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Bed Bath & Beyond Shares Drop 19%, But Here's Why One Expert Still Thinks It's A Winner

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A turnaround story could be on the cards for the embattled retailer. © 2016 JOHN GREIM/LIGHTROCKET VIA GETTY IMAGES

Topline: Struggling retailer Bed Bath & Beyond saw its shares plunge nearly 20% after reporting dismal third-quarter earnings on Wednesday, but one expert remains bullish on the stock, predicting a turnaround in the coming years as the company's new management team strives for profitable long-term growth.

- Facing increased competition from other big retailers like Amazon, Walmart, Costco and Target, Bed Bath & Beyond has struggled in recent years, as earnings become razor thin and sales slump.

- “The headline numbers are miserable to read, and though they show a decline it's far from a cliff,” says Charles Lemonides, chief investment officer at ValueWorks. “There's potential for a very powerful turnaround, with some elements already in place—as evidenced by online sales growth last quarter," says Lemonides, whose firm owns shares in the stock.

- Bed Bath & Beyond indicated in its latest quarterly report that it would discard its fiscal year outlook for 2019. According to Lemonides, that guidance was set by previous management and recently appointed CEO, Mark Tritton, a veteran executive from Target, hasn't yet had enough time to make an impact.

- While previous management had been “very scattershot, with no clear sense of where they were going,” Tritton has a good track record in retail and has been “assertive about implementing change quickly,” Lemonides says.

- Last month, Tritton ousted six senior executives: “He's already cleaned house, and fast.” Lemonides says Tritton has a vision in place of where he wants the business to go—and will likely share his roadmap during the first half of 2020. “This is going to be his company.”

- Another positive for Bed Bath & Beyond is its solid balance sheet and healthy free cash flow of around $1 billion. The company is also flush with an extra $250 million from a real estate deal completed earlier this week.

Crucial quote: “Bed Bath & Beyond is a different story than a lot of other mass retailers who have gone by the wayside during the past few decades. It's starting from a place of good profitability and has a solid market niche—as evidenced by the cash flow it has generated over the years,” Lemonides says. “It's not like Kmart or other discount retailers operating on razor thin margins.” What's more, while its online presence is now growing, “they've competed with Amazon for quite some time, and although they're not winning, they're not getting run over: Bed Bath & Beyond is still here and Sears isn't.”

Tangent: Despite the competitive landscape in retail, Bed Bath & Beyond owns a niche part of the market—domestic merchandise—that its bigger rivals are less focus on. Even the recent news of a few store closures, usually a grim sign for retailers, is evidence that new leadership is taking a closer look at the business, rather than keeping the status quo or slashing costs across the board, Lemonides argues.

Bed Bath & Beyond stock price over the last three years. YCHARTS

Key background: Increased competition from big retailers like Amazon, Walmart and Target has caused a slump in Bed Bath & Beyond sales numbers. The company missed third-quarter revenue and earnings expectations by a wide margin earlier this week, with same store sales falling more than 8% from the year before. Bed Bath & Beyond indicated that amid weaker-than-expected results, sales and profitability will remain under pressure in the next quarter as well, though its online business is growing.

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