



Best Buy Co. Inc. (BBY)

Updated September 2nd, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$100	5 Year CAGR Estimate:	0.8%	Market Cap:	\$21.66B
Fair Value Price:	\$69	5 Year Growth Estimate:	4.0%	Dividend Date:	09/16/24
Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.4%	Dividend Payment Date:	10/10/24
Dividend Yield:	3.7%	5 Year Price Target	\$83	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Sell

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 FY2025, Best Buy operated 890 Best Buy stores and 26 Best Buy Outlet Centers in the U.S., 20 Pacific Sales Stores, 23 Yardbird Stores, 129 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 Q2 FY2025 results on August 29th, 2024. Enterprise revenue decreased to \$9,288M from \$9,563M and non-GAAP diluted EPS increased 10% to \$1.34 from \$1.22 on a year-over year basis. GAAP diluted EPS increased 7% to \$1.34 from \$1.25. Comparable enterprise revenue decreased (-2.3%), the twelfth straight quarterly decline.

Domestic revenue fell (-3.0%) to \$8,623M from \$8,890M, driven by a decline in comparable sales. Sales were lower for 3 out of 5 categories: Computing and Mobile Phones (+3.9%), Consumer Electronics (-6.2%), Appliances (-14.9%), Entertainment (-7.4%), and Services (+8.5%). Comparable domestic online sales decreased (-1.6%) to \$2.72B compared to the prior year. Domestic online sales comprised about 31.5% of total domestic revenue.

International segment revenue fell (-4.0%) to \$665M from \$693M year-over-year due to foreign exchange and a comparable sales decline in Canada. Sales were lower for 3 out of 5 categories: Computing and Mobile Phones (+1.7%), Consumer Electronics (-2.1%), Appliances (-3.9%), Entertainment (-20.8%) and Services (+5.9%).

Best Buy updated FY 2025 guidance at revenue of \$41.3B to \$41.9B and non-GAAP diluted EPS at \$6.10 to \$6.35.

Growth on a Per-Share Basis

Year ¹	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS²	\$2.60	\$2.78	\$3.56	\$4.42	\$5.32	\$6.07	\$7.91	\$10.01	\$7.08	\$6.38	\$6.23	\$7.58
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
Shares³	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 as consumers return to more normal buying habits and federal stimulus dollars expired. Additionally, inflation and supply chain disruptions have impacted margins. The company is also attempting to grow revenue by offering Health Services focusing on remote monitoring, and vendor-sponsored retail ads, and it acquired Yardbird.

We are forecasting on average 4% EPS and DPS growth out to fiscal 2030, but it 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	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	16.1	11.0
Yld.	2.4%	2.7%	3.1%	2.4%	2.6%	2.8%	2.5%	3.4%	4.5%	4.8%	3.7%	5.5%

Best Buy's stock price is up again since our last report on beating estimates. 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 increased FY 2025 earnings estimate to the mid-point of updated guidance. Our fair value estimate is 11X, slightly lower than the trailing 5-year average. Our fair value is now \$69. Our 5-year price target is now \$83.

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%	60%	60%

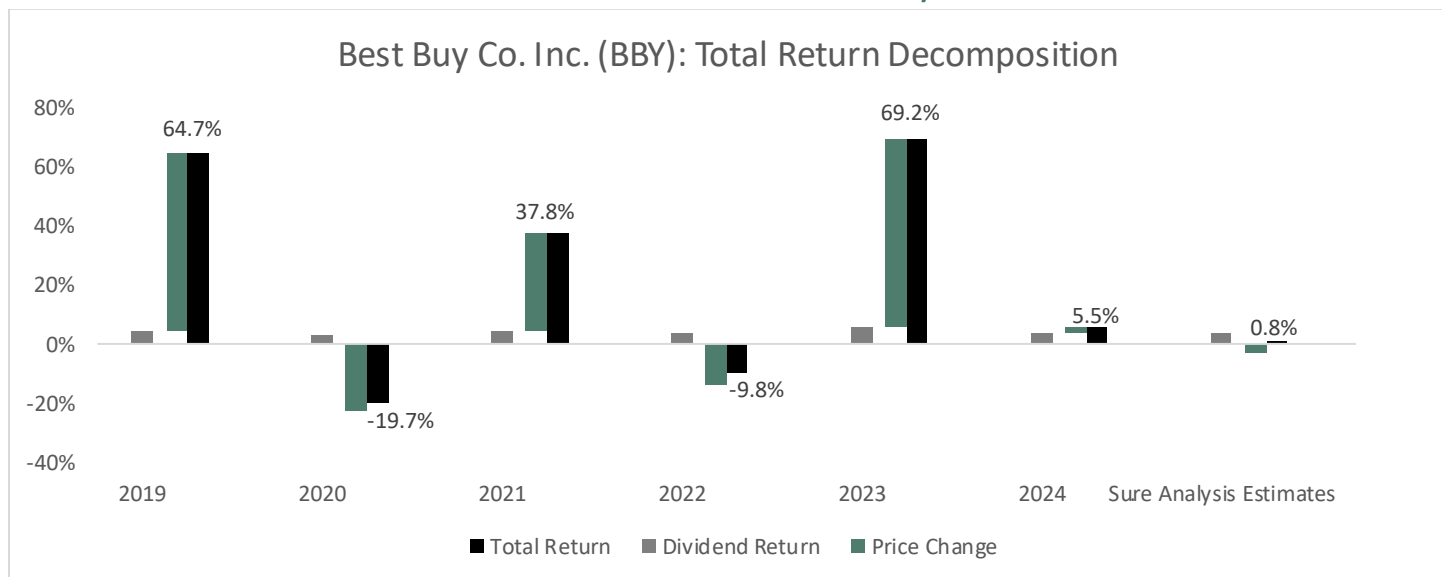
Although BestBuy is one of the largest electronics retailers by revenue, it has no significant advantage. Both Walmart and Costco sell electronics and have scale and cost advantages. Best Buy is also not the clear market leader for online electronics retailing. However, Best Buy's Geek Squad and TotalTech services offer advantages relative to traditional retailers providing a level of expertise and service not typically found at other retailers. Also, the firm has about seven 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 \$1,157M in long-term debt that is offset by \$1,387M in cash, equivalents, and short-term investments.

Final Thoughts & Recommendation

At present we are forecasting 0.8% annualized total return over the next five years from a dividend yield of 3.7%, 4% EPS growth, and (-7.4%) P/E multiple contraction. Best Buy was thriving during COVID-19, but sales are now declining, and margins are pressured. The dividend yield may interest those seeking income, but we now expect a slower dividend growth rate because of the higher payout ratio. At the current share price, we have changed our rating to sell.

Total Return Breakdown by Year



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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.

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