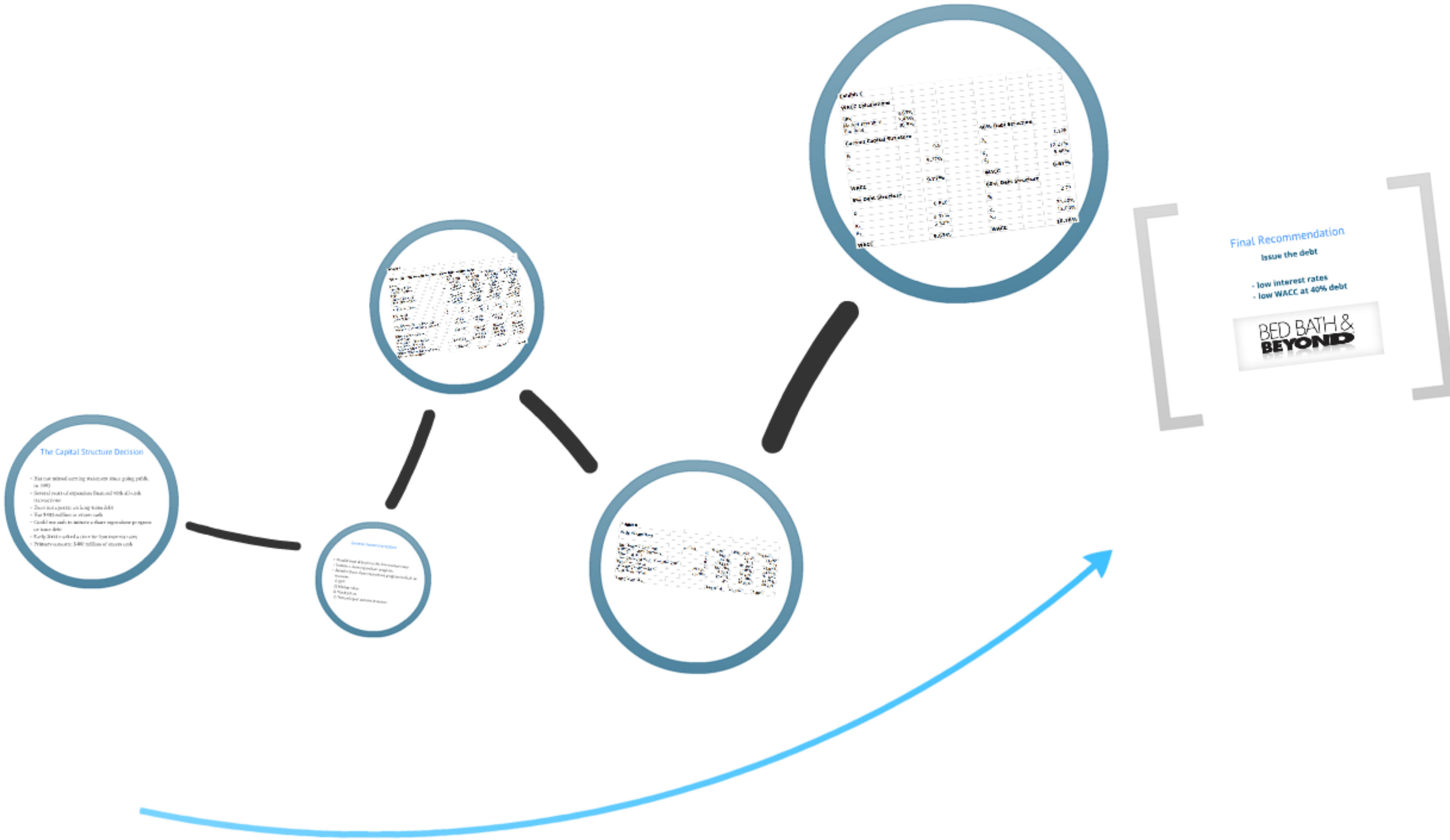
BED BATH AND BEYOND- CAPITAL STRUCTURING

Harvard Case Solution & Analysis



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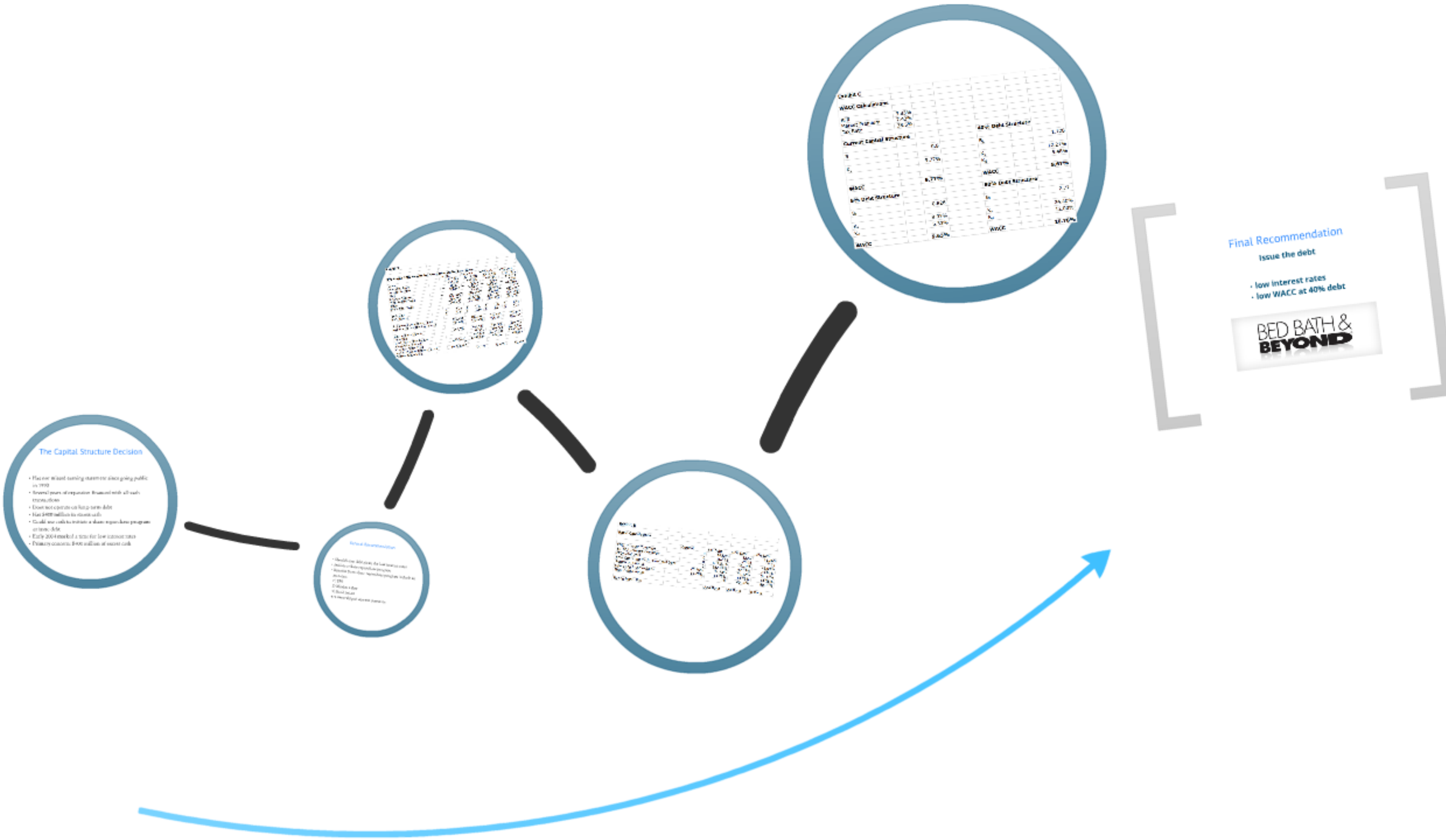

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The Capital Structure Decision

- Has not missed earning statement since going public in 1992
- Several years of expansion financed with all-cash transactions
- Does not operate on long-term debt
- Has $400 million in excess cash
- Could use cash to initiate a share repurchase program or issue debt
- Early 2004 marked a time for low interest rates
- Primary concern: $400 million of excess cash

General Recommendation

- Should issue debt given the low interest rates
- Initiate a share repurchase program
- Benefits from share repurchase program include an increase:
  1) EPS
  2) Market value
  3) Stock prices
  4) Ownership of current investors

Exhibit A

Pro Forma 2003 Results for Alternative Capital Structures

	Current	5% Debt	40% Debt	80% Debt
Sales	4,477,981	4,477,981	4,477,981	4,477,981
Operating Profit	639,343	639,343	639,343	639,343
Interest Income	10,202	5,493	5,493	5,493
EBIT	649,545	644,836	644,836	644,836
Interest Expense	-	4,479	28,635	57270
Profit Before Taxes	649,545	640,357	616,201	587,566
Taxes	250,075	246,537	237,237	226,213
Profit After Taxes	399,470	393,819	378,964	361,353
EPS- Basic	$ 1.35	$ 1.40	$ 1.41	$ 1.44
EPS- Diluted	$ 1.31	$ 1.36	$ 1.37	$ 1.39
Avg Shares Outstanding- basic	296,854	282,094	268,845	251,647
Avg Shares Outstanding- diluted	304,690	289,930	276,681	259,483
Cash and Equivalents	866,595	466,595	466,595	466,595
Total Debt		79,541	636,328	1,272,656
Total Repurchase Amount		546,136	1,036,328	1,672,656
Shareholders' Equity	1,990,820	1,444,684	954,492	318,164
Common Stock Price	37			
Market Value of Common Stock	10,983,598			
Shares Repurchased		14,760	28,009	45,207

Exhibit B

Ratio Calculations

	Current	5% Debt	40% Debt	80% Debt
EBIT Interest Coverage	0	143.96	22.52	11.260
EBITDA Interest Coverage	0	162.85	25.48	12.74
FFO/Total Debt	0	689.51%	86.19%	43.09%
Free Operating Cash Flow/Total Debt	0	382.99%	47.87%	23.94%
Return on Capital	25.70%	34.73%	34.12%	34.12%
Operating income/Sales	14.28%	14.28%	14.28%	14.28%
Total Debt/Capital	0	5%	40.00%	80.00%
Rating Most Like:		AAA Bond	AA Bond	B Bond

Exhibit C						
WACC Calculations						
RFR	3.83%					
Market Premium	7.43%					
Tax Rate	38.5%					
Current Captial Structure				**40% Debt Structure**		
B		0.8		B_L		1.128
K_s		9.77%		K_s		12.21%
				K_d		5.48%
WACC		**9.77%**		**WACC**		**8.67%**
5% Debt Structure				**80% Debt Structure**		
B_L		0.826		B_L		2.77
K_s		9.97%		K_s		24.40%
K_d		5.33%		K_d		12.00%
WACC		**9.63%**		**WACC**		**10.78%**

Final Recommendation

Issue the debt

- **low interest rates**
- **low WACC at 40% debt**

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