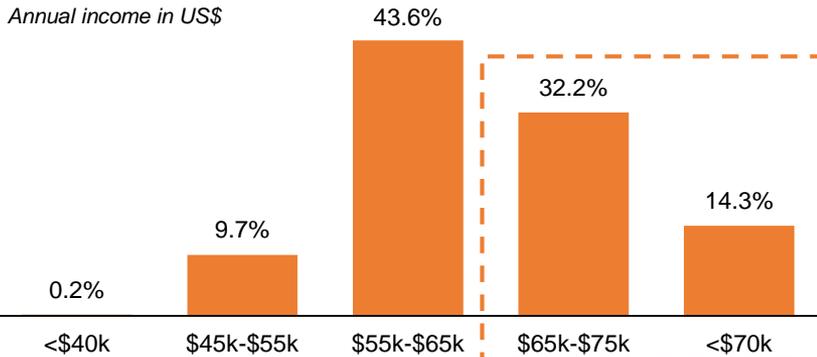
**5** Recommendation

**6** Catalysts and Risks

# Customer Behaviour Analysis: Home Furnishing Retail

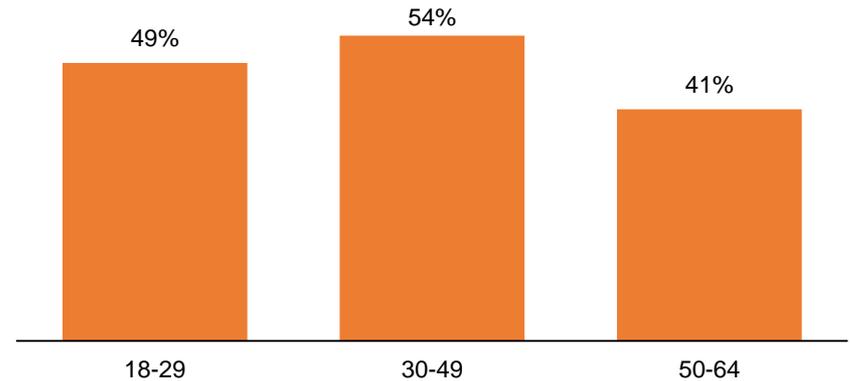
## Store Locations by Geographic Location<sup>1</sup>

Annual income in US\$



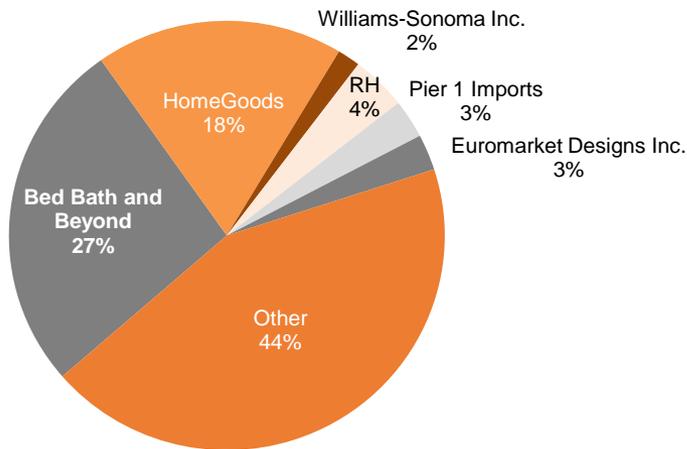
BBBY has high exposure to geographic regions with higher disposable income (46.5% from middle-upper class)

## BBBY Penetration by Age Group

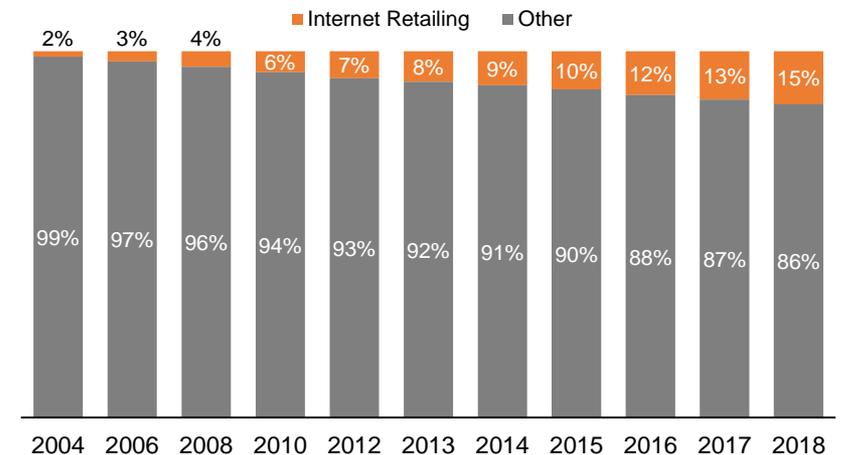


Among this demographic, women tend to be dominant consumer

## Major Players by Market Share

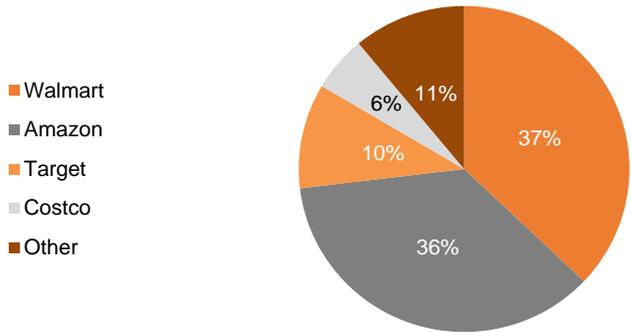


## Online Retailers Act as a Growing Threat for B&M

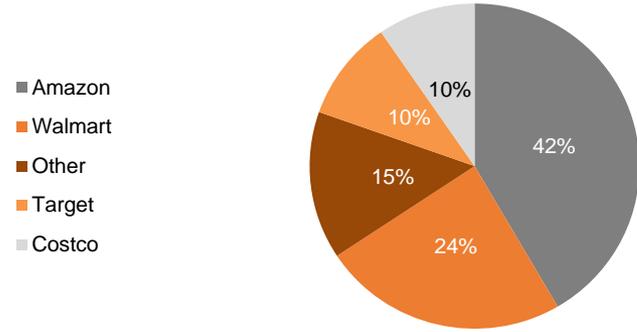


# Customer Behaviour Analysis: Big Box Retail

## Retail Preferences of <\$50K US\$ Income Earners



## Retail Preferences of >\$50K US\$ Income Earners

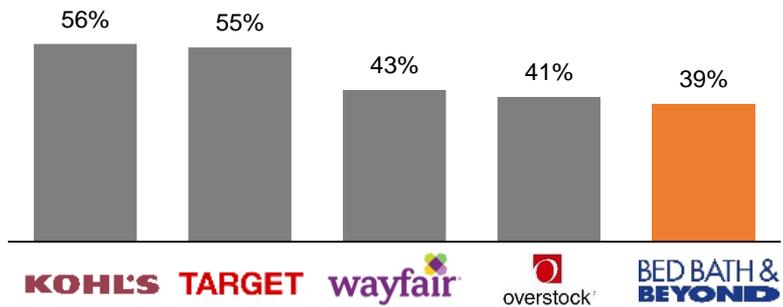


Low income earners display an affinity towards discount retailers, as shown by their preference for Walmart

Considering Amazon's market share dominance, medium-to-high income earners prefer convenience and personalization over price

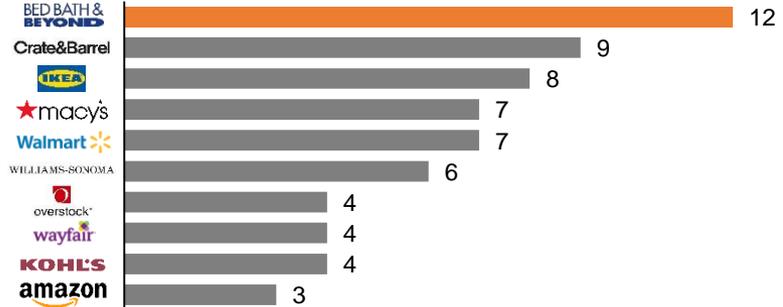
## Growing Importance of Personalized Marketing

Direct Marketing Contribution as a % of Total Traffic



## Convenience: A Necessity for E-Retail Success

# of Steps Required by Customers to Place Online Orders



Customers place a high level of importance on personalization, leading to significant investments in direct marketing initiatives

The lack of convenience and timeliness characterizing BBBY's online platform has contributed to poor operating performance

# BBBY's Competitive Landscape

## Profiles of Leading Competitors & Commentary

Company (Logos)	# of Stores	Revenue (LTM)	EBITDA Margin (%)	Commentary on Business Model/Strategy	Comparability to BBBY (/10)	Threat to BBBY (/10)	Revenue Segments (Most Recent FY)
	1,844	US\$76.9B	9.1%	<ul style="list-style-type: none"> <li>Significantly larger variety of product offerings, less specialized in the home furnishings industry; merchandise at discounted prices</li> <li>Major portion of company sales from national brand merchandise</li> </ul>	5	9	<ul style="list-style-type: none"> <li>Does not disclose beyond US Retail Operation level</li> </ul>
	4,306	US\$40.0B	12.7%	<ul style="list-style-type: none"> <li>Off-price apparel and home fashions retailer, US and international</li> <li>Stocks quality in-season products, not seconds and past-seasons stock that has failed to fully turnover</li> </ul>	6	5	<ul style="list-style-type: none"> <li>US Marmaxx – 62%</li> <li>US Homegoods – 15%</li> <li>TJX Canada – 10%</li> <li>TJX International – 13%</li> </ul>
	1,717	US\$15.4B	15.5%	<ul style="list-style-type: none"> <li>Sells clothing products at discounted prices in comparison to their competitors; two brands of off-price retail</li> <li>Broad portfolio of products including clothing for men, women, and children, in addition to home furnishings offering</li> </ul>	6	5	<ul style="list-style-type: none"> <li>Does not disclose beyond Off-Price Retailing Operation level</li> </ul>
	1,159	US\$20.0B	11.3%	<ul style="list-style-type: none"> <li>Extensive domestic customer base in the US, operating in 49 of 50 states; most notably in California, Texas, and Illinois</li> <li>Moderately-priced proprietary and national brand products</li> </ul>	8	8	<ul style="list-style-type: none"> <li>Does not disclose beyond Retail Department Store Operation level</li> </ul>
	1,258	US\$5.2B	14.4%	<ul style="list-style-type: none"> <li>Primarily arts and crafts specialty; carries products that directly compete with BBBY such as seasonal and organization products</li> <li>Product and service offering depends on current trends, anticipated value to customers, and general customer demand</li> </ul>	5	3	<ul style="list-style-type: none"> <li>USA – 91%</li> <li>Canada – 9%</li> </ul>
	180	US\$1.3B	12.6%	<ul style="list-style-type: none"> <li>Most products are unbranded, private label, or specifically designed for the company</li> <li>Highly analytical approach to real estate site selection process at core of overall strategy</li> </ul>	8	7	<ul style="list-style-type: none"> <li>Does not disclose beyond Retail Specialty Operation level</li> </ul>
	973	US\$1.4B	(10.7%)	<ul style="list-style-type: none"> <li>Heavy capital investments in 2019, specifically in information technology, supply chain and stores</li> <li>Currently revamping in-store shopping experience and retooling the company's omni-channel platform</li> </ul>	7	2	<ul style="list-style-type: none"> <li>USA – 94%</li> <li>Canada – 6%</li> </ul>
KIRKLAND'S	428	US\$0.6B	2.4%	<ul style="list-style-type: none"> <li>Implementation of new strategy to broaden product reach and to optimize brick and mortar network</li> <li>Solid performance in new categories like table-tops and rugs; upcoming launch of bedding in the third quarter</li> </ul>	8	9	<ul style="list-style-type: none"> <li>Does not disclose beyond Retail Home Furnishing Operation level</li> </ul>
	726	US\$1.0B	1.5%	<ul style="list-style-type: none"> <li>Off-price retailer; sources inventory from manufacturers, closeout sellers and occasionally other retailers</li> <li>New distribution center bypass program will be linked to the transportation management system</li> </ul>	6	4	<ul style="list-style-type: none"> <li>Does not disclose beyond Retail Sales Operation level</li> </ul>
WILLIAMS SONOMA	625	US\$5.8B	11.3%	<ul style="list-style-type: none"> <li>Multi-channel specialty retailer of home products</li> <li>Data-driven performance marketing is producing outsized returns on digital media investments</li> </ul>	8	7	<ul style="list-style-type: none"> <li>e-Commerce – 54%</li> <li>Retail – 46%</li> </ul>
	125	US\$2.6B	16.6%	<ul style="list-style-type: none"> <li>Luxury retailer in the home furnishings marketplace</li> <li>Company offering is very niche and personalized, as designers offer customers a customized and comprehensive sale process</li> </ul>	7	6	<ul style="list-style-type: none"> <li>Restoration Hardware – 95%</li> <li>Waterworks – 5%</li> </ul>
Lbrands	674	US\$13.2B	15.0%	<ul style="list-style-type: none"> <li>Huge international reach, operating retail chains across Europe, Asia Pacific, the Middle East, and Latin America</li> <li>Controls market leading brands such as Victoria's Secret and Bath and Body Works; known for prestige and high brand equity</li> </ul>	5	6	<ul style="list-style-type: none"> <li>Victoria's Secret – 56%</li> <li>Bath &amp; Body Works – 35%</li> <li>Others – 9%</li> </ul>

Sources: Capital IQ, Company Filings

# Industry Trends Affecting Operating Performance

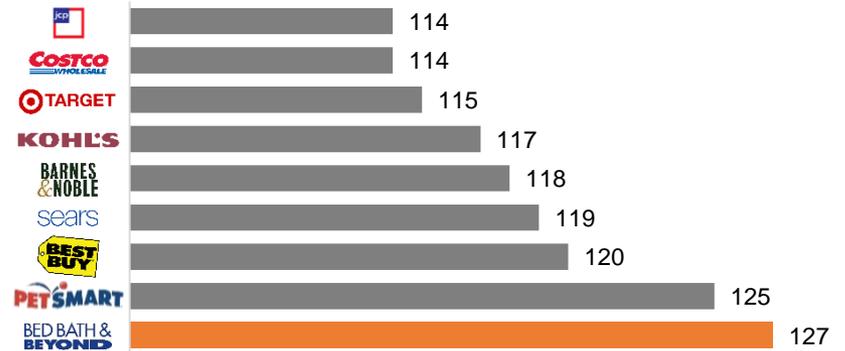
## Trade Tariffs & Burden

- On August 1<sup>st</sup>, President Trump imposed a 10-15% tax on an additional \$300B of Chinese imports
- While its unclear how consumer companies are dealing with this, manufacturers of inelastic goods appear to be passing down costs to the consumer
  - At minimum, some costs will be passed down for the majority of products
- Similarly to many other companies, BBBY currently has 65% of all imports coming from China<sup>2</sup> directly or indirectly, which analysts believe will negatively impact 2019E EPS

## Loss of Marginal Market Share to Online<sup>1</sup>

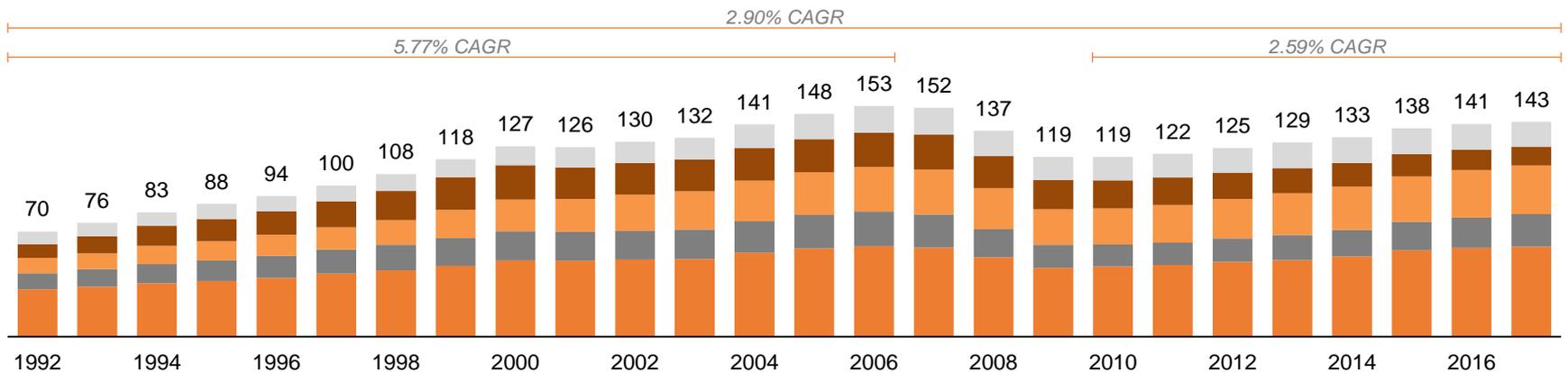
- With emerging online competitors, brick and mortar retailers have lost market share due to showrooming

*Indexed at 100; 100 score represents the 'average consumer' who purchases a given item on Amazon upon viewing it in a brick and mortar store – for BBBY customers, @ a 127% score, they are 27% more likely to engage in this behaviour than the 'average consumer'*



## Industry Sizing Breakdown by Segment

(US\$ billions)    Furniture    Floor coverings    Other home furnishings products    Office supplies and stationery    Household appliances



Sources: New York Times, CNBC, Markets Insider, Census Bureau

- Q: Have you purchased an item on Amazon.com after looking at the same item in physical retail store?
- Statistic sourced from UBS research.

# Agenda

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## BED BATH & BEYOND®

1 Company Overview

2 Industry Outlook

3 Investment Thesis

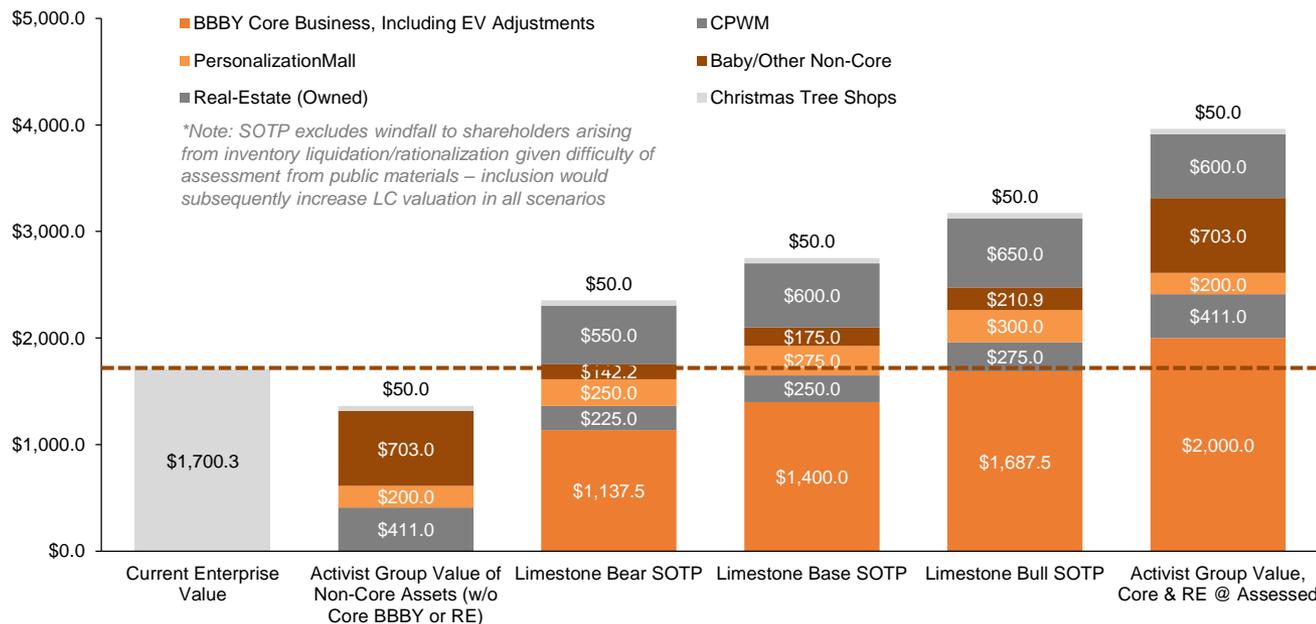
4 Valuation

5 Recommendation

6 Catalysts and Risks

# Only Upwards: Bear SOTP Valuation Still Implies Alpha

## BBBY's Market Value Outsized by LC's Conservative Valuation Of Underlying Assets In All Scenarios



Limestone SOTP Key Assumptions	
<b>Core Bed Bath &amp; Beyond Stores</b>	Proportionate EBITDA * 3.5-4.5x (Currently Trades @ 3.4x, LTM)
<b>Cost Plus World Market</b>	Former Executive + PE \$250M Purchase Offer
<b>Personalization-Mall</b>	Bids \$250-300M for Entity
<b>buybuy BABY/ Other Non-Core</b>	~8x Core/Baby Stores, Conservative Estimate
<b>Christmas Tree Shops</b>	Activist Group Assessment; <\$700K EV per Store (81)
<b>Real Estate (Owned)</b>	Amortized Value on BS, Unadjusted for Market

In spite of utilizing extremely conservative estimates, LC's SOTP valuation implies upside even in a worst-case scenario (firesale-like prices), showing the disconnect between publicly-listed shares and the underlying assets of the business

(in US\$ millions)		Limestone Bear SOTP	Limestone Base SOTP	Limestone Bull SOTP	Activist Group Value, Core & RE @ Assessed
<b>EV Implied by SOTP</b>	(US\$ mm)	\$2,354.7	\$2,750.0	\$3,173.4	\$3,964.0
(-) Long-Term Debt	(US\$ mm)	(1,488.2)	(1,488.2)	(1,488.2)	(1,488.2)
(+) Cash & Equivalents	(US\$ mm)	983.8	983.8	983.8	983.8
(+/-) Other EV Adjustments	(US\$ mm)	-	-	-	-
<b>Implied FD Equity Value</b>	(US\$ mm)	\$1,850.32	\$2,245.63	\$2,669.07	\$3,459.63
(/) FD Shares Outstanding	(#)	123.3	123.3	123.3	123.3
<b>Implied BBBY Per Share Value</b>	(US\$)	\$15.00	\$18.21	\$21.64	\$28.05
<b>Implied Upside @ Oct. 2 Share Price</b>	(%)	50%	82%	116%	180%



Sources: Capital IQ, Company Filings, Legion Partners, Macellum Capital Management, Ancora, EDGAR

# Off Our Shoulders: Weight of Short-Interest To Be Lifted

## Short Lots Weigh on BBBY's Share Price

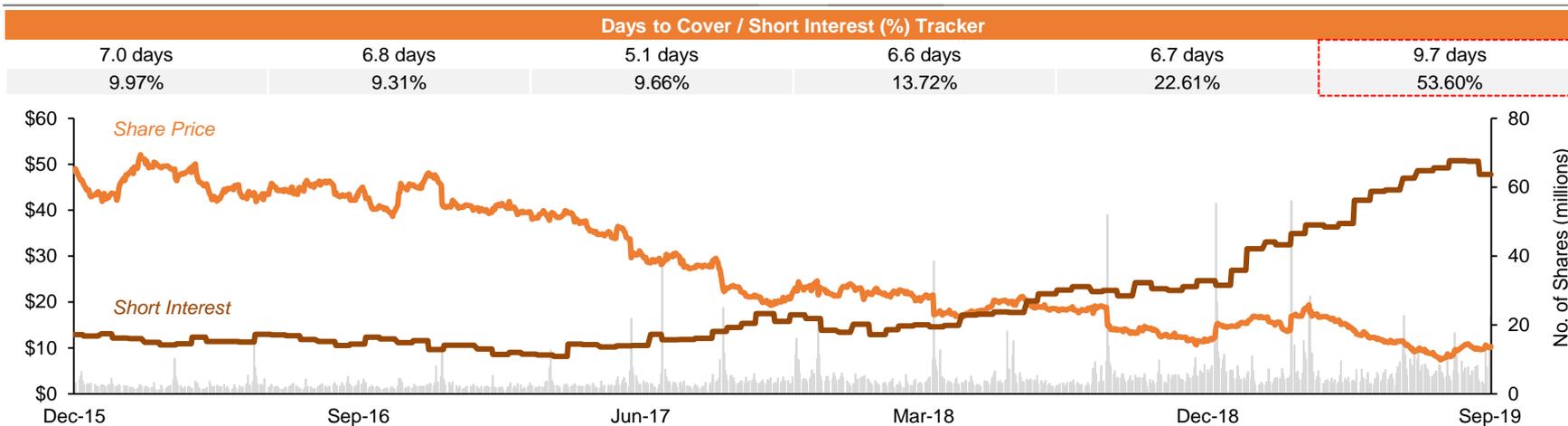
- Short interest in BBBY has rapidly grown in 2019 (climbing from 12.96% in January to 53.60%), which has heavily weighed on BBBY's share price
- Analyzing the short perspective, investors lack a clearly supported thesis to justify their positions
  - @ AC ~US\$30-45, asymmetrical R/R to try to squeeze last couple of \$ from current valuation
- Further considering BBBY's many near-term catalysts (share buyback potential, new CEO announcement, etc.) leads to conclusion of high potential for a short squeeze to remove the 'short weight' and for LC to realize substantial upside @ BBBY's current valuation

## Short Squeeze Precedent Table<sup>1</sup>

Company	Mkt. Cap	SI Ratio	SI (%)	ADV
<b>NETFLIX</b>	\$18,954M	2.2 days	11.51%	22,517,820
<b>BED BATH &amp; BEYOND</b>	\$1,250M	9.7 days	53.47%	9,557,579
<b>GameStop</b> <small>POWER TO THE PLAYERS</small>	\$854M	11.9 days	30.20%	3,128,981
<b>BARNES &amp; NOBLE</b>	\$468M	6.6 days	14.03%	1,931,745

Compared to other short squeezes, BBBY's short interest has been comparatively most impactful as a 'weight' on market valuation

## Shorts Pile On Market Valuation, Without a Concrete Reason to Remain



Sources: Capital IQ, Company Filings, MarketWatch, Fintel, InvestorPlace

1. Figures were calculated by taking averages over the period where the short squeeze occurred.

# Asymmetrical Financial R/R Profile on Future Outcomes

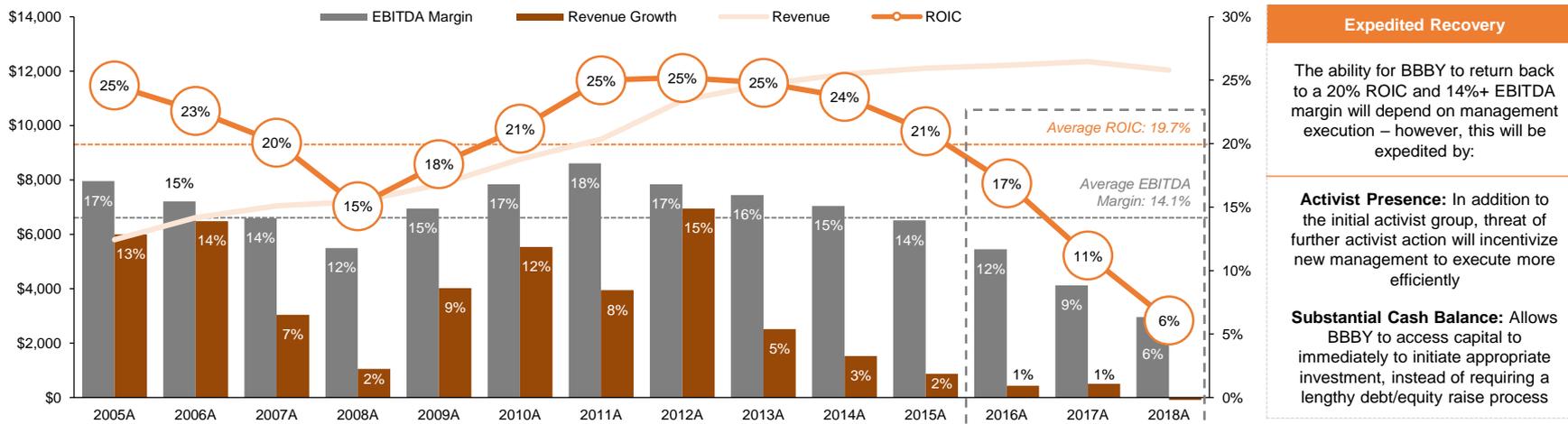
## As A Going Concern (75%): FCF Machine

- BBBY trades at just 3.6x and 4.6x on a market cap/LFCF and EV/UFCF basis (LTM); comps are trading on average @ 11.2x on a market cap/LFCF basis
  - If the company generates half of the levered FCF it did in 2018A, the company would have more cash than its current market capitalization
- 7% per year via common dividends (dividend yield) in addition to any capital gains and windfall from buybacks
- Nearly non-existent liquidity and financial distress risk – financial profile likely led to old management’s complacency and ability to engage in senseless acquisitions without significant backlash

## As A Buyout Target (24.5%): An Ideal LBO Target

LBO Criteria	✓/✗	Commentary
Strong & Consistent FCFs	✓	BBBY has demonstrated historical consistency of top-line and free cash flow
Underlying Base of Assets	✓	As detailed in SOTP thesis, can be used as collateral for LBO financing
Concrete Improv. Opportunities	✓	COGS & SG&A reductions, as well as non-core asset divestment to create value
Favourable Purchase Terms	✓	Share price trading at unprecedented lows over past decade; ideal timing
Low Future CAPEX Requirements	✓	Nearly-full mature business; CAPEX can be funded via a multitude of avenues
Existing Market Position/Brand	✓	Utilization of these in combination with scale and locations to exped. turnaround

## As A Going Concern: Recovery to Operating Efficiency On An Expedited Timeline



Sources: Capital IQ, Company Filings

# Mr. Market's Key Misconception: Purchase Behaviour

## Nuances That Changes Everything

- Market has been under the perception over the past 3 years that the emergence of online retailers such as Amazon and Wayfair would eviscerate BBBY
- The reason why BBBY is still generating +FCF is that home goods and furnishings is an extremely high-touch industry compared to other retail sub-segments
  - For big ticket purchases, some customers want physical merchandise to test comfort and ensure spatial dimensions fit with home (different from buying a phone case); others, instant gratification
  - Due to the brick and mortar 'apocalypse', options to purchase physically have become limited, an opportunity BBBY is poised to exploit

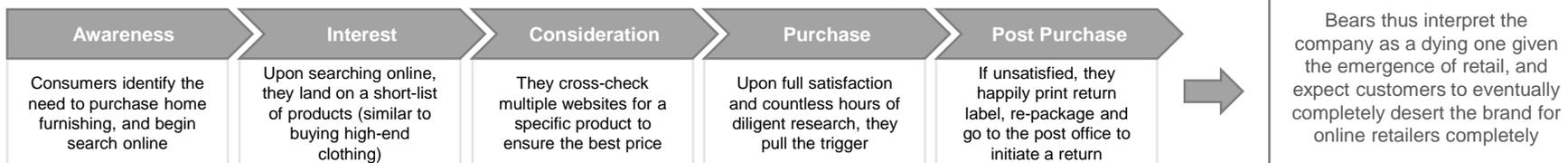
## Case Study: Renew Blue, Best Buy Turnaround

- Best Buy's SP was crushed from market fears related to online competitive threats, namely Amazon (2010-12)
- The 'Renew Blue' strategy was enacted, which hinged on two competitive advantages:
  - 1) Existing scale: purchasing power, nationwide reach & tapping into existing customers
  - 2) Existing locations: physical locations to utilize, extremely difficult to build from scratch
- Short positions subsequently crushed and Best Buy is now looked to as model for brick and mortar turnaround

Shares are now trading ~600% up from 2012 lows; **BBY competitive advantages eerily similar to what BBBY has**

## What The Market Is Getting Wrong

### How The Market Thinks (Mistakenly) About The Consumer Decision Journey For High-Touch Products



### How The Consumer Decision Journey Actually Manifests Itself



# Multiple Tangible Pathways To Realize Further Upside

## Human Capital Overhaul: Cuts to Bloated Structure

- New management led by interim CEO Mary Winston
  - Announcement of new CEO will more than likely be met with positive & immediate market reaction
- Old management group destroyed shareholder value
  - ‘Bailout’ of buybuy BABY (run by then-Chairman Feinstein’s children; immediately paid off debt)
  - Purchase of Chef Central (run by then-Chairman Eisenberg’s son; now in midst of closing fleet)
- Elimination of 7% of G&A staff with further cuts planned
  - Senior leadership restructuring will generate millions in savings annually

## Monetization of Portfolio: Inflection Point

- Sale of non-core assets would cause an inflection point in the company’s stock, given cash and debt position

Scenario	Value	E + D	Cash	Cash / E + D
Status Quo	-	\$2,724	\$984	36.1%
Sale of CPWM	\$250	\$2,724	\$1,234	45.3%
Sale of PM	\$275	\$2,724	\$1,509	55.4%
Sale-Leaseback (BS)	\$600	\$2,724	\$2,109	77.4%
2018A UFCF (Proxy for 2019E)	\$580	\$2,724	\$2,689	98.7%
Sale of buybuy BABY/Other	\$175	\$2,724	\$2,864	105.1%

**At cash > or ~ E + D, it is impossible for stock to continue trading at current level unless market maintains irrationality**

## A Multitude of Levers Available to Generate Shareholder Value and Navigate Recessional Headwinds

### Cost Structure Revamp

- Simplification of currently complicated supply chain – previously, had ~2,900 vendors, now at ~11,200
- Various other initiatives available including inventory rationalization – in combination have potential to bring BBBY back to a 10%+ EBITDA margin business

### Non-Core Brand Divestment

- Divestment of non-core assets are an inevitable part of new turnaround – BBBY has already received several offers for parts of business
- Proceeds can be used to further build up cash balance (impending recession) or re-invested into development of New Generation Lab stores

### Monetization of Real Estate

- Oak Street RE Capital (Howard Marks) has indicated interest on pursuing sale-leaseback
- Real estate is worth \$600M on BS and is recorded at cost – given age of BBBY, proceeds are guaranteed to be north of this figure, if not 1.2-2.0x (little disclosure to assess market value)

### BBBY Core Stores

- Closure of non-profitable locations continues to liberate BBBY from negative CF and liabilities
- Long term: New Generation Lab stores have already displayed greater cost effectiveness and sales generation over existing ones, foreshadowing improved margins for core BBBY

# Agenda

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**2** Industry Outlook

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**4** Valuation

**5** Recommendation

**6** Catalysts and Risks

# Comparable Companies Analysis

## Comparable Companies: BBBY's Peer Universe

(In US\$ millions)	Equity Value	Enterprise Value	P/E			EV/EBITDA			Revenue Growth		EBITDA Margin		ROIC	FCF Yield	M. Cap/FCF	
			2018A	2019E	2020E	2018A	2019E	2020E	2019E	2020E	2019E	2020E	LTM	LTM	LTM	
<b>BBBY Peer Group</b>																
Pier 1 Imports, Inc.	\$38	\$1,008	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf	nmf
Williams-Sonoma, Inc.	\$5,079	\$6,690	16.1x	13.9x	13.2x	10.6x	9.7x	9.6x	3.4%	2.2%	11.8%	11.7%	13.7%	3.5%	28.8x	
The TJX Companies, Inc.	\$65,512	\$74,657	22.3x	20.9x	19.2x	14.8x	14.5x	13.7x	5.8%	5.9%	12.6%	12.6%	21.9%	3.1%	32.3x	
The Michaels Companies, Inc.	\$1,349	\$5,592	4.7x	3.7x	3.5x	7.3x	7.0x	7.0x	(1.7%)	1.5%	15.3%	15.3%	20.7%	39.3%	2.5x	
RH	\$3,081	\$5,066	29.0x	13.8x	10.8x	13.5x	10.0x	9.2x	7.0%	7.0%	18.9%	19.3%	14.4%	8.9%	11.2x	
L Brands, Inc.	\$5,017	\$13,362	7.9x	7.5x	7.2x	6.6x	7.2x	7.2x	(0.7%)	2.0%	14.3%	14.0%	13.4%	14.7%	6.8x	
Median			16.1x	13.8x	10.8x	10.6x	9.7x	9.2x	3.4%	2.2%	14.3%	14.0%	14.4%	8.9%	11.2x	
Bed Bath & Beyond Inc.	\$1,236	\$1,740	nmf	7.5x	5.6x	2.3x	2.4x	2.5x	(4.8%)	(2.7%)	6.2%	6.1%	2.0%	27.5%	3.6x	

## Comparables Analysis: Commentary

- BBBY trades at a significant discount relative to its peers in the universe on a P/E, EV/EBITDA and P/FCF basis
- Revenue growth in the retail industry continues to be robust as brick and mortar retailers broaden their distribution and online strategies
  - BBBY falls behind industry median due to a lack of online presence that is expected to improve as they continue to focus on an omnichannel retail experience
  - Predicted decline in revenue growth is driven by planned store closures during turnaround strategy, which ultimately will generate long-term operational benefits that far outsize the temporary decline
- BBBY's EBITDA margins sit below peer set due to high SG&A costs; however, margin expansion is expected in the near term subsequent to the company's turnaround strategy
  - Extremely inefficient marketing dollars will be scaled back that have thus far yielded little impact to top-line
  - Cutting of G&A staff and bloated senior leadership structure will result in significant cost savings
- The company is extremely undervalued on a market capitalization/LFCF basis compared to industry peers, and current market value implies a FCF yield of 27.5% (8.9% peer average)
  - Such is a testament to BBBY's unquestionably strong cash-flow generating ability despite current state

# Comparable Companies Analysis

## Comparables Output Table: Analysis Implies Compelling Upside

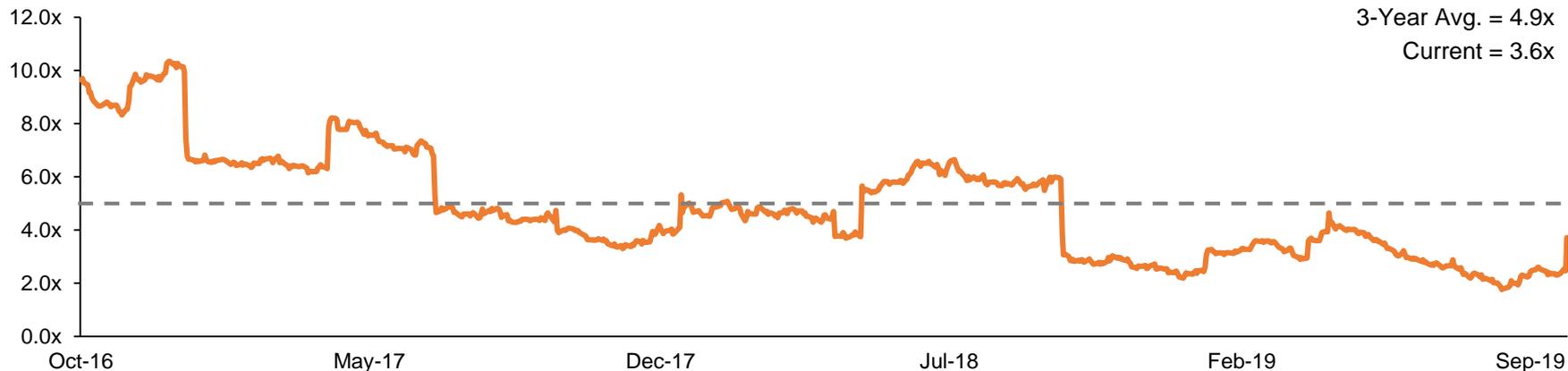
Metric	Multiple			Implied Share Price			Implied Return		
	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit
Market Cap / LTM LFCF	5.7x	11.2x	16.8x	\$15.69	\$30.96	\$46.23	56.6%	209.0%	361.4%
P / 2019E EPS	11.0x	13.8x	16.5x	\$14.71	\$18.33	\$21.95	46.8%	82.9%	119.1%
P / 2020E EPS	8.4x	10.8x	13.3x	\$14.97	\$19.30	\$23.64	49.4%	92.6%	135.9%
EV / 2018A EBITDA	9.1x	10.6x	12.1x	\$52.24	\$61.43	\$70.62	421.4%	513.1%	604.8%
EV / 2019E EBITDA	8.5x	9.7x	11.0x	\$44.87	\$51.95	\$59.04	347.8%	418.5%	489.2%
EV / 2020E EBITDA	8.1x	9.2x	10.3x	\$40.96	\$47.11	\$53.25	308.8%	370.1%	431.4%

## Conclusion

- Comparable companies analysis illustrates compelling opportunity for tremendous upside with investment
  - Implied returns do not account for several external factors such as SI that is putting enormous downward pressure on current SP (thesis II), further creating a disconnect between intrinsic and market value
- The peer group is imperfect due to a lack of brick and mortar peers with similar business models, geographic focus, business size and product offerings, in additionally a similar turnaround situation
- Robust implied upside is attributable to share price having depreciated in value by ~50% over the past six months
- Peer trading multiples serve as an indication of where BBY could trade once new management additionally defines and implements its turnaround strategy that further proves ability of meeting financial and operating objectives
- Considering the points above, comparables analysis ultimately receives zero weight in LC's overall valuation

# Historical Trading Multiples Analysis

## P/LTM LFCF



## P/LTM Revenue



## P/LTM Book



# Historical Trading Multiples Analysis

## Historical Trading Multiples Output Table

Metric	Multiple	Value	Implied Equity Value	S/O	Implied Share Price	Implied Return
P / LTM BV	1.2x	\$1,904	\$2,284	123.3	\$18.52	84.8%
P / LTM LFCF	4.9x	\$340	\$1,664	123.3	\$13.49	34.6%
P / LTM Revenue	0.3x	\$11,633	\$3,490	123.3	\$28.29	182.4%
<b>Bed Bath &amp; Beyond</b>			<b>\$2,479</b>		<b>\$20.10</b>	<b>100.6%</b>

## Conclusion

- On a P/LTM BV, P/LTM LFCF and P/LTM Revenue basis, BBBY is currently trading at a significant discount to itself based on a three-year historical average
  - This discount is sizably less attractive compared to the discount implied by comparable companies and precedent transactions analysis, yet still represents favorable upside
- Enterprise value (EV) multiples were not utilized due to the recent change in IFRS 16, which has subsequently led to the overstatement of historical enterprise values displayed by financial information providers
  - As a result, the Consumers team elected to utilize equity multiples as a better representation of the company's market value historically
  - Inclusion of EV multiples would falsely include operating leases into historical enterprise value calculations, skewing the value that the market has historically ascribed to the operating assets of the business
- With near-term and long-term tailwinds expected to drive share price appreciation, it is expected that BBBY's multiples will significantly surpass historical levels
  - Implied share price from historical trading multiples analysis is ~1.03x of 52-week share price high
- Again, the implied return from output suggests robust upside to be realized by potential equity holders

# Precedent Transactions Analysis

## Precedent Transactions: Comparable Transactions & Implied Multiples

Target	Acquirer	Transaction			EV/EBITDA		EV/Revenue		P/LFCF		P/BV
Company	Company	Date Ann.	TV	Im. Equity	Ann. T-1 FY	LTM	Ann. T-1 FY	LTM	Ann. T-1 FY	LTM	LTM
Shutterfly	Apollo Global Mangement	10-Jun-19	\$2,931	\$1,880	17.7x	13.5x	2.5x	1.4x	11.2x	7.8x	nmf
Barnes & Noble, Inc	Elliott Management Corp.	07-Jun-19	\$694	\$490	6.4x	6.2x	0.2x	0.2x	nmf	nmf	6.9x
Nutrisystem, Inc.	Tivity Health, Inc.	10-Dec-18	\$1,433	\$1,428	21.1x	16.2x	2.6x	2.1x	41.3x	29.7x	12.6x
The Finish Line, Inc.	JD Sports Fashion PLC	26-Mar-18	\$558	\$557	5.3x	6.9x	0.3x	0.3x	7.8x	28.9x	1.5x
HSN, Inc.	QVC Group	06-Jul-17	\$1,829	\$2,179	5.7x	7.5x	0.5x	0.5x	14.3x	13.0x	nmf
Mattress Firm Holding Corp.	Steinhoff International Holdings	07-Aug-16	\$2,982	\$2,383	19.1x	12.7x	1.6x	0.9x	nmf	43.6x	nmf
Rona Inc.	Lowe's Companies Canada, ULC	03-Feb-16	\$2,295	\$1,877	14.0x	14.2x	0.7x	0.7x	28.1x	nmf	2.9x
ANN INC.	Ascena Retail Group	18-May-15	\$2,387	\$2,355	8.6x	9.9x	1.0x	0.9x	38.6x	21.2x	4.4x
Median					11.3x	11.3x	0.8x	0.8x	21.2x	25.1x	4.4x
Bed Bath & Beyond, Inc.			\$1,740	\$1,236	2.3x	3.4x	0.1x	0.1x	2.3x	3.6x	0.6x

## Precedent Transactions: Commentary

- The precedents transactions were selected based on the target company's similarity to BBBY with respect to product portfolio, industry, size, and geographic location
  - All transaction metrics displayed in US\$ as of announcement date
  - Both fiscal year (Ann. T-1 FY) and LTM multiples displayed for additional datapoints
  - P/Ann. T-1 FY EPS excluded given negative multiple resulting from significant goodwill impairment and asset writedown charges in 2018A for BBBY
- Overall, with respect to BBBY's current multiples, BBBY appears to be trading at a substantial discount on an EV/EBITDA, EV/Revenue, P/LFCF, and P/BV basis
  - As noted previously, unsurprising as this is attributable to substantial share price decline that is disproportionate to marginal decline in operating and financial performance
  - Delta between median of peers and BBBY further exacerbated by premiums paid in acquisitions
  - Discrepancy is most magnified on a P/LFCF basis, resulting from BBBY's strong cash-flow generation profile

# Precedent Transactions Analysis

## Precedents Output Table: BBBY Trades at a Significant Discount

Metric	Multiple			Implied Share Price			Implied Return		
	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit
P / LTM BV	2.3x	4.4x	6.6x	\$34.99	\$68.63	\$102.26	249.2%	584.9%	920.6%
P / LTM LFCF	18.6x	25.1x	31.5x	\$51.26	\$68.99	\$86.73	411.6%	588.6%	765.6%
P / Ann. T-1 FY LFCF	13.2x	21.2x	29.2x	\$57.52	\$92.38	\$127.25	474.0%	822.0%	1,169.9%
EV / LTM EBITDA	9.4x	11.3x	13.2x	\$34.83	\$42.66	\$50.48	247.6%	325.7%	403.8%
EV / Ann. T-1 FY EBITDA	8.0x	11.3x	14.6x	\$45.61	\$65.69	\$85.77	355.2%	555.6%	755.9%
EV / LTM Revenue	0.5x	0.8x	1.2x	\$46.54	\$75.51	\$104.48	364.5%	653.6%	942.8%
EV / Ann. T-1 FY Revenue	0.3x	0.8x	1.3x	\$27.31	\$74.32	\$121.33	172.5%	641.7%	1,110.9%

### Conclusion

- As noted previously, the depression in BBBY's share price has led to the name trading at significantly inferior multiples relative to its peers who are either a) currently trading in the public markets or b) have been the target of an acquisition in recent years
  - With compelling theses and a multitude of short-term catalysts in play, the heavy relative discount suggested by the table further corroborates the supposition of substantial potential upside for equity investors
- BBBY is poised to benefit from a slew of short-term catalysts, including the potential of further shareholder activism activity and the naming of a new CEO, increasing the material chance for robust share price appreciation in the short-term, but likely not the extent to which the output table implies in the near-term
- A potential turnaround and successful execution of initiatives currently underway could lead to the realization of the returns implied by the output table over a longer 5-10 year time frame (BBY up ~600% from 2012 lows)
- Ultimately, the precedent transactions analysis yields a positive message for investors – a potential investor can reap significant benefits in both the short and long-term with an equity stake at a highly attractive price point

# Discounted Cash Flow Analysis

## DCF Valuation Assumptions

- Revenue is segmented by brick and mortar sales and online sales
  - Brick and mortar growth is modeled by average sales per sq. feet multiplied by total projected sq. feet, accounting for store closures and openings
  - Online sales growth estimated as a percentage of brick & mortar sales
- EBITDA margins, depreciation and amortization, capital expenditures and changes in net working capital are projected based on historical trends and reflect expected changes throughout and following management's turnaround strategy

WACC: **6.1%**Perp. Growth Rate: **1.0%**FDSO: **123.4 million**Statutory Tax Rate: **30%**

## DCF Unlevered Cash Flow Summary

(US\$ millions)	Forecast Period													Terminal
	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	
<b>Revenue</b>	<b>12,104</b>	<b>12,216</b>	<b>12,029</b>	<b>11,708</b>	<b>11,451</b>	<b>11,260</b>	<b>11,354</b>	<b>11,453</b>	<b>11,557</b>	<b>11,667</b>	<b>11,783</b>	<b>11,904</b>	<b>12,035</b>	<b>12,155</b>
% Growth	-	1.1%	(2.0%)	(2.7%)	(2.2%)	(1.7%)	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%	1.1%	1.0%
<b>Adjusted EBITDA</b>	<b>1,426</b>	<b>1,093</b>	<b>762</b>	<b>468</b>	<b>573</b>	<b>576</b>	<b>593</b>	<b>611</b>	<b>629</b>	<b>648</b>	<b>668</b>	<b>688</b>	<b>722</b>	<b>729</b>
% Margin	11.8%	8.9%	6.3%	4.0%	5.0%	5.1%	5.2%	5.3%	5.4%	5.6%	5.7%	5.8%	6.0%	6.0%
(-) Depreciation & Amortization	(291)	(313)	(339)	(421)	(438)	(419)	(412)	(404)	(396)	(388)	(380)	(372)	(325)	(328)
% of CapEx	77.9%	83.3%	104.1%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
<b>Adjusted EBIT</b>	<b>1,135</b>	<b>780</b>	<b>423</b>	<b>47</b>	<b>135</b>	<b>156</b>	<b>181</b>	<b>207</b>	<b>233</b>	<b>260</b>	<b>288</b>	<b>316</b>	<b>397</b>	<b>401</b>
% Margin	9.4%	6.4%	3.5%	0.4%	1.2%	1.4%	1.6%	1.8%	2.0%	2.2%	2.4%	2.7%	3.3%	3.3%
(-) Cash Taxes	(381)	(271)	19	(14)	(40)	(47)	(54)	(62)	(70)	(78)	(86)	(95)	(119)	(120)
Tax rate (%)	33.5%	34.7%	(4.6%)	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
<b>NOPAT</b>	<b>755</b>	<b>509</b>	<b>442</b>	<b>33</b>	<b>94</b>	<b>109</b>	<b>127</b>	<b>145</b>	<b>163</b>	<b>182</b>	<b>201</b>	<b>221</b>	<b>278</b>	<b>281</b>
(+) Depreciation & Amortization	291	313	339	421	438	419	412	404	396	388	380	372	325	328
(-) CapEx	(374)	(376)	(325)	(468)	(487)	(466)	(457)	(449)	(440)	(431)	(422)	(413)	(361)	(365)
% of Revenue	3.1%	3.1%	2.7%	4.0%	4.3%	4.1%	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.0%	3.0%
(-) Change in Net Working Capital		63	63	64	47	31	(14)	(13)	(11)	(10)	(9)	(7)	(3)	(2)
% of Change in Revenue		(56.4%)	33.7%	20.0%	18.2%	16.4%	14.6%	12.8%	11.0%	9.2%	7.4%	5.6%	2.0%	2.0%
<b>Unlevered Free Cash Flows</b>	<b>672</b>	<b>509</b>	<b>519</b>	<b>50</b>	<b>92</b>	<b>94</b>	<b>68</b>	<b>87</b>	<b>108</b>	<b>129</b>	<b>151</b>	<b>173</b>	<b>239</b>	<b>242</b>

Sources: Capital IQ, Company Filings

# Discounted Cash Flow Analysis

## Valuation Summary

<b>Cumulative PV of Free Cash Flow</b>	<b>895</b>
<i>% of Enterprise Value</i>	23.3%
<b>Terminal Value</b>	
Terminal Year EBITDA	729
Terminal Year UFCF	242
Perpetuity Growth Rate	1.0%
<b>Terminal Value</b>	<b>4,712</b>
Terminal Value for EBITDA Multiple	729
Implied EV / EBITDA Multiple	5.3x
Implied EV / UFCF Multiple	15.9x
<b>PV of Terminal Value</b>	<b>2,941</b>
<i>% of Enterprise Value</i>	76.7%
<b>Enterprise Value</b>	<b>3,836</b>
(-) Short Term Debt	-
(-) Long Term Debt	(1,488)
(-) Minority Interest	-
(+) Cash	984
(+) Investments in Associates	-
<b>Equity Value</b>	<b>3,332</b>
Basic Shares	123
(+) Diluted Securities	-
<b>Fully Diluted Shares Outstanding</b>	123
<b>Implied Share Price</b>	<b>\$27.01</b>
Current Share Price	\$10.02
<b>Premium to Current Share Price</b>	<b>170%</b>

## Discount Rate Analysis

WACC		
10-Year US Treasury		1.6%
Market Risk Premium		5.2%
Beta		1.08
<b>Cost of Equity</b>		<b>7.2%</b>
Cost of Debt		7.5%
Tax Rate		30.0%
<b>After-Tax Cost of Debt</b>		<b>5.2%</b>
Target Debt/Capitalization		54.6%
<b>WACC</b>		<b>6.1%</b>
Debt Tranches		
	Face	Effective
	Value	Interest Rate
<i>(US\$ millions)</i>		
BBBY 08/01/24	300	4.15%
BBBY 08/01/34	300	8.13%
BBBY 08/01/44	900	8.22%
Finance Leases	105	8.90%
<b>Weighted Average</b>		<b>7.49%</b>

## Valuation Takeaways

- The DCF yields an implied price of \$27.01 (+170%), with a range of \$20.26 (+102%) to \$33.76 (+237%)
- All cases utilize a 6.1% WACC and a 1.0% perpetuity growth rate

# Discounted Cash Flow Analysis

## Sensitivity Analysis

Equity Value Per Share						Implied Return							
		Terminal Growth							Terminal Growth				
		0.0%	0.5%	1.0%	1.5%	2.0%			0.0%	0.5%	1.0%	1.5%	2.0%
Discount Rate	5.1%	\$29.17	\$31.94	\$35.39	\$39.78	\$45.58	Discount Rate	5.1%	191.1%	218.8%	253.2%	297.0%	354.9%
	5.6%	\$25.87	\$28.07	\$30.74	\$34.06	\$38.29		5.6%	158.2%	180.1%	206.8%	239.9%	282.1%
	6.1%	\$23.13	\$24.90	\$27.01	\$29.59	\$32.78		6.1%	130.8%	148.5%	169.6%	195.3%	227.2%
	6.6%	\$20.80	\$22.25	\$23.96	\$26.00	\$28.48		6.6%	107.6%	122.1%	139.1%	159.5%	184.2%
	7.1%	\$18.82	\$20.02	\$21.42	\$23.06	\$25.03		7.1%	87.8%	99.8%	113.7%	130.1%	149.8%
Implied Terminal Multiple						Enterprise Value							
		Terminal Growth							Terminal Growth				
		0.0%	0.5%	1.0%	1.5%	2.0%			0.0%	0.5%	1.0%	1.5%	2.0%
Discount Rate	5.1%	5.7x	6.1x	6.7x	7.4x	8.3x	Discount Rate	5.1%	4,102	4,445	4,870	5,411	6,126
	5.6%	5.1x	5.5x	5.9x	6.4x	7.1x		5.6%	3,696	3,967	4,296	4,706	5,227
	6.1%	4.6x	4.9x	5.3x	5.7x	6.2x		6.1%	3,357	3,575	3,836	4,154	4,548
	6.6%	4.3x	4.5x	4.7x	5.1x	5.5x		6.6%	3,070	3,249	3,460	3,711	4,017
	7.1%	3.9x	4.1x	4.3x	4.6x	4.9x		7.1%	2,825	2,974	3,146	3,349	3,591

# Agenda

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## BED BATH & BEYOND®

**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

**4** Valuation

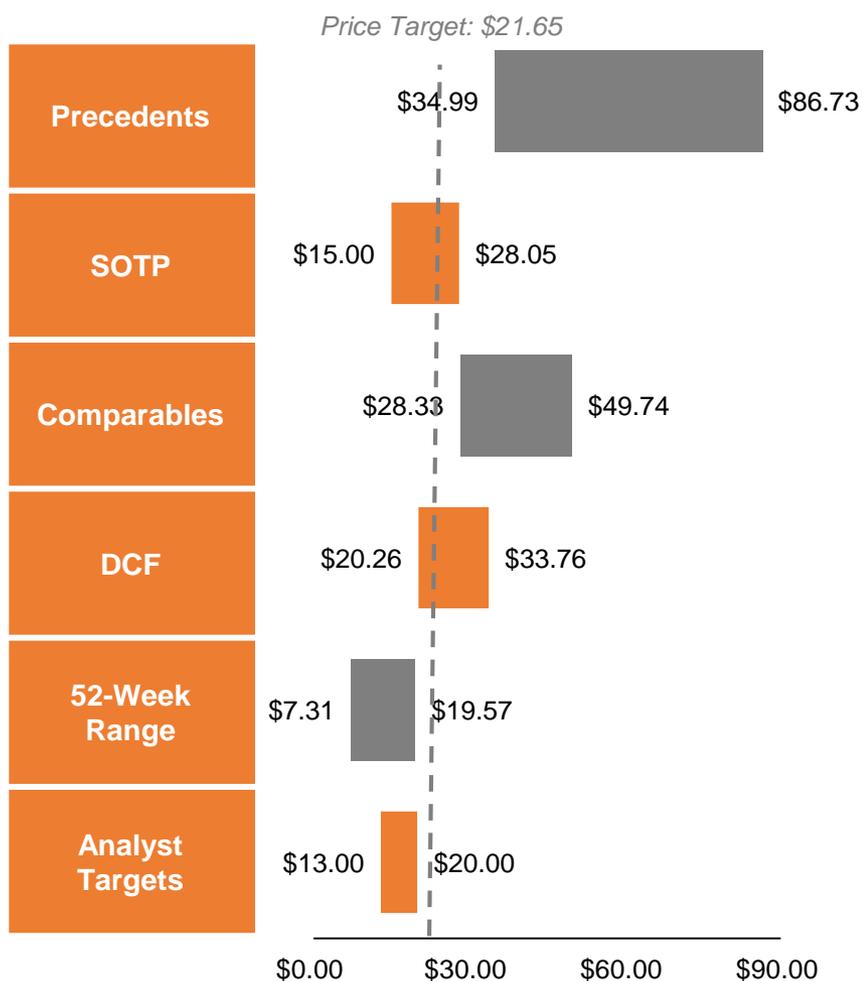
**5** Recommendation

**6** Catalysts and Risks

RECOMMENDATION

# Initiate 'Long' Equity Position (+116% Implied Upside)

## Indicative Valuation Range



## Price Target Methodology

Valuation Summary		
Analysis	Price	Weight
Comparables	\$39.12	0%
SOTP	\$18.21	45%
Discounted CF	\$27.01	45%
Street Consensus	\$13.00	10%
<b>Average</b>	<b>\$21.65</b>	<b>100%</b>



## Selected Broker Summary



# Agenda

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## BED BATH & BEYOND®

**1** Company Overview

**2** Industry Outlook

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**6** Catalysts and Risks

# Asymmetrical R/R: Tremendous Upside with Limited Risk

## Long BBBY: Position Details and Expected Trade Timeline



Limestone Trade Details	
Price @ 10/02/2019	US\$10.02
52-Week High/Low	\$19.57/\$7.31
% of 52-Week High	51.2%
<b>Proposed Sizing (Long)</b>	<b>~US\$10,000</b>
Implied Shares	998 shares
Stop Loss Order	US\$5.00
<b>Next Re-Visit</b>	<b>Q3 2019 Earnings or Any Activist Ann.</b>

## Short-Term Catalysts

- **Naming of a New CEO** – A permanent CEO to fully captain BBBY’s turnaround strategy would inevitably restore investor confidence in the company to operate as a going concern into the near future
- **Potential M&A Activity (Target)** – Given current interest rate environment and BBBY’s clean balance sheet
- **Further Activist Action** – Additional activists into the stock would re-affirm plausibility of the turnaround story
- **Going Private** – Has received ongoing interest
- **Sale of Non-Core Assets or Sale Leaseback** – Action resulting in cash > equity + debt (see thesis V)

## Internal & External Risks

### Internal Risks

- Continued Value Destruction via Buybacks, etc. (IR1)
- Inventory Write-Down Spooks Investors at Q3 (IR2)
- New CEO Fumbles Turnaround Strategy (IR3)

### External Risks

- Recession – Operations and Real Estate Value (ER1)
- Online Companies Make Greater Inroads (ER2)
- Funds Hold Their Short Positions in Short-Term (ER3)

# WACC Analysis

## Beta Comparables Analysis

(US\$ millions)	Equity Value	Total Debt	Levered Beta		D/E	Tax Rate	Unlevered Beta	
			Raw	Adjusted			Raw	Adjusted
<b>BBBY Peer Group</b>								
Pier 1 Imports, Inc.	\$38	\$1,008	2.337	1.891	nmf	35%	nmf	nmf
Williams-Sonoma, Inc.	\$5,079	\$6,690	0.849	0.899	0.341	22%	0.671	0.781
The TJX Companies, Inc.	\$65,512	\$74,657	0.862	0.908	0.173	27%	0.765	0.843
The Michaels Companies, Inc.	\$1,349	\$5,592	1.357	1.238	3.244	23%	0.389	0.593
RH	\$3,081	\$5,066	1.178	1.119	0.648	17%	0.766	0.844
L Brands, Inc.	\$5,017	\$13,362	1.113	1.075	1.833	32%	0.494	0.663
<b>Median</b>					<b>0.648</b>		<b>0.671</b>	<b>0.781</b>

Unlevered Adj. Avg. Beta	0.781
Target Gearing	0.55
Tax Rate	30.0%
<b>Relevered Beta</b>	<b>1.079</b>
<i>Actual Adjusted Beta</i>	<i>1.031</i>

## Valuation Assumptions

Assumption	Key Metric	Justification
Beta	1.08	Based on comparables analysis
Risk-free Rate	1.6%	10-year US treasury bill interest rate
Cost of Debt (pre-tax)	7.5%	Weighted average of interest rates based on BBBY's current debt structure (operating leases excl.)
Perp. Growth Rate	1.0%	Conservatively in line with long-term economic growth rate

# Revenue Model

## Projected Brick and Mortar Revenue Build

	Forecast Period													
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>Brick and Mortar Retail</b>														
<b>Number of Stores</b>														
<i>Base Case</i>	1,530	1,546	1,552	1,533	1,473	1,423	1,383	1,385	1,387	1,390	1,394	1,397	1,401	1,406
<i>Bear Case</i>	1,530	1,546	1,552	1,533	1,463	1,403	1,353	1,353	1,353	1,353	1,353	1,353	1,353	1,353
<i>Bull Case</i>	1,530	1,546	1,552	1,533	1,483	1,443	1,413	1,417	1,422	1,428	1,434	1,442	1,450	1,460
<b>Net Additions</b>														
<i>Base Case</i>		16	6	(19)	(60)	(50)	(40)	2	2	3	3	4	4	5
<i>Bear Case</i>		16	6	(19)	(70)	(60)	(50)	-	-	-	-	-	-	-
<i>Bull Case</i>		16	6	(19)	(50)	(40)	(30)	4	5	6	7	7	8	10
<b>Average Sq Foot per Store</b>														
<i>Base Case</i>	28.3	28.2	28.1	28.1	28.1	28.1	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2
<i>Bear Case</i>	28.3	28.2	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.0	28.0	28.0	28.0
<i>Bull Case</i>	28.3	28.2	28.1	28.1	28.2	28.2	28.2	28.2	28.3	28.3	28.3	28.3	28.4	28.4
<b>Total Square Feet (mm)</b>														
<i>Base Case</i>	43.3	43.6	43.7	43.1	41.5	40.1	38.9	39.0	39.1	39.2	39.3	39.4	39.5	39.7
<i>Bear Case</i>	43.3	43.6	43.7	43.1	41.1	39.4	38.0	38.0	38.0	38.0	37.9	37.9	37.9	37.9
<i>Bull Case</i>	43.3	43.6	43.7	43.1	41.8	40.7	39.9	40.0	40.2	40.4	40.6	40.9	41.1	41.5
<b>Total Square Feet Growth</b>														
<i>Base Case</i>		0.8%	0.1%	(1.3%)	(3.9%)	(3.4%)	(2.8%)	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%
<i>Bear Case</i>		0.8%	0.1%	(1.3%)	(4.6%)	(4.1%)	(3.6%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)
<i>Bull Case</i>		0.8%	0.1%	(1.3%)	(3.2%)	(2.6%)	(2.0%)	0.4%	0.4%	0.5%	0.6%	0.6%	0.7%	0.8%
<b>Sales per Sq Foot</b>														
<i>Base Case</i>	\$238	\$238	\$240	\$237	\$238	\$240	\$241	\$242	\$244	\$245	\$246	\$247	\$249	\$250
<i>Bear Case</i>	238	238	240	237	233	230	226	222	219	215	211	207	204	200
<i>Bull Case</i>	238	238	240	237	243	250	256	262	269	275	281	287	294	300

Sources: Company Filings, Equity Research

# Revenue Model Cont'd

## Projected Online Revenue & Growth

(In US\$ millions)

	Forecast Period													
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>Online Retail</b>														
<b>Online Revenue</b>														
Base Case		\$1,816	\$1,834	\$1,854	\$1,876	\$1,900	\$1,925	\$1,953	\$1,984	\$2,016	\$2,051	\$2,088	\$2,128	\$2,171
Bear Case		1,816	1,834	1,852	1,871	1,889	1,908	1,927	1,947	1,966	1,986	2,006	2,026	2,046
Bull Case		1,816	1,834	1,855	1,881	1,910	1,943	1,980	2,021	2,067	2,118	2,174	2,235	2,302
<b>Online-Store Growth</b>														
Base Case			1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%
Bear Case			1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Bull Case			1.0%	1.2%	1.4%	1.5%	1.7%	1.9%	2.1%	2.3%	2.5%	2.6%	2.8%	3.0%

## Consolidated Revenue Growth

(In US\$ millions)

	Forecast Period													
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>Total Revenue Growth</b>														
Base Case			1.1%	(2.0%)	(2.7%)	(2.2%)	(1.7%)	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%	1.1%
Bear Case			1.1%	(2.1%)	(5.0%)	(4.6%)	(4.1%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.3%)	(1.3%)
Bull Case			1.1%	(2.0%)	(0.3%)	0.2%	0.7%	2.7%	2.7%	2.8%	2.8%	2.8%	2.9%	3.0%
<b>Total Revenue</b>														
Base Case		\$12,199	\$12,331	\$12,078	\$11,756	\$11,498	\$11,307	\$11,401	\$11,500	\$11,605	\$11,715	\$11,831	\$11,953	\$12,084
Bear Case		12,199	12,331	12,077	11,471	10,945	10,496	10,370	10,244	10,119	9,994	9,869	9,745	9,621
Bull Case		12,199	12,331	12,080	12,044	12,064	12,146	12,473	12,813	13,166	13,534	13,917	14,315	14,738
<b>Revenue Per Store</b>														
Base Case		\$7.9	\$7.9	\$7.9	\$8.0	\$8.1	\$8.2	\$8.2	\$8.3	\$8.3	\$8.4	\$8.5	\$8.5	\$8.6
Bear Case		7.9	7.9	7.9	7.8	7.8	7.8	7.7	7.6	7.5	7.4	7.3	7.2	7.1
Bull Case		7.9	7.9	7.9	8.1	8.4	8.6	8.8	9.0	9.2	9.4	9.7	9.9	10.1

Sources: Company Filings, Equity Research

## APPENDIX C

# DCF Drivers

### EBITDA, D&A, CAPEX and NWC Assumptions

	Forecast Period												
	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>EBITDA % Margin</b>	9.3%	6.2%	3.5%	4.0%	5.0%	5.1%	5.2%	5.3%	5.4%	5.6%	5.7%	5.8%	6.0%
Base Case				4.0%	5.0%	5.1%	5.2%	5.3%	5.4%	5.6%	5.7%	5.8%	6.0%
Bear Case				3.5%	4.5%	4.6%	4.7%	4.8%	4.9%	5.1%	5.2%	5.3%	5.5%
Bull Case				4.5%	5.5%	5.6%	5.7%	5.8%	5.9%	6.1%	6.2%	6.3%	6.5%
<b>D&amp;A % of CapEx</b>	77.9%	83.3%	104.1%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Base Case				90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Bear Case				90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Bull Case				90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
<b>CapEx % of Revenue</b>	3.0%	3.1%	3.2%	4.0%	4.3%	4.1%	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.0%
Base Case				4.0%	4.3%	4.1%	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.0%
Bear Case				4.0%	4.3%	4.1%	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.0%
Bull Case				4.0%	4.3%	4.1%	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.0%
<b>Change in NWC % of Change in Rev.</b>	25.5%	92.9%	88.4%	20.0%	18.2%	16.4%	14.6%	12.8%	11.0%	9.2%	7.4%	5.6%	2.0%
Base Case				20.0%	18.2%	16.4%	14.6%	12.8%	11.0%	9.2%	7.4%	5.6%	2.0%
Bear Case				20.0%	18.2%	16.4%	14.6%	12.8%	11.0%	9.2%	7.4%	5.6%	2.0%
Bull Case				20.0%	18.2%	16.4%	14.6%	12.8%	11.0%	9.2%	7.4%	5.6%	2.0%