Best Buy Co. Inc. (BBY)

Updated September 7th, 2022 by Prakash Kolli

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$16.02B
Fair Value Price:	$68	**5 Year Growth Estimate:**	4.0%	**Dividend Date:**	09/19/22
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date:**	10/11/22
Dividend Yield:	4.9%	**5 Year Price Target**	$82	**Years Of Dividend Growth:**	19
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

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 Q2 FY2023, Best Buy operated 930 Best Buy stores and 18 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 $51.7B in fiscal 2022.

Best Buy reported poor Q2 FY2023 results on August 30th, 2022. Enterprise revenue decreased to $10,329M from $11,849M and non-GAAP diluted EPS decreased to $1.54 from $2.98 on a year-over year basis. GAAP diluted EPS decreased to $1.35 from $2.90. Comparable enterprise revenue decreased (-12.1%), on very tough comparisons to Q2 FY2022 of 19.6% growth. Domestic revenue fell (-13.1%) to $9,569M from $11,011M driven by a (-12.7%) fall in comparable sales and permanent store closures. Sales were lower for almost all categories: Computing and Mobile Phones (-16.6%), Consumer Electronics (-14.7%), Appliances (-1.2%), Entertainment (-9.2%), Services (-8.5%), and Other (+15.6%). Comparable domestic online sales fell (-14.7%) to $2.97B compared to the prior year due to low demand. Domestic online sales now comprise about 31.0% of total domestic revenue versus 31.7% last year. International segment revenue fell (-9.3%) to $760M due to (-4.2%) comparable sales decline in Canada. Sales were lower for all categories except Appliances and Other.

Best Buy benefitted from the pandemic. However, a return to the office, lack of federal stimulus, inflation, supply chain disruptions, and higher labor and freight costs are now significantly impacting sales and margins. The company is undergoing a restructuring to align its cost structure with current business trends.

Best Buy lowered guidance significantly to ~11% comparable sales decline in fiscal 2023 and paused share repurchases.

Growth on a Per-Share Basis

Year[1]	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS[2]	$2.54	$2.07	$2.60	$2.78	$3.56	$4.42	$5.32	$6.07	$7.91	$10.01	***$6.16***	***$7.49***
DPS	$0.66	$0.68	$0.72	$0.92	$1.12	$1.36	$1.80	$2.00	$2.20	$2.80	***$3.52***	***$4.71***
Shares[3]	338	347	352	324	311	283	266	256	257	249	***242***	***208***

Best Buy's diluted non-GAAP EPS growth is volatile because of the Great Recession and the transition to online shopping. In fact, sales growth was flat-to-negative from fiscal 2012 to 2017. However, the company's efforts to prioritize online sales growth, optimize store count and extract cost efficiencies led to organic sales growth and higher earnings accelerated by the COVID-19 pandemic. But now sales are declining rapidly as consumers return to more normal buying habits and federal stimulus dollars expire. Additionally, inflation and supply chain disruptions are impacting margins. We are forecasting on average 4% EPS and lowered DPS growth to 6% out to fiscal 2028, but growth will be uneven.

[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	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	11.3	***10.0***	***11.6***	***11.0***
Yld.	3.5%	2.2%	2.4%	2.7%	3.1%	2.4%	2.6%	2.8%	2.5%	***2.8%***	***4.9%***	***5.7%***

Best Buy's stock price is down again since our last report. The company was benefitting from the impact of COVID-19 due elevated stay at-home activity. However, sales are now declining more than expected, and costs are rising. We set our earnings estimate at the much lower consensus value. We previously lowered our fair value estimate to 11X, slightly lower than the trailing 10-year valuation. Our fair value is now $68. Our 5-year price target is now $82.

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%	***57%***	***63%***

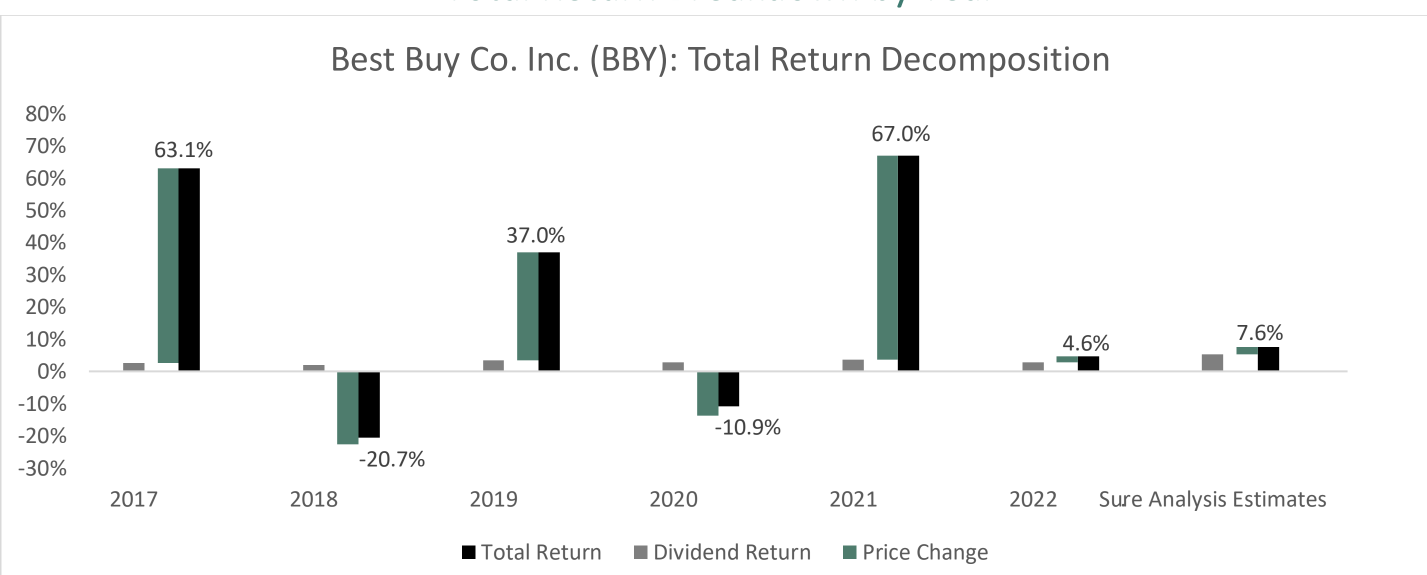
As a retailer, Best Buy is in a very competitive industry. Although it is one the largest electronics retailers by revenue, the company has for the most part no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader 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 conservative use of debt with no short-term debt, $15M in current long-term debt, and $1,184M in long-term debt that is offset by $840M in cash, equivalents, and short-term investments.

Final Thoughts & Recommendation

At present we are forecasting 7.6% annualized total return over the next five years from a dividend yield of 4.9%, 4% EPS growth, and (-1.1%) P/E multiple expansion. Best Buy was thriving during COVID-19, but sales are now declining much more than expected and margins are compressing. We have lowered our estimates and valuation. The dividend yield is the highest in the past 5 years and may interest those seeking income. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	38252	40611	40339	39528	39403	42151	42879	43638	47262	51761
Gross Profit	9023	9399	9047	9191	9440	9876	9961	10048	10573	11640
Gross Margin	23.6%	23.1%	22.4%	23.3%	24.0%	23.4%	23.2%	23.0%	22.4%	22.5%
SG&A Exp.	7905	8106	7592	7618	7547	8023	8015	7998	7928	8635
D&A Exp.	832	716	656	657	654	683	770	812	839	869
Operating Profit	1118	1293	1455	1573	1893	1853	1946	2050	2645	3005
Op. Margin	2.9%	3.2%	3.6%	4.0%	4.8%	4.4%	4.5%	4.7%	5.6%	5.8%
Net Profit	-441	532	1233	897	1228	1000	1464	1541	1798	2454
Net Margin	-1.2%	1.3%	3.1%	2.3%	3.1%	2.4%	3.4%	3.5%	3.8%	4.7%
Free Cash Flow	749	547	1374	694	1977	1453	1589	1822	4214	2515
Income Tax	263	388	141	503	609	818	424	452	579	574

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16787	14013	15245	13519	13856	13049	12901	15591	19067	17504
Cash & Equivalents	1826	2678	2432	1976	2240	1101	1980	2229	5494	2936
Acc. Receivable	2704	1308	1280	1162	1347	1049	1015	1149	1061	1042
Inventories	6571	5376	5174	5051	4864	5209	5409	5174	5612	5965
Goodwill & Int.	862	526	482	443	443	443	915	984	986	1659
Total Liabilities	13072	10024	10245	9141	9147	9437	9595	12112	14480	14484
Accounts Payable	6951	5122	5030	4450	4984	4873	5257	5288	6979	6803
Long-Term Debt	2296	1657	1613	1734	1365	1355	1388	1271	1377	1139
Total Equity	3061	3986	4995	4378	4709	3612	3306	3479	4587	3020
D/E Ratio	0.75	0.42	0.32	0.40	0.29	0.38	0.42	0.37	0.30	0.38

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-2.7%	3.5%	8.4%	6.2%	9.0%	7.4%	11.3%	10.8%	10.4%	13.4%
Return on Equity	-13.0%	15.1%	27.5%	19.1%	27.0%	24.0%	42.3%	45.4%	44.6%	64.5%
ROIC	-7.0%	9.1%	20.1%	14.1%	20.2%	18.1%	30.3%	32.6%	33.6%	49.1%
Shares Out.	339	348	354	351	323	307	281	258	255	249
Revenue/Share	112.97	116.83	114.08	112.71	122.14	137.26	152.38	162.77	179.70	207.63
FCF/Share	2.21	1.57	3.89	1.98	6.13	4.73	5.65	6.80	16.02	10.09

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