CALCBENCH

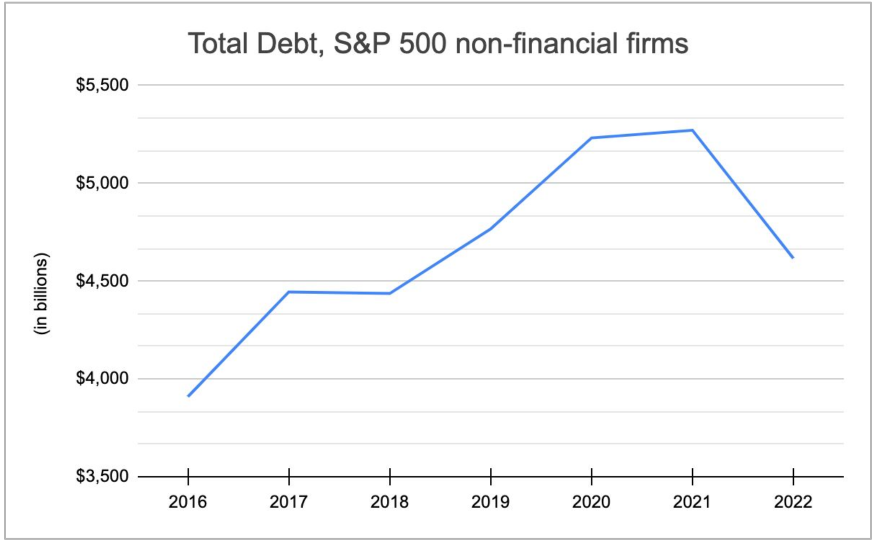
Debt & Rising Interest Rates: Pressures mounting for corporate balance sheets

March 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[1].)

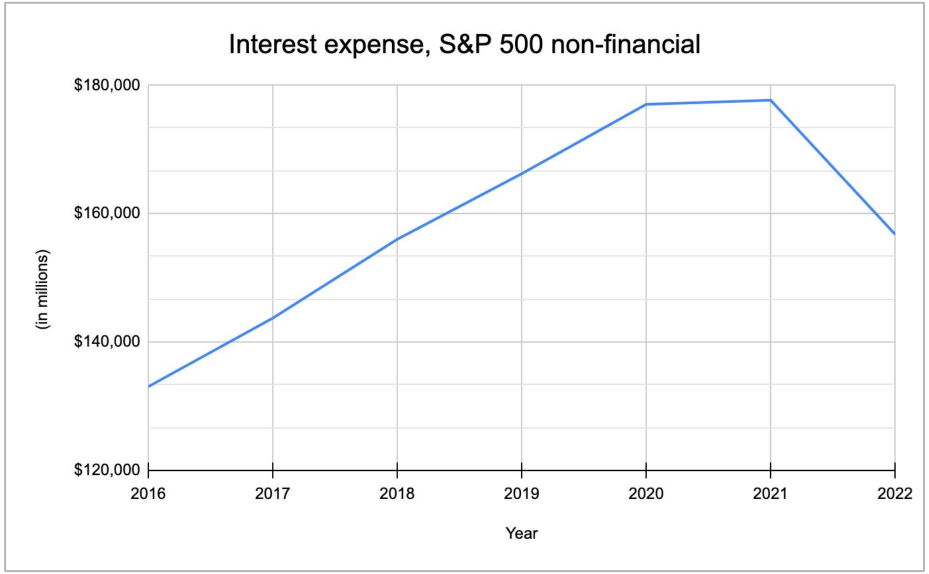


Then came 2022 and a new period of **rising** interest rates. Higher rates are likely to put considerable pressure on corporate balance sheets as companies refinance their older debt loads at newer, higher interest rates.

[1] Pls note that as of March 8, Calcbench had only 352 year-end reports for 2022, compared to an average of 400 for prior years.

Rising Interest Expense

Since 2016, interest expense among S&P 500 non-financial firms has risen from $133 billion to $156.8 billion — an increase of 18 percent, and we are not done yet with 2022 filings.
See chart at right.



Not 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.

What Calcbench Did

Calcbench examined 75 non-financial S&P 500 companies that filed their 2022 annual reports since this fall.

Those 75 companies were carrying a total of $1.206 trillion in debt against $4.741 trillion of assets. **Nearly $382 billion, or 28 percent of that total debt, will mature in the next five years.**

The weighted average interest rate for debt maturing in the next five years ranged from 2.53 to 4.96 percent.

See table, at right.

Year	Debt maturing (in millions)	Interest payment	Weighted Avg. rate	% of total debt	Cum. % of total
2023	$73,643	$1,954	2.65%	5.40%	5.40%
2024	$71,508	$1,806	2.53%	5.24%	10.64%
2025	$84,206	$2,505	2.97%	6.18%	16.82%
2026	$73,598	$2,202	2.99%	5.40%	22.22%
2027	$78,751	$3,904	4.96%	5.78%	27.99%
TOTAL	**$381,706**	$12,371			

On the Watch List

Within our sample of 75 companies, we identified 10 whose annual interest expense is **more than** 45 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 Exp.	Net Income	Int./N.I.
Global Payments	$449,433,000	$143,313,000	314%
MGM Resorts International	$ 594,954,000	$206,731,000	288%
Edison International	$1,169,000,000	$824,000,000	142%
Paramount Global	$931,000,000	$1,104,000,000	84%
Boston Scientific Corp.	$470,000,000	$ 698,000,000	67%
Kinder Morgan	$1,513,000,000	$2,625,000,000	58%
CVS Health	$2,287,000,000	$4,165,000,000	55%
Evergy	$404,000,000	$765,000,000	53%
Keurig Dr Pepper	$693,000,000	$1,435,000,000	48%
Sysco Corp.	$623,643,000	$1,358,768,000	46%

Specific Corporate Examples

Companies **do** disclose their schedule of debt instruments and interest rates in the footnotes. The table below shows examples from the 75 companies we studied, and the effect of rolling over the debt is significant. Thermo Fisher, for example, could see its interest expense increase by $60 million if it rolls over two senior notes due in 2023[2].

Company	Upcoming Debt ($M)	Due Date	Interest Rate	Total Debt
Pepsi	$3,094	2023	1.70%	$39,071,000,000
Thermo Fisher	$1,819	2023	1.85%	$34,488,000,000
Thermo Fisher	$1,350	2023	1.03%	$34,488,000,000
Gilead	$1,498	Sep-23	0.75%	$25,230,000,000
Honeywell	$1,334	2023	1.30%	$19,570,000,000
CVS	$1,300	Jun-23	2.80%	$52,254,000,000

[2]In addition to the $3.1 billion dollar notes due in 2023, Thermo Fisher also has $1.5 billion in floating rate notes due at roughly the same time. The total impact of this debt remains unclear.

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.
- We found numerous companies where higher interest expense could squeeze profits considerably. Investors will likely see many more such examples in 2023 and beyond.
- 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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