# Best Buy Co. Inc. (BBY)

*Updated March 20th, 2024 by Prakash Kolli*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $77 | **5 Year CAGR Estimate:** | 5.6% | **Market Cap:** | $16.85B |
| **Fair Value Price:** | $66 | **5 Year Growth Estimate:** | 4.0% | **Dividend Date:** | 03/20/24 |
| **Fair Value:** | 117% | **5 Year Valuation Multiple Estimate:** | -3.1% | **Dividend Payment Date:** | 04/11/24 |
| **Dividend Yield:** | 4.9% | **5 Year Price Target** | $80 | **Years Of Dividend Growth:** | 21 |
| **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 Q4 FY2024, Best Buy operated 901 Best Buy stores and 22 Best Buy Outlet Centers in the U.S., 20 Pacific Sales Stores, 22 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 $43.5B in fiscal 2024.

Best Buy reported Q4 FY2024 and full-year results on February 29th, 2024. For the quarter, enterprise revenue decreased to $14,646M from $14,735M and non-GAAP diluted EPS increased to $2.72 from $2.61 on a year-over year basis. GAAP diluted EPS decreased to $2.12 from $2.23. Comparable enterprise revenue decreased (-4.8%), the ninth straight quarterly decline. Domestic revenue fell (-0.9%) to $13,410M from $13,531M, driven by a fall in comparable sales and permanent store closures. Sales were lower for 3 out of 5 categories: Computing and Mobile Phones (-4.2%), Consumer Electronics (-9.0%), Appliances (-13.7%), Entertainment (+8.4%), and Services (+6.3%). Comparable domestic online sales decreased (-4.8%) to $5.1B compared to the prior year due to low demand. Domestic online sales comprised about 38% of total domestic revenue. International segment revenue rose 2.7% to $1,236M from $1,204M year-over-year due to an extra week offset by a comparable sales decline in Canada and negative foreign exchange impact. Sales were lower for 2 out of 5 categories: Computing and Mobile Phones (+1.8%), Consumer Electronics (-9.2%), Appliances (-4.1%), Entertainment (+16.1%) and Services (+7.7%).

The company is attempting to grow revenue by offering Health Services and it acquired Yardbird. Whether these offerings gain traction or not is still to be determined.

Best Buy set FY 2025 guidance at revenue of $41.3B to $42.6B and non-GAAP diluted EPS at $5.75 to $6.20.

## Growth on a Per-Share Basis

| Year[1] | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EPS[2] | $2.60 | $2.78 | $3.56 | $4.42 | $5.32 | $6.07 | $7.91 | $10.01 | $7.08 | $6.38 | ***$6.00*** | ***$7.30*** |
| DPS | $0.72 | $0.92 | $1.12 | $1.36 | $1.80 | $2.00 | $2.20 | $2.80 | $3.52 | $3.68 | ***$3.76*** | ***$4.57*** |
| Shares[3] | 352 | 324 | 311 | 283 | 266 | 256 | 257 | 227 | 218 | 215 | ***211*** | ***191*** |

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 DPS growth to 4% out to fiscal 2030, but it will be uneven.

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[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.

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## Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| P/E | 11.8 | 12.5 | 10.1 | 12.7 | 13.3 | 11.9 | 11.3 | 8.2 | 11.6 | 12.1 | ***12.9*** | ***11.0*** |
| Yld. | 2.4% | 2.7% | 3.1% | 2.4% | 2.6% | 2.8% | 2.5% | 3.4% | 4.5% | 4.8% | ***4.9%*** | ***5.7%*** |

Best Buy's stock price is up since our last report. After COVID-19, sales started declining and costs rose, but that trend seems to be stabilizing. The firm performed better than expected in FY 2024. We set FY 2025 earnings estimate at the mid-point of guidance. We previously lowered our fair value estimate to 11X, slightly lower than the trailing 10-year average. Our fair value is now $66. Our 5-year price target is now $80.

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

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 28% | 33% | 31% | 31% | 34% | 33% | 28% | 28% | 50% | 58% | ***63%*** | ***63%*** |

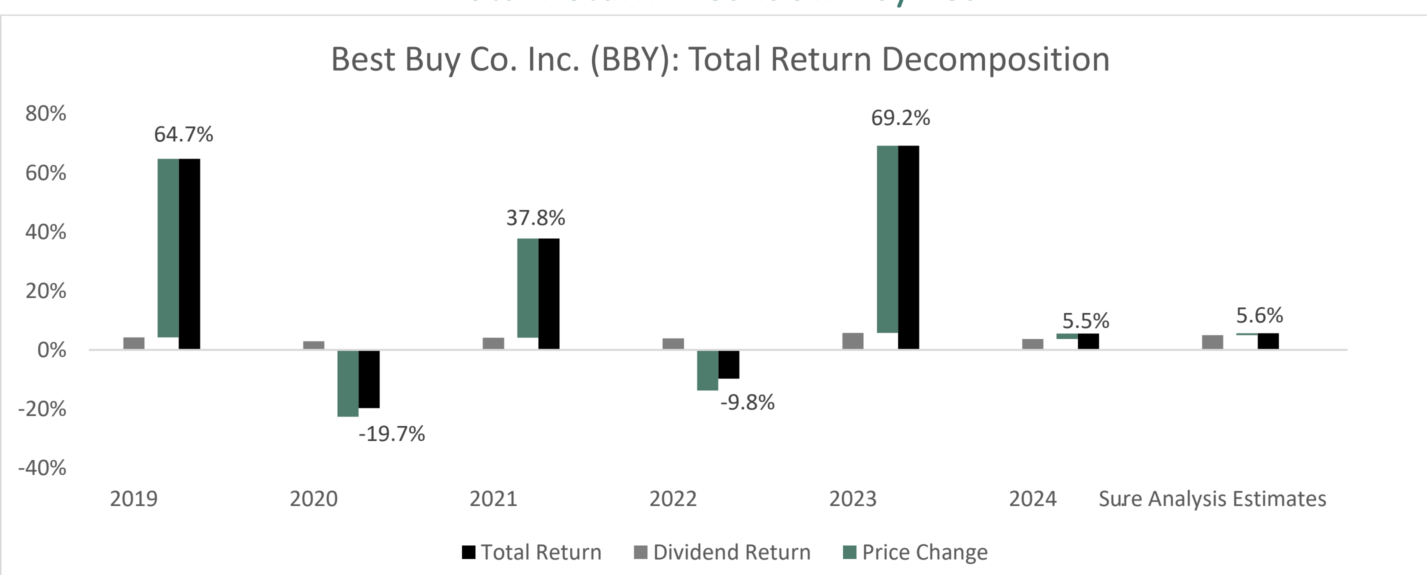
Although BestBuy is one of the largest electronics retailers by revenue, it has no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader for online electronics retailing. However, Best Buy's Geek Squad and TotalTech 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 has a net cash position with no short-term debt, $13M in current long-term debt, and $1,152M in long-term debt that is offset by $1,447M in cash, equivalents, and short-term investments.

## Final Thoughts & Recommendation

At present we are forecasting 5.6% annualized total return over the next five years from a dividend yield of 4.9%, 4% EPS growth, and (-3.1%) 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 maintain our rating on this stock as 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 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 40339 | 39528 | 39403 | 42151 | 42879 | 43638 | 47262 | 51761 | 46298 | 43452 |
| Gross Profit | 9047 | 9191 | 9440 | 9876 | 9961 | 10048 | 10573 | 11640 | 9912 | 9603 |
| Gross Margin | 22.4% | 23.3% | 24.0% | 23.4% | 23.2% | 23.0% | 22.4% | 22.5% | 21.4% | 22.1% |
| SG&A Exp. | 7592 | 7618 | 7547 | 8023 | 8015 | 7998 | 7928 | 8635 | 7970 | 7876 |
| D&A Exp. | 656 | 657 | 654 | 683 | 770 | 812 | 839 | 869 | 918 | 923 |
| Operating Profit | 1455 | 1573 | 1893 | 1853 | 1946 | 2050 | 2645 | 3005 | 1942 | 1727 |
| Op. Margin | 3.6% | 4.0% | 4.8% | 4.4% | 4.5% | 4.7% | 5.6% | 5.8% | 4.2% | 4.0% |
| Net Profit | 1233 | 897 | 1228 | 1000 | 1464 | 1541 | 1798 | 2454 | 1419 | 1241 |
| Net Margin | 3.1% | 2.3% | 3.1% | 2.4% | 3.4% | 3.5% | 3.8% | 4.7% | 3.1% | 2.9% |
| Free Cash Flow | 1374 | 694 | 1977 | 1453 | 1589 | 1822 | 4214 | 2515 | 894 | 675 |
| Income Tax | 141 | 503 | 609 | 818 | 424 | 452 | 579 | 574 | 370 | 381 |

## Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 15245 | 13519 | 13856 | 13049 | 12901 | 15591 | 19067 | 17504 | 15803 | 14967 |
| Cash & Equivalents | 2432 | 1976 | 2240 | 1101 | 1980 | 2229 | 5494 | 2936 | 1874 | 1447 |
| Acc. Receivable | 1280 | 1162 | 1347 | 1049 | 1015 | 1149 | 1061 | 1042 | 1141 | 939 |
| Inventories | 5174 | 5051 | 4864 | 5209 | 5409 | 5174 | 5612 | 5965 | 5140 | 4958 |
| Goodwill & Int. | 482 | 443 | 443 | 443 | 915 | 984 | 986 | 1659 | 1383 | 1383 |
| Total Liabilities | 10245 | 9141 | 9147 | 9437 | 9595 | 12112 | 14480 | 14484 | 13008 | 11914 |
| Accounts Payable | 5030 | 4450 | 4984 | 4873 | 5257 | 5288 | 6979 | 6803 | 5687 | 4637 |
| Long-Term Debt | 1613 | 1734 | 1365 | 1355 | 1388 | 1271 | 1377 | 1139 | 1176 | 1152 |
| Total Equity | 4995 | 4378 | 4709 | 3612 | 3306 | 3479 | 4587 | 3020 | 2795 | 3053 |
| D/E Ratio | 0.32 | 0.40 | 0.29 | 0.38 | 0.42 | 0.37 | 0.30 | 0.38 | 0.42 | 0.38 |

## Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 8.4% | 6.2% | 9.0% | 7.4% | 11.3% | 10.8% | 10.4% | 13.4% | 8.5% | 8.1% |
| Return on Equity | 27.5% | 19.1% | 27.0% | 24.0% | 42.3% | 45.4% | 44.6% | 64.5% | 48.8% | 42.4% |
| ROIC | 20.1% | 14.1% | 20.2% | 18.1% | 30.3% | 32.6% | 33.6% | 49.1% | 34.9% | 30.4% |
| Shares Out. | 354 | 351 | 323 | 307 | 281 | 258 | 255 | 249 | 226 | 219 |
| Revenue/Share | 114.08 | 112.71 | 122.14 | 137.26 | 152.38 | 162.77 | 179.70 | 207.63 | 205.13 | 198.87 |
| FCF/Share | 3.89 | 1.98 | 6.13 | 4.73 | 5.65 | 6.80 | 16.02 | 10.09 | 3.96 | 3.09 |

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