Best Buy Co. Inc. (BBY)

Updated May 31st, 2019 by Prakash Kolli

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	8.2%	**Volatility Percentile:**	84.8%
Fair Value Price:	$63	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	32.0%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Growth Percentile:**	52.6%
Dividend Yield:	3.2%	**5 Year Price Target**	$84	**Valuation Percentile:**	73.9%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	70.1%

Overview & Current Events

Best Buy Co. Inc. is one the largest consumer electronics retailer in North America with operations in the U.S., Canada and Mexico. The company's annual sales exceeded $42B in 2018. Best Buy sells consumer electronics, personal computers, software, mobile devices, and appliances and provides services. At end of Q1 FY2020, Best Buy operated 995 Best Buy stores in the U.S, 10 Best Buy Outlet Centers in the U.S., 21 Pacific Sales Stores, 132 Best Buy stores in Canada, 44 Best Buy Mobile Stand-Alone Stores in Canada, 29 Best Buy stores in Mexico and 9 Best Buy Express Stores in Mexico. The company continues to lower store count in the U.S. The current market capitalization is about $16.9B.

Best Buy reported Q1 FY2020 earnings on May 23rd, 2019. The company beat both revenue and earnings per share estimates. Organic enterprise sales grew 1.1% driven by an increase in Domestic segment sales but offset by a decline in International segment sales. Domestic segment sales increased 1.3% to $9,142M from $9,109M on year-over-year basis. On the other hand, International segment sales decreased (1.2%) to $661M from $697M in comparable quarters affected by Canadian sales. Domestic online sales grew 14.5% to $1.31B in Q1 2020 compared to 12.0% in Q1 2019. Domestic online sales were driven by higher average order value and higher volumes. Online revenue now represents 15.4% of total domestic revenue. GAAP diluted EPS increased to $0.98 from $0.72 in comparable quarters.

The 10% tariffs on the List 3 imported goods are affecting Best Buy. But the company has been able to minimize the impact through early procurement and sourcing from other regions. However, management indicated that the 25% rate that went to effect on May 10th will result in higher consumer prices and possibly affect demand. Best Buy's CEO, Hubert Joly, is stepping down. He will take on a new role as the Executive Chairman of the Board. He will be replaced by Corrie Barry, the current CFO. She has been with the company since 1999. The new President and COO is Mike Mohan.

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	***$5.46***	***$6.97***
DPS	$0.58	$0.62	$0.66	$0.68	$0.72	$0.92	$1.12	$1.36	$1.80	$2.00	***$2.16***	***$3.17***
Shares	428	417	375	339	348	354	351	323	307	281	***273***	***234***

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 Q1 2018 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 the 2018 calendar year, 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 fact, sales growth was flat-to-negative 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 leading to organic sales growth. The company saw a jump in EPS in FY 2019 due to changes in U.S tax law. We are now forecasting 5% EPS and 8% DPS growth out to 2024 accounting for a slowing economy and decelerating organic sales growth.

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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	***12.0***	***12.0***
Yld.	1.7%	2.7%	5.6%	1.7%	1.8%	3.0%	2.6%	2.0%	2.4%	2.6%	***3.2%***	***3.8%***

Best Buy's P/E multiple history has been nearly as volatile as its earnings history. We now believe that a fair valuation number for Best Buy is a P/E of 12.0 down from 14.0 due to EPS volatility. 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. Our fair value is $63 based on expected FY 2020 earnings. Our 5-year price target is $84.

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%	***39.5%***	***45.5%***

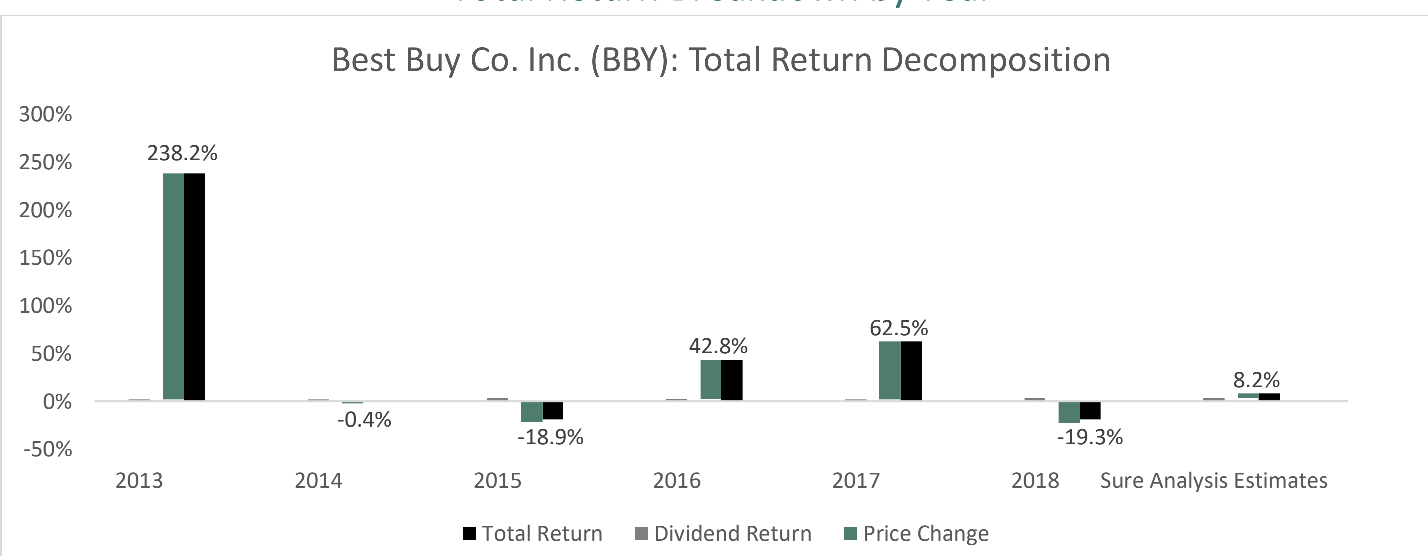
As a retailer Best Buy is in a very competitive industry. Although it is one the largest electronics retailer, the company has for the most part no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader for online 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 $1,193M of long-term debt that is offset with $1,561M in cash and short-term investments, giving it a net cash position. The dividend is currently covered but the payout ratio has been creeping up since the last recession. A significant downturn in sales and EPS during a recession could lead to a cut.

Final Thoughts & Recommendation

At present we are forecasting 8.2% annualized returns over the next five years comprising mostly of 5.0% EPS growth, 3.2% dividend and 0.0% from P/E multiple contraction. Although Best Buy performed solidly in FY2018 and FY2019, the company's earnings can also be volatile due to the discretionary nature of electronics. Saying that, we do not recommend this stock for those seeking conservative dividend growth or safe income. We rate this stock a hold.

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.