Best Buy Co. Inc. (BBY)

Updated February 27th, 2019 by Prakash Kolli

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	9.7%	**Volatility Percentile:**	82.1%
Fair Value Price:	$73	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	26.1%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.2%	**Growth Percentile:**	52.9%
Dividend Yield:	2.6%	**5 Year Price Target**	$103	**Valuation Percentile:**	67.2%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	63.8%

Overview & Current Events

Best Buy Co. Inc. is the largest consumer electronics retailer in North America with operations in the U.S., Canada and Mexico. The company's annual sales exceed $40B. Best Buy sells consumer electronics, personal computers, software, mobile devices, and appliances and provides services. At end of FY 2019, Best Buy operated 997 stores in the U.S, 132 stores in Canada and 29 stores in Mexico. The company continues to lower store count in the U.S.

Best Buy reported solid Q4 FY2019 earnings on February 27, 2019. Note that the company's fiscal year ended February 2nd. This is the eighth consecutive quarter of organic sales growth. Domestic (U.S.) sales increased 3.0% while international sales grew 2.5% both on a year-over-year basis. Domestic online sales grew at 9.3% rate. Notably, sales growth has trended down in FY 2019 with an enterprise peak of 7.1% in Q1. Revenue for Q4 increased to $14,801M. The quarter benefitted from lower selling, general & administrative expenses of 15.6% versus 16.5% in comparable quarters. The tax rate was also significantly lower at 24.3% versus 58.2% year-over-year basis.

For FY 2019, Best Buy reported revenue of $42,879M a 5.6% increase over FY 2018. Revenue grew 4.8% in the U.S., 4.6% internationally and U.S. online sales grew at a 10.5% rate. Similarly, GAAP diluted EPS was $5.20 but benefitted from a significantly lower income tax rate of 22.4% versus 45.0% in FY 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.10	$3.08	-$3.36	-$0.16	$2.00	$3.53	$2.30	$3.74	$3.26	$5.20	***$5.51***	***$7.37***
DPS	$0.58	$0.62	$0.66	$0.68	$0.72	$0.92	$1.12	$1.36	$1.80	$2.00	***$2.16***	***$2.94***
Shares	428	417	375	339	348	354	351	323	307	281	***273***	***242***

Note that we report diluted GAAP EPS in the above chart. Best Buy typically highlights non-GAAP EPS due to annual non-recurring restructuring charges. The company also changed its reporting date in FY2013 reporting only an 11-month FY2013. In 1Q2018 the company stopped excluding certain impairment charges and recast non-GAAP EPS back to 2013. Since Best Buy's fiscal year ends at the beginning of February, the table above more closely lines up with calendar year results. Fiscal 2019 results are shown in 2018, as an example.

Best Buy's diluted EPS growth is volatile. It was affected by the recession and more recently the ongoing transition to online shopping in the U.S. In fact, sales growth was negative and flattish from 2012 to 2017. Much of the gain in EPS was due to a reduction in share count that has dropped dramatically over the past decade. But saying that, the company's efforts to prioritize online sales growth, optimize store count and extract cost efficiencies seem to be taking hold. The company saw a jump in EPS in FY 2019 due to changes in U.S tax law. We are now forecasting 6% EPS and 8% DPS growth out to 2024 accounting for a slowing economy and decelerating organic sales growth.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/E	11.1	7.6	NMF	NMF	19.5	8.6	18.6	18.3	16.2	13.2	13.2	***14.0***
Yld.	1.7%	2.7%	5.6%	1.7%	1.8%	3.0%	2.6%	2.0%	3.4%	2.6%	***2.6%***	***2.6%***

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Best Buy's P/E multiple history has been nearly as volatile as its earnings history. We believe that a fair valuation number for Best Buy is a P/E of 14.0. This is slightly higher than its 10-year average but we account for Best Buy's improvement in organic sales growth, traction in online sales, cost efficiency efforts and lower tax rate. If the company has a P/E ratio of 14.0 this will result 1.2% CAGR from P/E multiple expansion. We anticipate that the dividend yield will be roughly 2.6% in 2024. We have raised our 5-year price target to $97 per share account for the recent good performance and reduction in tax rate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	18.7%	20.1%	NMF	NMF	36.0%	26.1%	48.7%	36.4%	55.2%	38.4%	***39.1%***	***42.2%***

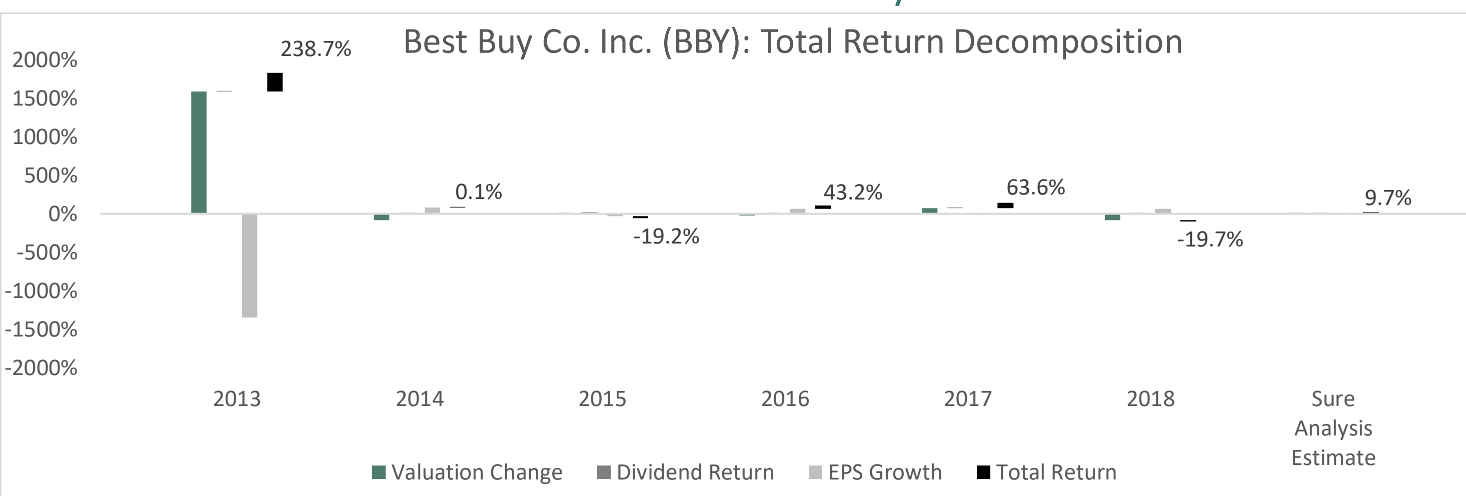
As a retailer Best Buy is in a very competitive industry. Although it is the largest electronics retailer, the company has for the most part no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader for online electronics retailing as Amazon, Walmart, Apple and others provide significant competition there. However, Best Buy's Geek Squad does provide an advantage relative to other traditional retailers as they provide a level of expertise and service not typically found at other retailers.

Best Buy makes conservative use of debt with only $1,332M of long-term debt that is offset with $1,980 in cash and short-term investments, giving it a net cash position. The dividend is currently covered but the payout ratio is much higher than during the last recession. A significant downturn in sales and EPS during a slowdown could lead to a cut.

Final Thoughts & Recommendation

At present we are forecasting 9.7% annualized returns over the next five years comprising mostly of 6.0% EPS growth, 2.6% dividend and 1.1% from P/E multiple contraction. Although Best Buy performed solidly in FY2018 and FY2019, the company's earnings can also be volatile. Saying that, we do not recommend this stock for those seeking conservative dividend growth or safe income at current prices. Additionally, the stock price surged over 14% after 4Q FY2019 earning release, and much of the projected gains for this year are already accounted for.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	49243	49747	45457	38252	40611	40339	39528	39403	42151	42879
Gross Profit	12042	12541	10984	9023	9399	9047	9191	9440	9876	9961
Gross Margin	24.5%	25.2%	24.2%	23.6%	23.1%	22.4%	23.3%	24.0%	23.4%	23.2%
SG&A Exp.	9622	10029	8755	7905	8106	7592	7618	7547	8023	8015
D&A Exp.	926	978	945	832	716	656	657	654	683	770
Operating Profit	2420	2512	2229	1118	1293	1455	1573	1893	1853	1946
Op. Margin	4.9%	5.0%	4.9%	2.9%	3.2%	3.6%	4.0%	4.8%	4.4%	4.5%
Net Profit	1317	1277	-1231	-441	532	1233	897	1228	1000	1464
Net Margin	2.7%	2.6%	-2.7%	-1.2%	1.3%	3.1%	2.3%	3.1%	2.4%	3.4%
Free Cash Flow	1591	446	2527	749	547	1374	694	1977	1453	1589
Income Tax	835	779	742	263	388	141	503	609	818	424

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	18302	17849	16005	16787	14013	15245	13519	13856	13049	12901
Cash & Equivalents	1826	1103	1199	1826	2678	2432	1976	2240	1101	1980
Acc. Receivable			2288	2704	1308	1280	1162	1347	1049	1015
Inventories	5486	5897	5731	6571	5376	5174	5051	4864	5209	5409
Goodwill & Int.	2890	2790	1694	862	526	482	443	443	443	915
Total Liabilities	11338	10557	11639	13072	10024	10245	9141	9147	9437	9595
Accounts Payable	5276	4894	5364	6951	5122	5030	4450	4984	4873	5257
Long-Term Debt	1802	1709	2208	2296	1657	1613	1734	1365	1355	1388
Total Equity	6320	6602	3745	3061	3986	4995	4378	4709	3612	3306
D/E Ratio	0.29	0.26	0.59	0.75	0.42	0.32	0.40	0.29	0.38	0.42

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.7%	7.1%	-7.3%	-2.7%	3.5%	8.4%	6.2%	9.0%	7.4%	11.3%
Return on Equity	24.0%	19.8%	-23.8%	-13.0%	15.1%	27.5%	19.1%	27.0%	24.0%	42.3%
ROIC	16.6%	14.4%	-15.8%	-7.0%	9.1%	20.1%	14.1%	20.2%	18.1%	30.3%
Shares Out.	428	417	375	339	348	354	351	323	307	281
Revenue/Share	115.19	119.44	121.38	112.97	116.83	114.08	112.71	122.14	137.26	152.38
FCF/Share	3.72	1.07	6.75	2.21	1.57	3.89	1.98	6.13	4.73	5.65

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.