



# Best Buy Co. Inc. (BBY)

Updated March 10<sup>th</sup>, 2022 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$100	<b>5 Year CAGR Estimate:</b>	10.8%	<b>Market Cap:</b>	\$24.33B
<b>Fair Value Price:</b>	\$108	<b>5 Year Growth Estimate:</b>	6.0%	<b>Dividend Date:</b>	03/23/22
<b>% Fair Value:</b>	92%	<b>5 Year Valuation Multiple Estimate:</b>	1.6%	<b>Dividend Payment Date:</b>	04/14/22
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$145	<b>Years Of Dividend Growth:</b>	19
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	25.7%

## 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 Q4 FY2022, Best Buy operated 938 Best Buy stores and 16 Best Buy Outlet Centers in the U.S., 21 Pacific Sales Stores, 127 Best Buy stores in Canada, and 33 Best Buy Mobile Stand-Alone Stores in Canada. Best Buy exited its 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 \$51B in fiscal 2021.

Best Buy reported Q4 FY2022 results on March 3, 2022. Enterprise revenue decreased to \$16,365M from \$16,937M and non-GAAP diluted EPS decreased to \$2.73 from \$3.48 on a year-over year basis. GAAP diluted EPS decreased to \$2.62 from \$3.10. Comparable enterprise revenue decreased (-2.3%), on very tough comparisons, and a slow down after six quarters of growth. Domestic revenue fell (-2.6%) to \$14,993M from \$15,400M driven by a (-2.1%) fall in comparable sales and permanent store closures. Comparable domestic online sales fell (-11.2%) to \$5.91B compared to the prior year due to the reopening of the U.S. economy. Domestic online sales now comprise about 39.4% of total domestic revenue versus 43.2% last year. International segment revenue fell (-10.7%) to \$1,372M due to (-3.8%) comparable sales decline in Canada. Best Buy exited its operations in Mexico and closed all stores in 2021.

Best Buy was initially adversely affected by COVID-19 due to local government restrictions and store closures, but Best Buy benefitted from the pandemic and beyond. COVID-19 changed how people work, attend school, entertain, and eat. This has driven sales of electronics, appliances, tablets, and home theater. Sales remains robust despite workers returning to the office and slowing Federal government payments. Best Buy is trialing a \$199 technical full-service subscription that includes year-round technical support, 24-hour phone and text support, free delivery, and installation. Best Buy guided from 1.0% - 4.0% sales decline and non-GAAP diluted EPS of \$8.85 to \$9.15 in fiscal 2023.

## Growth on a Per-Share Basis

Year <sup>1</sup>	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS<sup>2</sup></b>	\$2.54	\$2.07	\$2.60	\$2.78	\$3.56	\$4.42	\$5.32	\$6.07	\$7.91	\$10.01	<b>\$9.00</b>	<b>\$12.04</b>
<b>DPS</b>	\$0.66	\$0.68	\$0.72	\$0.92	\$1.12	\$1.36	\$1.80	\$2.00	\$2.20	\$2.80	<b>\$3.52</b>	<b>\$5.17</b>
<b>Shares<sup>3</sup></b>	338	347	352	324	311	283	266	256	257	249	<b>242</b>	<b>208</b>

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 2028, but growth will be uneven. The payout ratio is low so there is room for further dividend increases. Indeed, the quarterly payout was raised 25.7% in fiscal 2023.

<sup>1</sup> Best Buy's fiscal year ends at the beginning of February. All tables are in fiscal year.

<sup>2</sup> Diluted Non-GAAP EPS including restructuring charges, intangible asset amortization, and acquisition-related transaction costs.

<sup>3</sup> Share count in millions.

*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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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/E	7.4	15	11.8	12.5	10.1	12.7	13.3	11.9	11.9	<b>10.0</b>	<b>11.1</b>	<b>12.0</b>
Yld.	3.5%	2.2%	2.4%	2.7%	3.1%	2.4%	2.6%	2.8%	2.3%	<b>2.8%</b>	<b>3.5%</b>	<b>3.6%</b>

Best Buy's stock price is up slightly since our last report. The company was benefitting from the impact of COVID-19 due to still elevated stay-at-home activity. However, sales growth is slowing and comparable were negative in the most recent quarter. We pegged our earnings estimate at the mid-point of current guidance. Our estimate of the fair value multiple is 12X near the trailing 5-year valuation. Our fair value is now \$108. Our 5-year price target is now \$145.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	33%	28%	33%	31%	31%	34%	33%	28%	28%	<b>39%</b>	<b>43%</b>

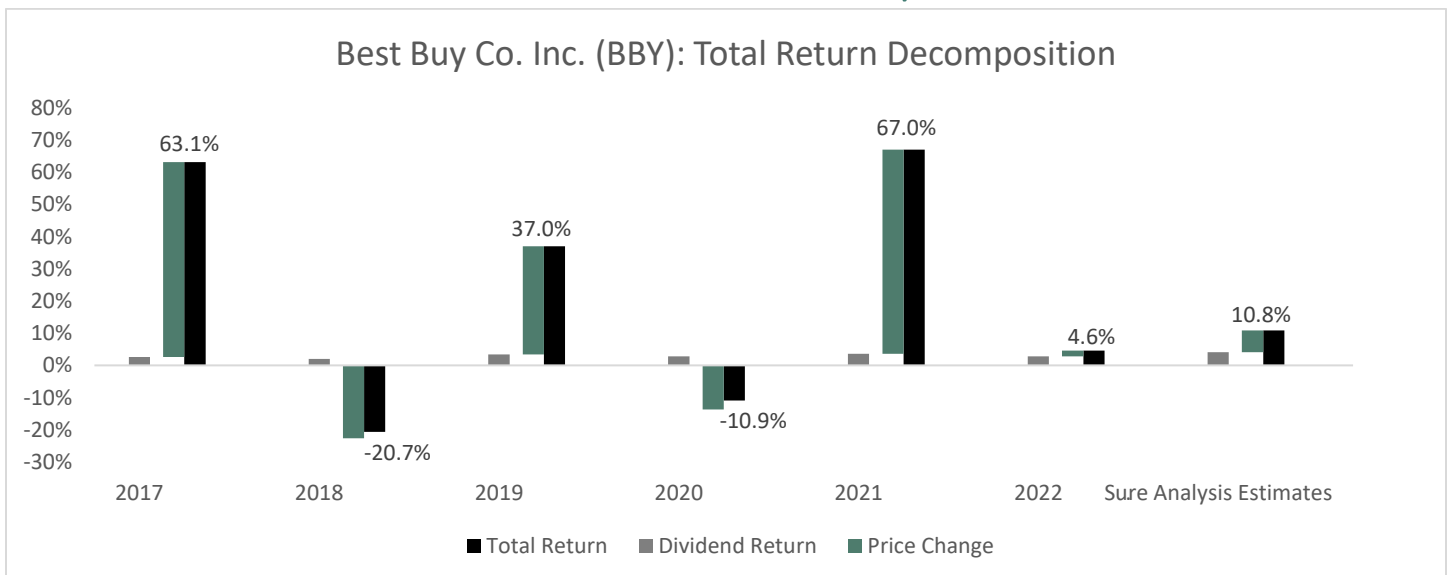
As a retailer, Best Buy is in a very competitive industry. Although it is one the largest electronics retailers by revenue, the company has for the most part no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader 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 no short-term debt and \$1,216M in long-term debt that is offset by \$2,936M in cash, equivalents, and short-term investments giving the company a net cash position.

## Final Thoughts & Recommendation

At present we are forecasting 10.8% annualized total return over the next five years. Best Buy was thriving from the effects of COVID-19, but the effect is slowing. Best Buy is executing well and is now trialing the \$199 TotalTech subscription to drive growth. The company was trading at an elevated valuation until recently and the current price is likely a good entry point for investors. At the current price, we rate this stock a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	45457	38252	40611	40339	39528	39403	42151	42879	43638	47262
<b>Gross Profit</b>	10984	9023	9399	9047	9191	9440	9876	9961	10048	10573
<b>Gross Margin</b>	24.2%	23.6%	23.1%	22.4%	23.3%	24.0%	23.4%	23.2%	23.0%	22.4%
<b>SG&amp;A Exp.</b>	8755	7905	8106	7592	7618	7547	8023	8015	7998	7928
<b>D&amp;A Exp.</b>	945	832	716	656	657	654	683	770	812	839
<b>Operating Profit</b>	2229	1118	1293	1455	1573	1893	1853	1946	2050	2645
<b>Op. Margin</b>	4.9%	2.9%	3.2%	3.6%	4.0%	4.8%	4.4%	4.5%	4.7%	5.6%
<b>Net Profit</b>	-1231	-441	532	1233	897	1228	1000	1464	1541	1798
<b>Net Margin</b>	-2.7%	-1.2%	1.3%	3.1%	2.3%	3.1%	2.4%	3.4%	3.5%	3.8%
<b>Free Cash Flow</b>	2527	749	547	1374	694	1977	1453	1589	1822	4214
<b>Income Tax</b>	742	263	388	141	503	609	818	424	452	579

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	16005	16787	14013	15245	13519	13856	13049	12901	15591	19067
<b>Cash &amp; Equivalents</b>	1199	1826	2678	2432	1976	2240	1101	1980	2229	5494
<b>Acc. Receivable</b>	2288	2704	1308	1280	1162	1347	1049	1015	1149	1061
<b>Inventories</b>	5731	6571	5376	5174	5051	4864	5209	5409	5174	5612
<b>Goodwill &amp; Int.</b>	1694	862	526	482	443	443	443	915	984	986
<b>Total Liabilities</b>	11639	13072	10024	10245	9141	9147	9437	9595	12112	14480
<b>Accounts Payable</b>	5364	6951	5122	5030	4450	4984	4873	5257	5288	6979
<b>Long-Term Debt</b>	2208	2296	1657	1613	1734	1365	1355	1388	1271	1377
<b>Total Equity</b>	3745	3061	3986	4995	4378	4709	3612	3306	3479	4587
<b>D/E Ratio</b>	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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	-7.3%	-2.7%	3.5%	8.4%	6.2%	9.0%	7.4%	11.3%	10.8%	10.4%
<b>Return on Equity</b>	-23.8%	-13.0%	15.1%	27.5%	19.1%	27.0%	24.0%	42.3%	45.4%	44.6%
<b>ROIC</b>	-15.8%	-7.0%	9.1%	20.1%	14.1%	20.2%	18.1%	30.3%	32.6%	33.6%
<b>Shares Out.</b>	375	339	348	354	351	323	307	281	258	255
<b>Revenue/Share</b>	121.38	112.97	116.83	114.08	112.71	122.14	137.26	152.38	162.77	179.70
<b>FCF/Share</b>	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.

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