



Best Buy Co. Inc. (BBY)

Updated December 3rd, 2023 by Prakash Kolli

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	7.0%	Market Cap:	\$15.81B
Fair Value Price:	\$68	5 Year Growth Estimate:	4.0%	Dividend Date:	12/11/23
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date:	01/02/23
Dividend Yield:	5.0%	5 Year Price Target	\$82	Years Of Dividend Growth:	20
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 FY2024, Best Buy operated 901 Best Buy stores and 21 Best Buy Outlet Centers in the U.S., 20 Pacific Sales Stores, 21 Yardbird Stores, 128 Best Buy stores in Canada, and 32 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, continuing a long-term trend. The company's annual sales exceeded \$46.3B in fiscal 2023.

Best Buy reported Q3 FY2024 results on November 21st, 2023. Enterprise revenue decreased to \$9,756M from \$10,587M and non-GAAP diluted EPS decreased to \$1.22 from \$1.54 on a year-over year basis. GAAP diluted EPS decreased to \$1.29 from \$1.38. Comparable enterprise revenue decreased (-6.9%), the eighth straight quarterly decline. Domestic revenue fell (-8.2%) to \$8,996M from \$9,800M, driven by a fall in comparable sales and permanent store closures. Sales were lower for 3 out of 5 categories: Computing and Mobile Phones (-8.3%), Consumer Electronics (-9.5%), Appliances (-15.1%), Entertainment (+20.6%), and Services (+6.9%). Comparable domestic online sales decreased (-9.3%) to \$2.75B compared to the prior year due to low demand. Domestic online sales now comprise about 30.6% of total domestic revenue. International segment revenue fell (-3.4%) to \$760M from \$787M year-over-year due to (-1.9%) comparable sales decline in Canada and negative foreign exchange impact. Sales were lower for 2 out of 5 categories: Computing and Mobile Phones (-1.0%), Consumer Electronics (-8.4%), Appliances (+4.0%), Entertainment (+18.6%) and Services (+2.4%).

Best Buy benefitted from the pandemic. However, a return to the office, expired federal stimulus, inflation, supply chain disruptions, and higher labor and freight costs are now impacting sales and margins.

Best Buy updated FY 2024 guidance at revenue of \$43.1B to \$43.7B and non-GAAP diluted EPS at \$6.00 to \$6.30.

Growth on a Per-Share Basis

Year ¹	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS²	\$2.07	\$2.60	\$2.78	\$3.56	\$4.42	\$5.32	\$6.07	\$7.91	\$10.01	\$7.08	\$6.15	\$7.48
DPS	\$0.68	\$0.72	\$0.92	\$1.12	\$1.36	\$1.80	\$2.00	\$2.20	\$2.80	\$3.52	\$3.68	\$4.48
Shares³	347	352	324	311	283	266	256	257	227	221	214	184

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 again lowered DPS growth to 4% out to fiscal 2029, but growth will be uneven.

¹ Best Buy's fiscal year ends at the beginning of February and the company reports one year ahead. 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.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/E	15	11.8	12.5	10.1	12.7	13.3	11.9	11.3	8.2	11.6	11.9	11.0
Yld.	2.2%	2.4%	2.7%	3.1%	2.4%	2.6%	2.8%	2.5%	3.4%	4.3%	5.0%	5.4%

Best Buy's stock price is flat since our last report. After COVID-19, sales started declining and costs rose, but that trend seems to be stabilizing. The firm expects growth next year. We set FY 2024 earnings estimate at the mid-point of lowered guidance. We previously lowered our fair value estimate to 11X, slightly lower than the trailing 10-year average. Our fair value is now \$68. Our 5-year price target is now \$82.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	28%	33%	31%	31%	34%	33%	28%	28%	50%	60%	60%

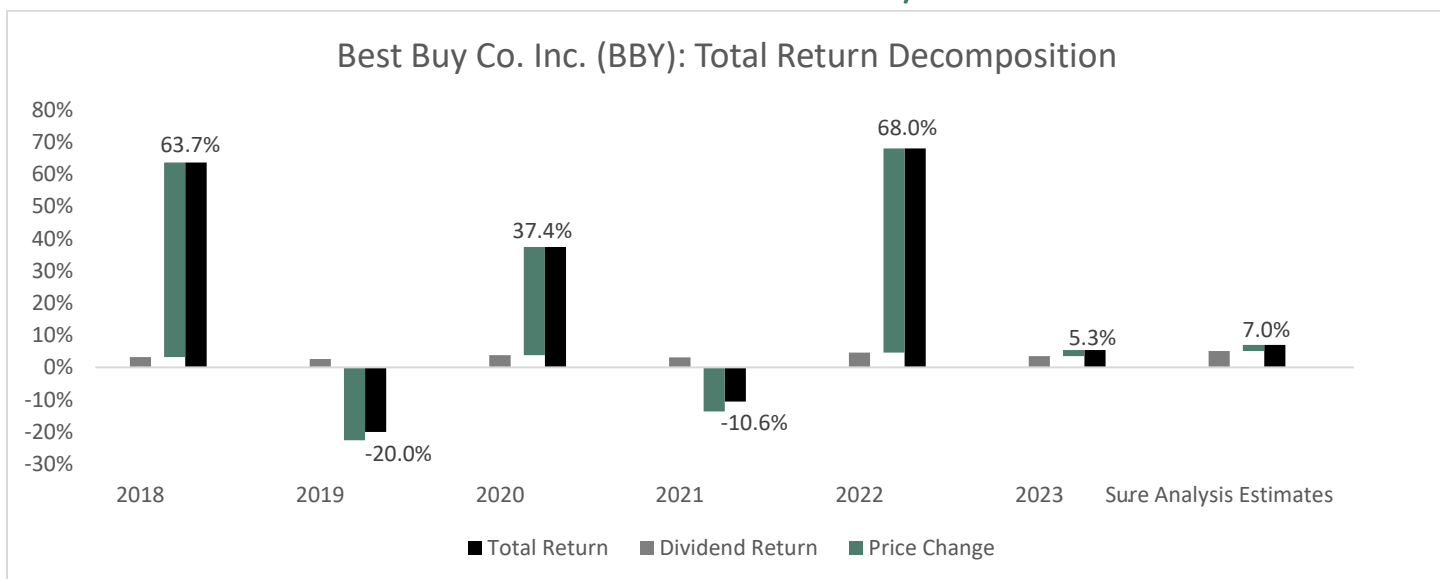
Although BestBuy is one of the largest electronics retailers by revenue, it has no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader for online electronics retailing. However, Best Buy's Geek Squad and TotalTech services offer advantages relative to traditional retailers providing a level of expertise and service not typically found at other retailers. Also, the firm has nearly six million paid membership customers, providing another advantage for installation and services.

Best Buy makes conservative use of debt with no short-term debt, \$15M in current long-term debt, and \$1,130M in long-term debt that is offset by \$636M in cash, equivalents, and short-term investments.

Final Thoughts & Recommendation

At present we are forecasting 7.0% annualized total return over the next five years from a dividend yield of 5.0%, 4% EPS growth, and (-1.6%) P/E multiple contraction. Best Buy was thriving during COVID-19, but sales are now declining, and margins are lower. The dividend yield may interest those seeking income, but we now expect a slower dividend growth rate because of the higher payout ratio. We maintained our rating on this stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	40611	40339	39528	39403	42151	42879	43638	47262	51761	46298
Gross Profit	9399	9047	9191	9440	9876	9961	10048	10573	11640	9912
Gross Margin	23.1%	22.4%	23.3%	24.0%	23.4%	23.2%	23.0%	22.4%	22.5%	21.4%
SG&A Exp.	8106	7592	7618	7547	8023	8015	7998	7928	8635	7970
D&A Exp.	716	656	657	654	683	770	812	839	869	918
Operating Profit	1293	1455	1573	1893	1853	1946	2050	2645	3005	1942
Op. Margin	3.2%	3.6%	4.0%	4.8%	4.4%	4.5%	4.7%	5.6%	5.8%	4.2%
Net Profit	532	1233	897	1228	1000	1464	1541	1798	2454	1419
Net Margin	1.3%	3.1%	2.3%	3.1%	2.4%	3.4%	3.5%	3.8%	4.7%	3.1%
Free Cash Flow	547	1374	694	1977	1453	1589	1822	4214	2515	894
Income Tax	388	141	503	609	818	424	452	579	574	370

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	14013	15245	13519	13856	13049	12901	15591	19067	17504	15803
Cash & Equivalents	2678	2432	1976	2240	1101	1980	2229	5494	2936	1874
Acc. Receivable	1308	1280	1162	1347	1049	1015	1149	1061	1042	1141
Inventories	5376	5174	5051	4864	5209	5409	5174	5612	5965	5140
Goodwill & Int.	526	482	443	443	443	915	984	986	1659	1383
Total Liabilities	10024	10245	9141	9147	9437	9595	12112	14480	14484	13008
Accounts Payable	5122	5030	4450	4984	4873	5257	5288	6979	6803	5687
Long-Term Debt	1657	1613	1734	1365	1355	1388	1271	1377	1139	1176
Total Equity	3986	4995	4378	4709	3612	3306	3479	4587	3020	2795
D/E Ratio	0.42	0.32	0.40	0.29	0.38	0.42	0.37	0.30	0.38	0.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.5%	8.4%	6.2%	9.0%	7.4%	11.3%	10.8%	10.4%	13.4%	8.5%
Return on Equity	15.1%	27.5%	19.1%	27.0%	24.0%	42.3%	45.4%	44.6%	64.5%	48.8%
ROIC	9.1%	20.1%	14.1%	20.2%	18.1%	30.3%	32.6%	33.6%	49.1%	34.9%
Shares Out.	348	354	351	323	307	281	258	255	249	226
Revenue/Share	116.83	114.08	112.71	122.14	137.26	152.38	162.77	179.70	207.63	205.13
FCF/Share	1.57	3.89	1.98	6.13	4.73	5.65	6.80	16.02	10.09	3.96

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

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