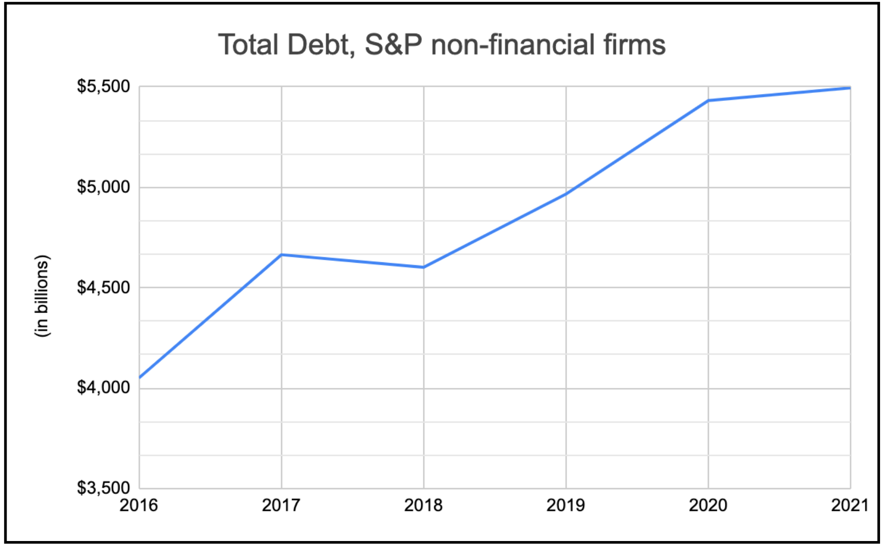
CALCBENCH

Debt & Rising Interest Rates: Pressures mounting for corporate balance sheets

January 2023

Background

From the global financial crisis in 2008, throughout the 2010s and into the early 2020s during the pandemic, corporations grew accustomed to a world of extremely low interest rates.



Those low rates encouraged firms to take on more debt — which they did, with zeal, for many years. (See chart at right.)

Then came 2022 and a new period of **rising** interest rates. Higher rates are likely to put considerable pressure on corporate balance sheets as companies refinance their older debt loads at newer, higher interest rates.

What Calcbench Did

Calcbench examined 22 non-financial S&P 500 companies that filed their annual reports this fall.

Those 22 companies were carrying a total of $248.3 billion in debt against $895.89 billion of assets. **$95 billion will mature in the next five years.**

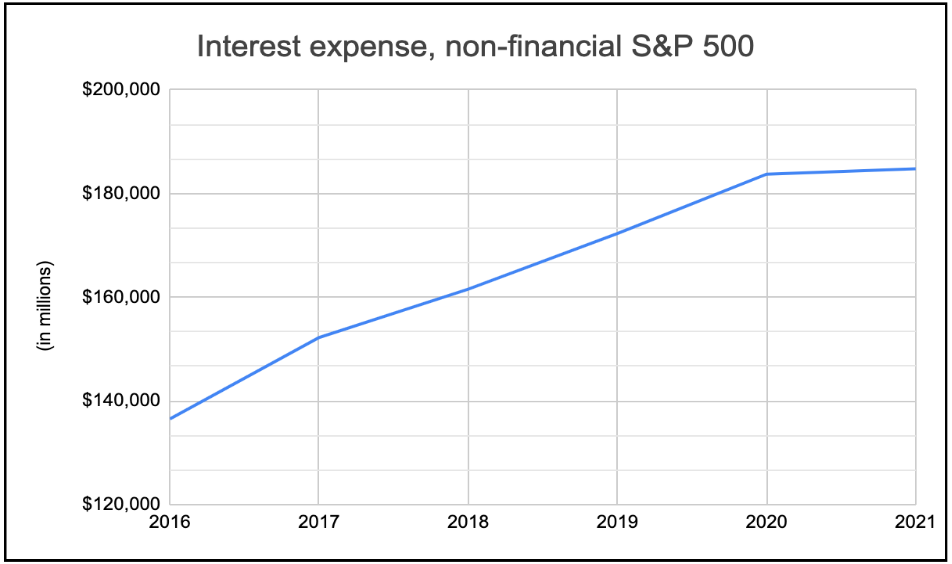
The weighted average interest rate for debt maturing in the next five years ranged from **2.38 percent to 3.22 percent.** See table, at right.

Year	Debt maturing	Weighted Avg. rate	% of total debt	Cum. % of total debt
2023	$15,618,518,917	2.38%	6.29%	6.29%
2024	$17,853,283,150	3.22%	7.19%	13.48%
2025	$19,740,417,392	2.87%	7.95%	21.43%
2026	$18,821,680,985	2.51%	7.58%	29.00%
2027	$22,968,410,173	3.00%	9.25%	38.25%
TOTAL	**$95,002,310,617**			

Rising Interest Expense

In the last six years, interest expense among those firms went from $136.5 billion to $184.8 billion, an increase of 35.3 percent. See chart at right.

Especially interesting is that interest payments leveled off in 2021, when interest rates had been cut to historic lows during the pandemic.



When these companies refinance their debt in coming years, their interest expense is likely to increase substantially.

On the Watch List

Within our sample of 22 companies, we identified 10 whose annual interest expense is **already** more than 10 percent of net income. See table, at right.

The question for analysts: if a company has a substantial portion of debt coming due in 2023, and needs to refinance that debt at higher interest rates, how much will higher interest expenses squeeze profits?

Company	Interest Expense	Net Income	Int./N.I.
Tyson Foods	$365,000,000	$3,249,000,000	11.20%
News Corp.	$99,000,000	$760,000,000	13.00%
Atmos Energy	$102,811,000	$774,398,000	13.30%
Seagate Technology	$249,000,000	$1,649,000,000	15.10%
Clorox Corp.	$106,000,000	$471,000,000	22.50%
Campbell Soup	$189,000,000	$757,000,000	25.00%
Fox Corp.	$371,000,000	$1,233,000,000	30.10%
Oracle Corp.	$2,755,000,000	$6,717,000,000	41.00%
Sysco Corp.	$623,643,000	$1,358,768,000	45.90%
Cardinal Health	$149,000,000	($932,000,000)	-16.00%

Specific Corporate Examples

- Companies do disclose their schedule of debt instruments and interest rates in the footnotes
- The table below shows examples from the 10 companies highlighted previously
- The impact of rolling over the debt is significant.
- Sysco, for example, would incur an increase in interest expense of $10-20 million if they rolled over the $518 bond next year.

Company	Upcoming debt	Due date	Interest rate	Total Debt
Oracle Corp.	$1,250,000,000	Feb. 2023	2.64%	$76.16 billion
Atmos Energy *	$1,100,000,000	March 2023	0.625%	$8.01 billion
Cardinal Health	$556,000,000	2023	3.2%	$5.31 billion
Sysco Corp.	$517,790,000	2023	1.25%	$10.65 billion
Fox Corp.	$1,250,000,000	2024	4.03%	$7.25 billion

* In addition to the 1.1 billion dollar bond that is due in March, Atmos also has a 1.1 Billion dollar loan that is due at roughly the same time. At this time, the total impact is unknown

Conclusions

- Corporations racked up considerable debt in the 2010s and early 2020s during a period of extremely low interest rates. That period of low rates is now over.
- As companies refinance their debt in 2023 and beyond, they will face considerably higher interest rates, which consequently will lead to considerably higher interest expense.
- Even within our small sample of 22 non-financial firms, we found numerous companies where higher interest expense could squeeze profits considerably. Investors will see many more such examples in early 2023 as year-end companies file their 2022 reports.
- To keep net income up, companies will need to grow revenue (potentially difficult if recession comes), cut costs, or do a mix of both.

Ways Calcbench Can Help

Standardized financial data. Our Multi-Company database lets you search revenue, net income, assets, debt, interest expense, debt ratios, and other financial data across large groups of firms. All metrics can be searched for one firm, peer groups you create, or standard groups such as the S&P 500.

Bulk data query. Our Bulk Data Query page also lets users research aggregate financial data and key solvency ratios such as debt-to-equity or times-interest-earned, and quickly export that data to Excel. Data can be searched for one period or over longer periods of time.

Footnote disclosures. The good stuff is always in the fine print. Our Interactive Disclosure database lets you search for any disclosures by type (Debt, Contingencies, Revenue, and more), or search for specific terms in the text.

Thank you, that’s all!

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