Best Buy Co. Inc. (BBY)

Updated June 7th, 2021 by Prakash Kolli

Key Metrics

Current Price:	$117	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$29.05B
Fair Value Price:	$101	**5 Year Growth Estimate:**	6.0%	**Dividend Date:**	06/16/21
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	07/08/21
Dividend Yield:	2.4%	**5 Year Price Target**	$135	**Years Of Dividend Growth:**	18
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	27.3%

Overview & Current Events

Best Buy Co. Inc. is one the largest consumer electronics retailers in North America with operations in the U.S. and Canada. Best Buy sells consumer electronics, personal computers, software, mobile devices, and appliances and provides services. At end of Q1 FY2022, Best Buy operated 946 Best Buy stores in the U.S, 14 Best Buy Outlet Centers in the U.S., 21 Pacific Sales Stores, 130 Best Buy stores in Canada, and 33 Best Buy Mobile Stand-Alone Stores in Canada. Best Buy exited Mexico operations in fiscal 2021. The company continues to lower total store count during the COVID-19 pandemic continuing a long-term trend. The company's annual sales exceeded $47B in fiscal 2021.

Best Buy reported very strong Q1 FY2022 results on May 27, 2021. Enterprise revenue increased to $11,637M from $8,562M and non-GAAP diluted EPS increased 223% to $2.23 from $0.67 on a year-over year basis. GAAP diluted EPS increased 280% to $2.32 from $0.61. Comparable enterprise revenue increased 37.2%, as demand was very high, making it four quarters in a row of double-digit growth. Domestic revenue rose 37.0% driven by a 37.9% rise in comparable sales offset by permanent store closures. Comparable domestic online sales rose 7.6% to $6.66B compared to the prior year resulting from higher average order values and more volume. Domestic online sales now comprise about 33.2% of total domestic revenue versus 42.2% last year. International segment revenue rose 23.0% to $796M due to 27.8% comparable sales growth. Best Buy exited its operations in Mexico and closed all stores there.

Best Buy was initially adversely affected by COVID-19 due to local government restrictions and store closures. But Best Buy is benefitting from higher on-line sales from consumers and businesses. COVID-19 has changed how people work, attend school, entertain, and eat. This has driven sales of electronics, appliances, tablets, and home theater.

Federal government stimulus has helped increase electronics sales demand leading a strong start to fiscal 2022. Best Buy raised its outlook to 3% - 6% enterprise comparable sales growth from (-2%) to 1%. The company increased its share repurchase outlook to $2.5 billion for fiscal 2022.

Growth on a Per-Share Basis

Year[1]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS[2]	$3.61	$2.54	$2.07	$2.60	$2.78	$3.56	$4.42	$5.32	$6.07	$7.91	***$8.38***	***$11.21***
DPS	$0.62	$0.66	$0.68	$0.72	$0.92	$1.12	$1.36	$1.80	$2.00	$2.20	***$2.80***	***$4.11***
Shares[3]	341	338	347	352	324	311	283	266	255	247	***249***	***214***

Best Buy's diluted non-GAAP EPS growth is volatile. It was affected by the Great Recession and more recently the ongoing transition to online shopping. In fact, sales growth was flat-to-negative from fiscal 2012 to 2017. But saying that, the company's efforts to prioritize online sales growth, optimize store count and extract cost efficiencies has been taking hold leading to organic sales growth and higher earnings accelerated by the COVID-19 pandemic. We are forecasting on average 6% EPS and 8% DPS growth out to fiscal 2027, but growth will be uneven. The payout ratio is low so there is room for further dividend increases. Indeed, the quarterly payout was raised 27.3% in fiscal 2022.

[1] Best Buy's fiscal year ends at the beginning of February. All tables are in fiscal year.
[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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/E	7.6	7.4	15	11.8	12.5	10.1	12.7	13.3	11.9	11.9	***13.9***	***12.0***
Yld.	2.3%	3.5%	2.2%	2.4%	2.7%	3.1%	2.4%	2.6%	2.8%	2.3%	***2.4%***	***3.1%***

Best Buy's stock price is up again since our last report. The company continues to benefit from the impact of COVID-19 due to still elevated stay at-home activity. On-line sales are surging during COVID-19 and the company's momentum in FY 2021 continued into FY 2022. Our earnings estimate is $8.38 in fiscal 2022. Our estimate of the fair value multiple is 12X near the trailing 10-year valuation. Our fair value is now $101. Our 5-year price target is now $135.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	17%	26%	33%	28%	33%	31%	31%	34%	33%	28%	***33%***	***37%***

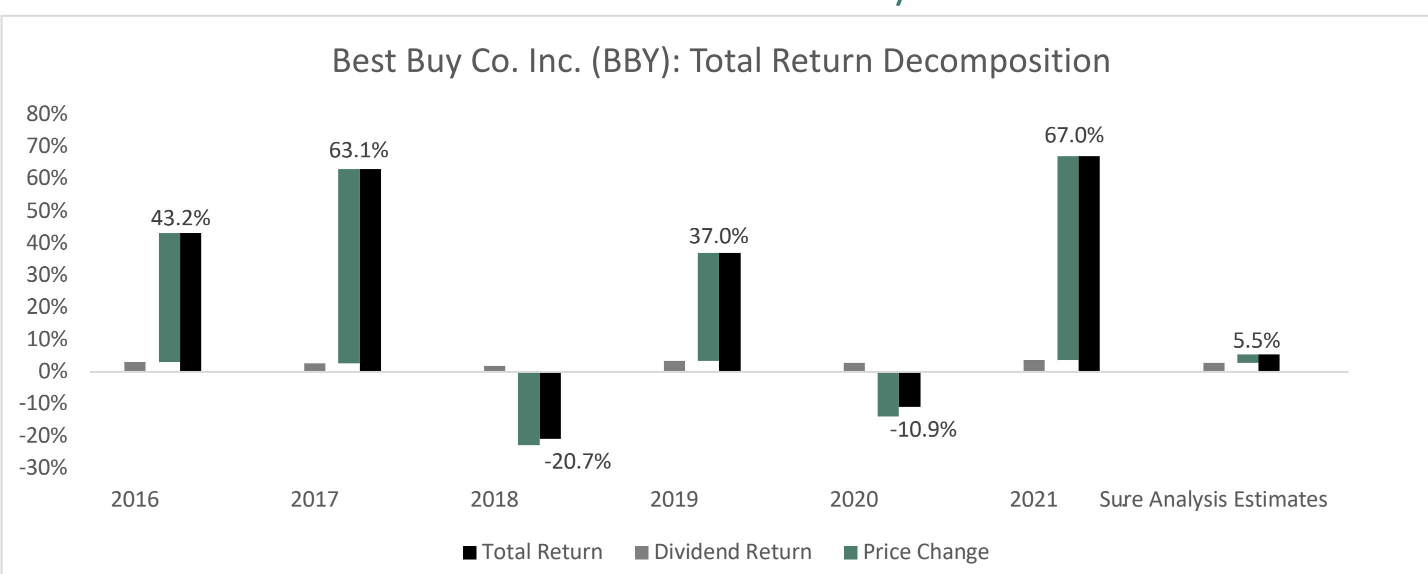
As a retailer Best Buy is in a very competitive industry. Although it is one the largest electronics retailers by revenue, the company has for the most part no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader 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 $125M in short-term debt and $1,229M in long-term debt that is offset by $4,338M in cash, equivalents, and short-term investments giving the company a net cash position.

Final Thoughts & Recommendation

At present we are forecasting 5.5% annualized total return over the next five years. Best Buy continues to benefit from the effects of COVID-19 as the stay at-home trend is still a tailwind. Online sales are now a major part of total sales. Best Buy is executing well and is now trialing a subscription membership program that may catch on. However, the stock price is elevated, and investors may want to wait for a better entry point. At the current price, 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	45457	38252	40611	40339	39528	39403	42151	42879	43638	47262
Gross Profit	10984	9023	9399	9047	9191	9440	9876	9961	10048	10573
Gross Margin	24.2%	23.6%	23.1%	22.4%	23.3%	24.0%	23.4%	23.2%	23.0%	22.4%
SG&A Exp.	8755	7905	8106	7592	7618	7547	8023	8015	7998	7928
D&A Exp.	945	832	716	656	657	654	683	770	812	839
Operating Profit	2229	1118	1293	1455	1573	1893	1853	1946	2050	2645
Op. Margin	4.9%	2.9%	3.2%	3.6%	4.0%	4.8%	4.4%	4.5%	4.7%	5.6%
Net Profit	-1231	-441	532	1233	897	1228	1000	1464	1541	1798
Net Margin	-2.7%	-1.2%	1.3%	3.1%	2.3%	3.1%	2.4%	3.4%	3.5%	3.8%
Free Cash Flow	2527	749	547	1374	694	1977	1453	1589	1822	4214
Income Tax	742	263	388	141	503	609	818	424	452	579

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	16005	16787	14013	15245	13519	13856	13049	12901	15591	19067
Cash & Equivalents	1199	1826	2678	2432	1976	2240	1101	1980	2229	5494
Acc. Receivable	2288	2704	1308	1280	1162	1347	1049	1015	1149	1061
Inventories	5731	6571	5376	5174	5051	4864	5209	5409	5174	5612
Goodwill & Int.	1694	862	526	482	443	443	443	915	984	986
Total Liabilities	11639	13072	10024	10245	9141	9147	9437	9595	12112	14480
Accounts Payable	5364	6951	5122	5030	4450	4984	4873	5257	5288	6979
Long-Term Debt	2208	2296	1657	1613	1734	1365	1355	1388	1271	1377
Total Equity	3745	3061	3986	4995	4378	4709	3612	3306	3479	4587
D/E Ratio	0.59	0.75	0.42	0.32	0.40	0.29	0.38	0.42	0.37	0.30

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-7.3%	-2.7%	3.5%	8.4%	6.2%	9.0%	7.4%	11.3%	10.8%	10.4%
Return on Equity	-23.8%	-13.0%	15.1%	27.5%	19.1%	27.0%	24.0%	42.3%	45.4%	44.6%
ROIC	-15.8%	-7.0%	9.1%	20.1%	14.1%	20.2%	18.1%	30.3%	32.6%	33.6%
Shares Out.	375	339	348	354	351	323	307	281	258	255
Revenue/Share	121.38	112.97	116.83	114.08	112.71	122.14	137.26	152.38	162.77	179.70
FCF/Share	6.75	2.21	1.57	3.89	1.98	6.13	4.73	5.65	6.80	16.02

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