Best Buy Co. Inc. (BBY)

Updated March 16th, 2019 by Prakash Kolli

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	12.9%	**Market Cap:**	$13.3B
Fair Value Price:	$61	**5 Year Growth Estimate:**	6.0%	**Dividend Date:**	03/18/20
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.2%	**Dividend Payment Date:**	04/09/20
Dividend Yield:	4.3%	**5 Year Price Target**	$81	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	11.1%

Overview & Current Events

Best Buy Co. Inc. is one the largest consumer electronics retailers in North America with operations in the U.S., Canada and Mexico. Best Buy sells consumer electronics, personal computers, software, mobile devices, and appliances and provides services. At end of Q4 FY2020, Best Buy operated 977 Best Buy stores in the U.S, 11 Best Buy Outlet Centers in the U.S., 21 Pacific Sales Stores, 131 Best Buy stores in Canada, 42 Best Buy Mobile Stand-Alone Stores in Canada, 35 Best Buy stores in Mexico, and 14 Best Buy Express Stores in Mexico. The company continues to lower store count in the U.S. but expand in Mexico. The company's annual sales exceeded $43B in fiscal 2020.

Best Buy reported solid Q4 FY2020 and full year results on February 27, 2020. Enterprise revenue increased to $15,196M from $14,801M and non-GAAP diluted EPS increased to $2.90 from $2.72 on a year-over year basis. Comparable enterprise revenue increased 3.2%. This is the 12th straight quarter of enterprise comparable sales growth. After slowing for much of fiscal 2020, sales growth accelerated in the quarter. Domestic revenue increased 2.6% led by a 3.4% comparable sales growth, offset by store closures. Comparable domestic online sales increased 18.7% to $3.52B compared to the prior year due to higher average order amount, increased traffic, and higher conversion rates. International segment revenue increased 3.4% to $1.35B due to 1.6% comparable sales growth and 160 bps of favorable foreign currency exchange rates.

Fiscal 2020 was a good year for Best Buy as enterprise wide sales grew 2.1% to $43,638M and non-GAAP diluted earnings per share increased 14% to $6.07. The company forecast fiscal 2021 enterprise sales of $43.3B to $44.3B and non-GAAP diluted earnings per share of $6.10 to $6.30. But this does not account for the recent worldwide economic downturn resulting from covid-19 and oil price wars.

Growth on a Per-Share Basis

Year[1]	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS[2]	$3.43	$3.61	$2.54	$2.07	$2.60	$2.78	$3.56	$4.42	$5.32	$6.07	***$5.50***	***$7.36***
DPS	$0.58	$0.62	$0.66	$0.68	$0.72	$0.92	$1.12	$1.36	$1.80	$2.00	***$2.20***	***$3.23***
Shares[3]	393	341	338	347	352	324	311	283	266	258	***250***	***221***

Best Buy's diluted non-GAAP 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. But saying that, the company's efforts to prioritize online sales growth, optimize store count and extract cost efficiencies was taking hold leading to organic sales growth and higher earnings. But we are now forecasting earnings per share to decline in 2020 due to impact of covid-19. After that we are forecasting, 6% EPS and 8% DPS growth out to 2025. Best Buy is targeting $50B in revenue by fiscal 2024. The company believes that healthcare technology for elderly, e.g. remote monitoring, will be a growth driver and has hired a chief medical officer. The company wants to serve five million seniors by 2024.

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[1] Best Buy's fiscal year ends at the beginning of February. The table above more closely aligns with calendar year results. Fiscal 2020 results are shown in the 2019 calendar year, as an example.
[2] Diluted Non-GAAP EPS including restructuring charges, intangible asset amortization, and acquisition-related transaction costs.
[3] Share count in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/E	11.2	7.6	7.4	15	11.8	12.5	10.1	12.7	13.3	13.3	***9.4***	***11.0***
Yld.	1.5%	2.3%	3.5%	2.2%	2.4%	2.7%	3.1%	2.4%	2.6%	2.6%	***4.3%***	***4.0%***

Best Buy's stock price has dropped significantly due to the market downturn resulting from covid-19, oil price wars, and travel restrictions. It now trades at a depressed multiple of 9.4 based on our reduced 2020 earnings per share estimates. We have adjusted our fair value multiple down to 11.0. Our fair value is now $61. Our 5-year price target is now $81.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	17%	17%	26%	33%	28%	33%	31%	31%	34%	33%	***40%***	***44%***

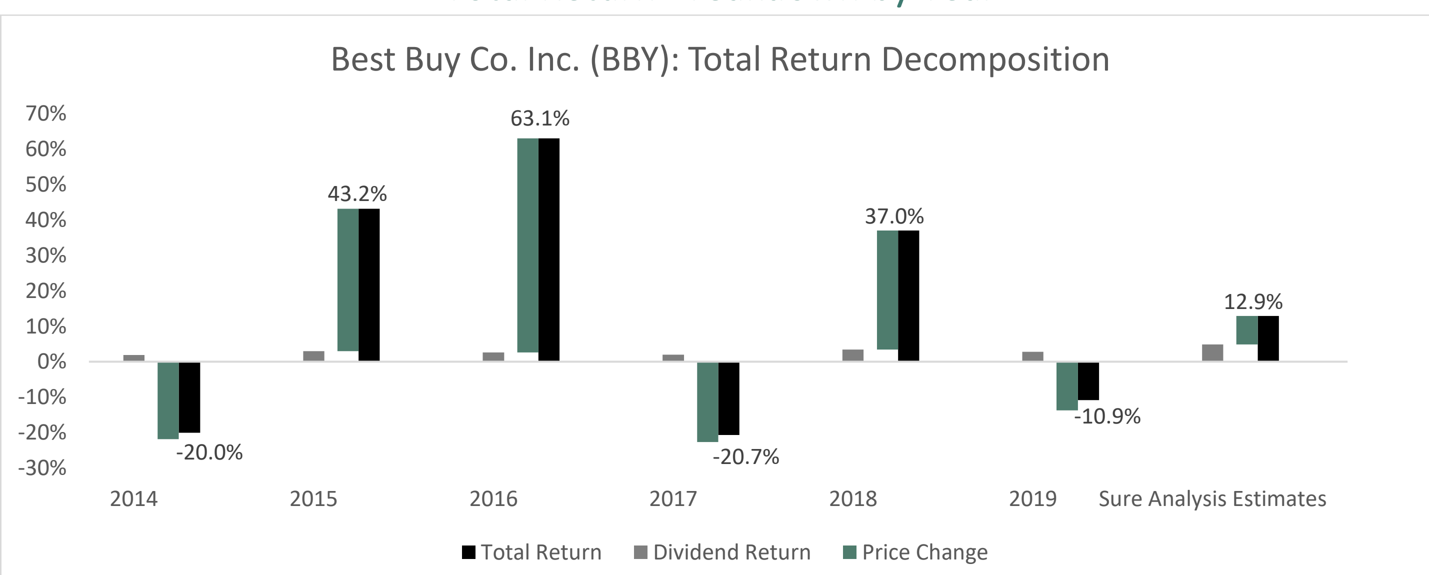
As a retailer Best Buy is in a very competitive industry. Although it is one the largest electronics retailer, the company has for the most part no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader for online 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 very conservative use of debt with only $14M in short-term debt and $1,257M in long-term debt that is offset with $2,229M in cash and equivalents giving the company a net cash position.

Final Thoughts & Recommendation

At present we are forecasting 12.9% annualized total return over the next five years. Best Buy was performing well, but the impact of covid-19, oil price wars, and travel restrictions will likely impact the top and bottom lines. The company's sales and earnings have been historically volatile due to the discretionary nature of electronics. The current yield is elevated, and the expected total return is decent at the moment. But investors should expect volatility in the stock price. At the current price, we rate this stock a buy.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	49747	45457	38252	40611	40339	39528	39403	42151	42879	43638
Gross Profit	12541	10984	9023	9399	9047	9191	9440	9876	9961	10048
Gross Margin	25.2%	24.2%	23.6%	23.1%	22.4%	23.3%	24.0%	23.4%	23.2%	23.0%
SG&A Exp.	10029	8755	7905	8106	7592	7618	7547	8023	8015	7998
D&A Exp.	978	945	832	716	656	657	654	683	770	812
Operating Profit	2512	2229	1118	1293	1455	1573	1893	1853	1946	2050
Op. Margin	5.0%	4.9%	2.9%	3.2%	3.6%	4.0%	4.8%	4.4%	4.5%	4.7%
Net Profit	1277	-1231	-441	532	1233	897	1228	1000	1464	1541
Net Margin	2.6%	-2.7%	-1.2%	1.3%	3.1%	2.3%	3.1%	2.4%	3.4%	3.5%
Free Cash Flow	446	2527	749	547	1374	694	1977	1453	1589	1822
Income Tax	779	742	263	388	141	503	609	818	424	452

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	17849	16005	16787	14013	15245	13519	13856	13049	12901	15591
Cash & Equivalents	1103	1199	1826	2678	2432	1976	2240	1101	1980	2229
Acc. Receivable		2288	2704	1308	1280	1162	1347	1049	1015	1149
Inventories	5897	5731	6571	5376	5174	5051	4864	5209	5409	5174
Goodwill & Int.	2790	1694	862	526	482	443	443	443	915	984
Total Liabilities	10557	11639	13072	10024	10245	9141	9147	9437	9595	12112
Accounts Payable	4894	5364	6951	5122	5030	4450	4984	4873	5257	5288
Long-Term Debt	1709	2208	2296	1657	1613	1734	1365	1355	1388	1271
Total Equity	6602	3745	3061	3986	4995	4378	4709	3612	3306	3479
D/E Ratio	0.26	0.59	0.75	0.42	0.32	0.40	0.29	0.38	0.42	0.37

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.1%	-7.3%	-2.7%	3.5%	8.4%	6.2%	9.0%	7.4%	11.3%	10.8%
Return on Equity	19.8%	-23.8%	-13.0%	15.1%	27.5%	19.1%	27.0%	24.0%	42.3%	45.4%
ROIC	14.4%	-15.8%	-7.0%	9.1%	20.1%	14.1%	20.2%	18.1%	30.3%	32.6%
Shares Out.	417	375	339	348	354	351	323	307	281	258
Revenue/Share	119.44	121.38	112.97	116.83	114.08	112.71	122.14	137.26	152.38	162.77
FCF/Share	1.07	6.75	2.21	1.57	3.89	1.98	6.13	4.73	5.65	6.80

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