

Best Buy Co., Inc.(BBY)

\$60.32 (As of 03/17/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

Although shares of Best Buy have declined, it fared better than the industry in the past three months given its sound fundamentals and strategic efforts. Best Buy's focus on developing omnichannel capabilities, supply chain and cost containment efforts along with strengthening partnerships with vendors bode well. Its 'Building the New Blue' strategy has also been progressing smoothly. Moreover, it is making a significant headway into healthcare technology business. Also, it has a robust earnings surprise trend that continued in fourth-quarter fiscal 2020. It also marked 12th straight quarter of comps growth. However, management took a cautious approach while entering fiscal 2021 due to coronavirus, and cited that majority of the impacts are likely to occur in first half. Also, the company witnessed soft margins in fourth quarter.

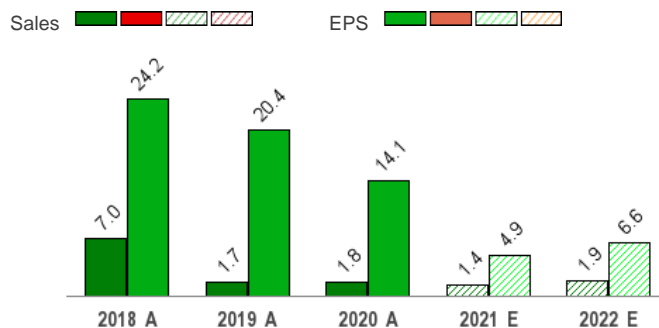
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.99 - \$49.01
20 Day Average Volume (sh)	3,588,132
Market Cap	\$15.6 B
YTD Price Change	-31.3%
Beta	1.14
Dividend / Div Yld	\$2.20 / 3.3%
Industry	Retail - Consumer Electronics
Zacks Industry Rank	Bottom 28% (182 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	05/28/2020
Earnings ESP	-0.2%
P/E TTM	9.8
P/E F1	9.5
PEG F1	1.1
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	9,328 E	9,697 E	10,107 E	15,613 E	45,058 E
2021	9,200 E	9,625 E	9,932 E	15,477 E	44,231 E
2020	9,142 A	9,536 A	9,764 A	15,196 A	43,638 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.11 E	\$1.16 E	\$1.19 E	\$3.32 E	\$6.79 E
2021	\$1.04 E	\$1.10 E	\$1.16 E	\$3.03 E	\$6.37 E
2020	\$1.02 A	\$1.08 A	\$1.13 A	\$2.90 A	\$6.07 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/17/2020. The reports text is as of 03/18/2020.

Overview

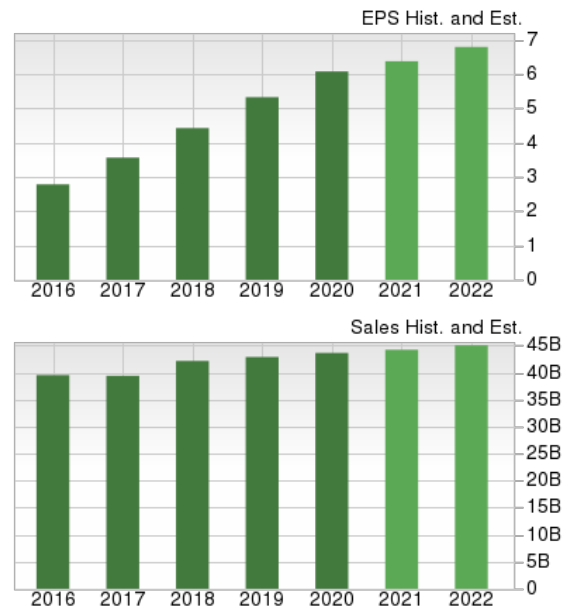
Incorporated in 1966 and headquartered in Richfield, MN, **Best Buy Company Inc.** (BBY) is a multinational specialty retailer of consumer electronics, home office products, entertainment software, communication, food preparation, wellness, health, security, appliances and related services. The company operates in the United States, Canada and Mexico.

Both segments are engaged in the development of merchandise and service offerings, supply chain and procurement, pricing and promotions, online and mobile operations along with marketing and advertisements on omnichannel platforms. Moreover, Best Buy provides its customers with the option to pick a product at its store or to get the product directly delivered to their homes. The delivery of Best Buy's products is fulfilled through its distribution centers or retail stores. Further, the company's ship-from-store facility enables it to expedite the delivery process and improve product availability.

Best Buy operates through two business segments:

Domestic Operations (91.1% of fiscal 2020 total revenues): Best Buy's domestic operations comprises all store, call center and online operations, operating under the brand names Best Buy, bestbuy.com, Best Buy Direct, Best Buy Express, Best Buy Mobile, Geek Squad, Magnolia Audio Video and Pacific Sales.

International Operations (8.9% of fiscal 2020 total revenues): Best Buy's international operations consist of all store, call center and online operations in Canada under the brand names Best Buy, Best Buy Mobile, bestbuy.ca and Geek Squad. The company also carries out operations in Mexico under the brand names Best Buy, Best Buy Express, bestbuy.com.mx and Geek Squad.



Reasons To Buy:

▲ **Robust Surprise Trend & Q4 Results:** Best Buy boasts an impressive earnings surprise history. The company's earnings surpassed the Zacks Consensus Estimate for the ninth straight quarter when it reported fourth-quarter fiscal 2020 results. Also, the company's top line surpassed the consensus mark for the second straight time. Both the top and bottom lines also grew year over year in the fiscal fourth quarter. Earnings improved 7% year over year, courtesy of higher revenues and lower adjusted SG&A expenses. Also, enterprise comparable sales were robust in the quarter. Moreover, online sales increased 18.7%, representing 25% of the company's total domestic revenues. Certainly, the company remains focused on developing stores, supply chain initiatives, cost reduction efforts and strengthening partnership with vendors. All these endeavors are expected to boost its top line and overall profitability. Although shares of the company have decreased 31.9%, it fared better than the industry's 49% decline in the past three months.

Best Buy's extensive investments to upgrade e-commerce operations with special focus on developing omni-channel capabilities and strengthening partnership with vendors are impressive.

▲ **Impressive Comps Run:** Best Buy has an impressive comparable sales (comps) trend. In fourth-quarter fiscal 2020, the company delivered its 12th consecutive quarter of comps growth. Notably, enterprise comps rose 3.2%, outpacing the management's guided range of 0.5-3% and 3% growth recorded in the prior-year quarter. Moreover, domestic segment comps grew 3.4% in the quarter. Strength in headphones, computing, appliances, mobile phones and tablets drove comps. Also, the company has been gaining from its transformative efforts such as total tech support and in-home consultation. In addition, management remains on track with the enhancement of the digital shopping platform with improved functionality and marketing strategy to boost customer engagement. These initiatives are likely to continue adding to the company's robust comps performance, going forward.

▲ **Long-Term Goal:** Best Buy is aiming high, banking on plans to exploit areas of potential to the fullest. The key growth initiatives underlined by the company are Best Buy Health and supply chain transformation. Naturally, it is committed toward strengthening partnerships with vendors, focusing on offering services and solutions to meet varied customer needs, and optimizing costs. These endeavors are expected to lift the company's top line and overall profitability. The company's long-term financial goal is the testimony to the same. Management continues to envision enterprise revenues of approximately \$50 billion with adjusted operating income rate of 5% by fiscal 2025. The consumer electronics retailer also intends to reduce costs by about \$1 billion by the said period. The revenue target looks achievable, when compared with fiscal 2021's revenue projection of \$43.3-\$44.3 billion.

▲ **Building the New Blue: Chapter Two:** Notably, under the next phase of its "Building the New Blue" program called "Building the New Blue: Chapter Two", Best Buy's top most priority will be to pursue growth opportunities, better execution in key areas, cost containment, and investing in people and systems. With regard to cost savings and increasing productivity, management targets \$600 million of cost reduction by fiscal 2021. Notably, the company realized cost savings of roughly \$160 million in the back half of fiscal 2020. It is making a significant headway into healthcare technology business by undertaking strategic buyouts in the space. The series of purchases include GreatCall, a major connected health technology company. It also acquired Critical Signal Technologies that provides personal emergency response systems and telehealth monitoring services for seniors at home. The company acquired BioSensics, a provider of wearable sensor technologies for clinical research and medical applications. Meanwhile, the company has been progressing well with programs like Total Tech Support, which provides support for fixing computers, laptops, appliances, smart home devices and connected devices. Further, Best Buy expanded its In-Home Advisor program to core U.S. markets. The program includes advisors, who guide customers to find out the right technology solutions and provide free in-home consultations.

▲ **Shareholder-Friendly Moves Bode Well:** Best Buy undertakes shareholder-friendly moves via dividend payouts and share buybacks to enhance returns. Recently, management approved a 10%-hike in its quarterly dividend to 55 cents per share. The new dividend will be payable Apr 9, 2020, to shareholders of record as on Mar 19. In the fiscal fourth quarter, the company returned about \$436 million to shareholders via share buybacks of \$307 million and dividend payouts of \$129 million. For the full fiscal, Best Buy returned \$1.53 billion through buybacks of \$1 billion and dividend payouts of \$527 million. For fiscal 2021, management intends to spend between \$750 million and \$1 billion with respect to share repurchases.

Reasons To Sell:

- ▼ **Cautious Approach to FY21:** Management cited that as the company enters fiscal 2021, it has been monitoring developments associated with the coronavirus outbreak. Based on the current situation, majority of the impact is likely to occur in the first half. For fiscal 2021, Best Buy forecasts Enterprise revenues of \$43.3-\$44.3 billion compared with \$43.6 billion recorded last fiscal. Furthermore, Enterprise comparable sales growth is expected to be flat to up 2%, down from 2.1% increase in fiscal 2020. For the fiscal first quarter, management anticipates comparable sales growth of flat to up 1%, versus a 1.1% rise in the year-ago quarter.
- ▼ **Soft Margins:** Best Buy witnessed soft margins in fourth-quarter fiscal 2020. It recorded gross profit of \$3,235 million, down 1.5% year over year. Also, gross margin contracted 90 basis points (bps) to 21.3%, driven by unfavorable product mix. Further, adjusted operating income dropped 0.8% to \$986 million owing to adjusted operating margin contraction of 20 bps to 6.5%. For fiscal 2021, management expects gross margin to remain flat, while SG&A rate is likely to be up slightly year over year. Further, adjusted operating income rate is likely to come in at 4.8%, down from 4.9% recorded last fiscal.
- ▼ **Stock Appears Overvalued:** Considering Price-to-Earnings (P/E) ratio, Best Buy looks overvalued when compared with the industry. The stock has a trailing 12-month P/E of 9.84x, compared with 7.52x for the industry. We note that the company's trailing 12-month P/E is below the median level of 12.88x and the high level of 15.34x, scaled over a year.
- ▼ **Competitive Pressure:** We believe that challenging retail landscape, aggressive promotional strategies and waning store traffic might hurt Best Buy's performance. The company faces intense competition from a diverse group of competitors, especially online retailers such as Amazon, Wal-Mart and other consumer electronics retailers, mass merchants, mobile phone service carriers, specialty home office retailers, and numerous direct-to-consumer websites. This may adversely impact its sales.
- ▼ **Macroeconomic Headwinds:** The company's customers are sensitive to macroeconomic factors like interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending, and in turn the company's growth and profitability.

Best Buy took a conservative approach while entering fiscal 2021 due to coronavirus outbreak. Management cited that majority of the impact is likely to occur in the first half of the fiscal year.

Last Earnings Report

Best Buy Beats on Q4 Earnings & Revenues

Best Buy reported robust fourth-quarter fiscal 2020 results, wherein the top and the bottom line surpassed the Zacks Consensus Estimate and improved year over year. Notably, this marked the ninth straight quarter of earnings beat.

Management is encouraged about its fiscal 2021 plan, remaining on track to accomplish fiscal 2025 financial goals of \$50 billion in revenues and a 5% adjusted operating income rate.

Quarter Ending **01/2020**

Report Date	Feb 27, 2020
Sales Surprise	0.73%
EPS Surprise	5.07%
Quarterly EPS	2.90
Annual EPS (TTM)	6.13

Let's Delve Deeper

This consumer electronics retailer posted adjusted earnings per share of \$2.90, surpassing the Zacks Consensus Estimate of \$2.76. Moreover, the bottom line improved 7% year over year, courtesy of higher revenues and lower adjusted SG&A expenses.

On a GAAP basis, earnings per share came in at \$2.84, up 6% from the year-ago quarter.

The company's Enterprise revenues grew 2.7% year over year to \$15,196 million and also beat the consensus mark of \$15,087 million. Enterprise comparable sales were up 3.2% compared with 3% growth recorded in the prior-year quarter. Notably, the quarter marked the company's 12th consecutive quarter of comparable sales growth.

Moreover, the company recorded gross profit of \$3,235 million, down 1.5% year over year. Also, gross margin contracted 90 basis points (bps) to 21.3%. Further, adjusted operating income dropped 0.8% to \$986 million owing to adjusted operating margin contraction of 20 bps to 6.5%.

Segment Details

Domestic segment revenues rose 2.6% year over year to \$13,848 million, driven by higher comparable sales, somewhat offset by loss of revenue owing to store closures over the past year. The segment recorded comparable sales growth of 3.4%, backed by higher sales in headphones, appliances, computing, mobile phones and tablets, partly negated by a decline in gaming.

Additionally, comparable online sales at this division increased 18.7% to \$3.52 billion, mainly owing to a rise in average order values as well as higher traffic and conversion rates. As a percentage of overall Domestic revenues, online revenues grew nearly 350 bps to 25.4% compared with 21.9% recorded in the prior-year quarter.

However, the segment's gross margin contracted 90 bps year over year to 21.2% due to mix into lower-margin products, reduced gross margin in the services category and adverse impact of tariffs on goods imported from China.

International segment revenues increased 3.4% to \$1,348 million, mainly owing to the favorable impact of foreign currency to the tune of approximately 160 bps. Also, the company recorded comparable sales increase of 1.6% on growth in Canada. The segment's gross margin contracted roughly 30 bps to 22.6%.

Other Financial Details

Best Buy ended the quarter with cash and cash equivalents of \$2,229 million, long-term debt of \$1,257 million and total equity of \$3,479 million. In the fiscal fourth quarter, the company returned about \$436 million to shareholders via share buybacks of \$307 million and dividend payouts of \$129 million. For the full fiscal, Best Buy returned \$1.53 billion through buybacks of \$1 billion and dividend payouts of \$527 million.

In addition, the company's board of directors approved a 10%-hike in its quarterly dividend to 55 cents per share. The new dividend will be payable Apr 9, 2020, to shareholders of record as on Mar 19. In fiscal 2021, management intends to spend between \$750 million and \$1.0 billion with respect to share repurchases.

Guidance

Best Buy issued guidance for the first quarter and fiscal 2021. Management cited that as the company enters fiscal 2021, it has been monitoring developments associated with the coronavirus outbreak. Based on the current situation, majority of the impact is likely to occur in the first half.

For fiscal 2021, Best Buy forecasts Enterprise revenues of \$43.3-\$44.3 billion compared with \$43.6 billion recorded last fiscal. Furthermore, Enterprise comparable sales growth is expected to be flat to up 2% compared with 2.1% increase in fiscal 2020.

Moreover, the company expects gross margin to remain flat, while SG&A rate is likely to be up slightly year over year. Further, adjusted operating income rate is likely to come in at 4.8%. Adjusted effective income tax rate is anticipated at 23.0%. Adjusted earnings per share for the fiscal year are envisioned in the band of \$6.10-\$6.30.

For the fiscal first quarter, management anticipates Enterprise revenues of \$9.1-\$9.2 billion and comparable sales growth of flat to up 1%. The adjusted effective income tax rate is expected at nearly 22.5%. Management expects first-quarter adjusted earnings per share of \$1-\$1.05.

Recent News

Best Buy Announces Quarterly Dividend – Feb 28, 2020

Best Buy has declared a quarterly cash dividend of 55 cents a share, payable Apr 9, 2020, to shareholders of record as on Mar 19. It had 256,563,473 shares issued and outstanding as of Feb 1.

Valuation

Best Buy shares are down 31% in the year-to-date period and 11.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 34.2% and 15.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 28% and 7.3%, respectively.

The S&P 500 index is down 21.1% in the year-to-date period and 9.8% in the past year.

The stock is currently trading at 9.39X forward 12-month earnings, which compares to 11.03X for the Zacks sub-industry, 20.96X for the Zacks sector and 14.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.14X and as low as 8.64X, with a 5-year median of 12.87X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$63 price target reflects 9.81X forward 12-month earnings.

The table below shows summary valuation data for BBY

Valuation Multiples - BBY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.39	11.03	20.96	14.79
	5-Year High	18.14	21.78	26.2	19.34
	5-Year Low	8.64	8.32	19.07	14.79
	5-Year Median	12.87	11.44	23.01	17.42
P/S F12M	Current	0.35	0.26	0.86	2.71
	5-Year High	0.56	0.5	1.11	3.43
	5-Year Low	0.22	0.21	0.8	2.54
	5-Year Median	0.4	0.3	0.92	3
EV/EBITDA TTM	Current	6	3.78	13.14	9.35
	5-Year High	9.19	6.73	16.23	12.88
	5-Year Low	3.26	2.73	10.82	8.31
	5-Year Median	5.92	4.24	12.49	10.78

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 253)



Top Peers

Amazon.com, Inc. (AMZN)	Neutral
Costco Wholesale Corporation (COST)	Neutral
GameStop Corp. (GME)	Neutral
Systemax Inc. (SYX)	Neutral
Target Corporation (TGT)	Neutral
Walmart Inc. (WMT)	Neutral
Aarons, Inc. (AAN)	Underperform
Conn's, Inc. (CONN)	Underperform

Industry Comparison Industry: Retail - Consumer Electronics				Industry Peers		
	BBY Neutral	X Industry	S&P 500	AAN Underperform	GME Neutral	SYX Neutral
VGM Score	A	-	-	B	F	-
Market Cap	15.61 B	446.92 M	17.72 B	1.46 B	278.85 M	614.99 M
# of Analysts	10	4	13	8	4	0
Dividend Yield	3.32%	0.00%	2.51%	0.73%	0.00%	3.44%
Value Score	A	-	-	B	D	-
Cash/Price	0.14	0.24	0.06	0.03	0.96	0.16
EV/EBITDA	5.85	5.31	10.97	0.80	-1.62	8.57
PEG Ratio	1.08	0.35	1.54	0.35	NA	NA
Price/Book (P/B)	4.49	1.10	2.39	0.84	0.47	3.69
Price/Cash Flow (P/CF)	6.40	4.42	9.36	0.62	1.25	11.79
P/E (F1)	9.47	7.54	13.98	5.60	34.53	NA
Price/Sales (P/S)	0.36	0.37	1.87	0.37	0.04	0.65
Earnings Yield	10.56%	10.56%	7.13%	17.89%	2.84%	NA%
Debt/Equity	0.98	0.28	0.70	0.20	1.52	0.36
Cash Flow (\$/share)	9.43	3.39	7.01	35.14	3.39	1.38
Growth Score	A	-	-	C	D	NA
Hist. EPS Growth (3-5 yrs)	22.26%	20.38%	10.85%	15.99%	-16.85%	58.54%
Proj. EPS Growth (F1/F0)	4.93%	4.96%	5.38%	0.42%	NA	NA
Curr. Cash Flow Growth	7.58%	10.71%	6.15%	13.84%	-29.60%	-3.38%
Hist. Cash Flow Growth (3-5 yrs)	9.16%	13.36%	8.55%	15.48%	-8.05%	61.41%
Current Ratio	1.10	1.95	1.24	2.12	1.18	1.77
Debt/Capital	49.39%	26.53%	42.57%	16.41%	60.26%	26.53%
Net Margin	3.53%	4.33%	11.57%	0.80%	-9.27%	5.12%
Return on Equity	49.17%	14.70%	16.74%	14.70%	8.27%	33.73%
Sales/Assets	2.81	1.67	0.54	1.22	2.12	2.48
Proj. Sales Growth (F1/F0)	1.43%	4.67%	3.33%	7.22%	-3.99%	4.76%
Momentum Score	A	-	-	A	F	-
Daily Price Chg	5.27%	-0.47%	5.62%	-9.67%	-3.20%	9.92%
1 Week Price Chg	-17.29%	-13.34%	-11.01%	-13.34%	17.09%	-10.68%
4 Week Price Chg	-33.10%	-28.21%	-28.54%	-62.02%	4.19%	-28.21%
12 Week Price Chg	-31.40%	-34.23%	-25.74%	-62.41%	-22.24%	-37.06%
52 Week Price Chg	-13.69%	-48.56%	-18.88%	-57.13%	-61.41%	-23.41%
20 Day Average Volume	3,588,132	119,569	3,651,283	1,677,846	3,797,812	74,099
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	NA
(F1) EPS Est 4 week change	1.90%	1.90%	-0.58%	-14.08%	8.89%	NA
(F1) EPS Est 12 week change	2.34%	-19.26%	-1.18%	-12.42%	-58.82%	NA
(Q1) EPS Est Mthly Chg	5.25%	-11.46%	-0.77%	-27.57%	0.00%	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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