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Feb 21, 2020

Best Buy Co., Inc.(BBY)

$91.93 (As of 02/20/20)

Price Target (6-12 Months): **$97.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/21/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: C | Momentum: A	

Summary

Shares of Best Buy have risen and outpaced the industry in a year, given its robust earnings trend. The company's earnings not only beat the Zacks Consensus Estimate for the eighth quarter in row but also grew year over year when it reported third-quarter results. As result management raised fiscal 2020 earnings view. Further, the company expects SG&A expenses to be slightly favorable on a year-over-year basis in the final quarter. Best Buy's focus on developing omnichannel capabilities, supply chain and cost containment efforts along with strengthening partnerships with vendors bode well. It has been making a significant headway into healthcare technology business by undertaking strategic buyouts However, continued sluggishness in international segment on account of adverse currency fluctuations remains a concern.

Price, Consensus & Surprise

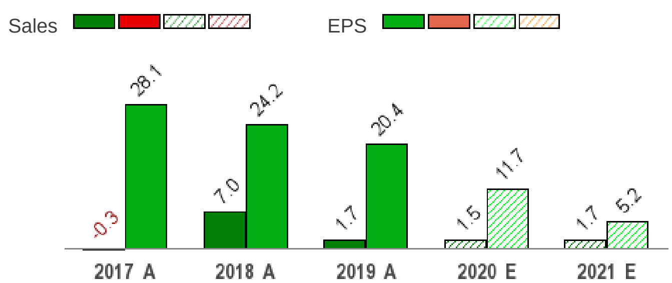
Data Overview

52 Week High-Low	**$91.99 - $59.35**
20 Day Average Volume (sh)	**1,800,142**
Market Cap	**$23.8 B**
YTD Price Change	**4.7%**
Beta	**1.12**
Dividend / Div Yld	**$2.00 / 2.2%**
Industry	**Retail - Consumer Electronics**
Zacks Industry Rank	**Bottom 13% (223 out of 255)**

Last EPS Surprise	**8.7%**
Last Sales Surprise	**0.3%**
EPS F1 Est- 4 week change	**0.3%**
Expected Report Date	**02/27/2020**
Earnings ESP	**-2.1%**

P/E TTM	**15.5**
P/E F1	**14.7**
PEG F1	**1.7**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	9,263 E	9,659 E	9,933 E	15,389 E	44,262 E
2020	9,142 A	9,536 A	9,764 A	15,093 E	43,531 E
2019	9,109 A	9,379 A	9,590 A	14,801 A	42,879 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.98 E	$1.08 E	$1.18 E	$3.02 E	$6.25 E
2020	$1.02 A	$1.08 A	$1.13 A	$2.76 E	$5.94 E
2019	$0.82 A	$0.91 A	$0.93 A	$2.72 A	$5.32 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 02/20/2020. The reports text is as of 02/21/2020.

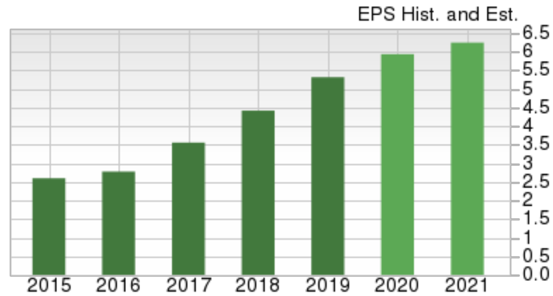
Overview

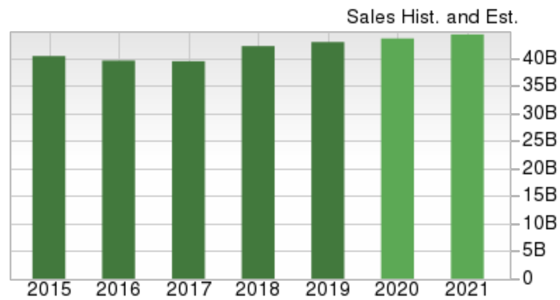
Incorporated in 1966 and headquartered in Richfield, MN, **Best Buy Company Inc**. (BBY) is a multinational specialty retailer of consumer electronics, home office products, entertainment software, communication, food preparation, wellness, heath, security, appliances and related services. The company 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 (92% of fiscal 2019 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% of fiscal 2019 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 & Q3 Results:** Best Buy boasts impressive surprise history. The company's earnings surpassed the Zacks Consensus Estimate for the eighth straight quarter when it reported third-quarter fiscal 2020 results. Also, the company's top line surpassed the consensus mark and grew year over year. It witnessed decent comparable sales growth in the reported quarter. The bottom line improved 21.5% year over year, courtesy of higher revenues, lower SG&A expenses and share repurchase activities. Enterprise comparable sales were up 1.7%. 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. We note that shares of Best Buy have increased 52.1% outperforming the industry's growth of 21.8% in a year.

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.

▲ **Encouraging FY20 Earnings & Q4 View:** Better than expected third-quarter results prompted management to raise fiscal 2020 earnings view. Best Buy now envisions adjusted earnings to be $5.81-$5.91, up from the prior forecast of $5.60-$5.75 per share. The company forecasts Enterprise revenues of $43.2-$43.6 billion compared with the previous guidance of $43.1-$43.6 billion. The company reported Enterprise revenues of $42.9 billion in fiscal 2019. Furthermore, comps are expected to grow 1-2% compared with the prior view of 0.7-1.7% increase. The company's comps grew 4.8% in fiscal 2019.

For the fiscal fourth quarter, management anticipates Enterprise revenues of $14.75-$15.15 billion, the mid-point of which — $14.95 billion — reflects an improvement from $14.8 billion delivered in the prior-year period. Moreover, comps in the quarter are likely to rise in the band of 0.5-3%. In addition, management expects SG&A expenses to be slightly favorable on a year-over-year basis in the fiscal fourth quarter, mainly driven by lower incentive compensation expense. Adjusted earnings in the quarter are expected to be in the range of $2.65-$2.75 per share, compared with $2.72 delivered in the year-ago period.

▲ **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 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 2020's revenue projection of $43.2-$43.6 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. 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. In February 2019, the company raised its quarterly dividend by 11% to 50 cents a share, thus marking the sixth straight year of hike. In the fiscal third quarter, the company returned $499 million to its shareholders via share buybacks of $368 million and dividend payouts of $131 million. On a year-to-date basis, Best Buy returned $1.09 billion to shareholders through buybacks of $696 million and dividend payouts of $398 million. Moreover, management projects to be in the high side of its target spending range of $750 million-$1 billion in fiscal 2020 on share buy backs.

Reasons To Sell:

- **Stock Appears Overvalued:** Considering Price-to-Earnings (P/E) ratio, Best Buy looks significantly overvalued when compared with the industry. The stock has a trailing 12-month P/E of 14.51x, compared with 13.83x for the industry. Notably, the company's trailing 12-month P/E ratio is trading in line with its high level, scaled over a year.

- **Soft International Segment a Worry:** The company has been witnessing sluggishness in its international segment for the last couple of quarters. Notably, sales in the segment decreased 4.1% to $800 million in the fiscal third quarter. This decline may be attributable to the unfavorable impact of foreign currency to the tune of 170 bps. Also, the company recorded comparable sales decline of 1.9% on account of sluggishness in Canada. Prior to this, sales declined 3.4% and 5.2% in the second and first quarter, respectively. Persistence of this trend may hurt the company's top line in the near term.

Best Buy has been grappling with its international segment on account of adverse currency fluctuations. Notably, the segment's revenues decreased 4.1% to $800 million in the fiscal third quarter.

- **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.

Last Earnings Report

Best Buy Q3 Earnings & Sales Beat Estimates, Raises FY20 View

Quarter Ending	10/2019
Report Date	Nov 26, 2019
Sales Surprise	0.33%
EPS Surprise	8.65%
Quarterly EPS	1.13
Annual EPS (TTM)	5.95

Best Buy reported robust third-quarter fiscal 2020 results, wherein both the top and the bottom lines surpassed the Zacks Consensus Estimate, and improved year over year. Notably, this marked the eighth straight quarter of earnings beat. Following the impressive performance, management raised its fiscal 2020 earnings guidance.

Let's Delve Deeper

This consumer electronics retailer posted adjusted earnings of $1.13 per share, surpassing the Zacks Consensus Estimate of $1.04. Moreover, the bottom line improved 21.5% year over year, courtesy of higher revenues, lower SG&A expenses and share repurchase activities.

On a GAAP basis, earnings came in at 1.10, up 11% from the year-ago quarter.

The company's top line grew 1.7% year over year to $9,764 million and also beat the consensus mark of $9,740 million. Enterprise comparable sales were up 1.7% compared with 4.3% in the prior-year quarter.

Adjusted operating margin expanded 70 basis points (bps) to 4.2%.

Segment Details

Domestic segment revenues rose 2.4% year over year to $8,964 million, driven by decent comparable sales and contributions from the GreatCall acquisition. This was partly offset by loss of revenues due to store closure in the past year. The company witnessed comparable sales growth of 2%, backed by robust demand in headphones, tablets, appliances, services and computing partly negated by weakness in gaming and home theatre categories.

Additionally, comparable online sales at this division increased 15% to $1.4 billion, mainly owing to higher average order values.

The segment's gross margin contracted 10 bps year over year to 24.3% due to mix into lower-margin products somewhat offset by a higher gross margin at GreatCall.

International segment revenues decreased 4.1% to $800 million owing to the unfavorable impact of foreign currency to the tune of approximately 170 bps. Also, the company recorded comparable sales decline of 1.9% on account of Canada. The segment's gross margin expanded 30 bps to 22.5%.

Other Financial Details

Best Buy ended the quarter with cash and cash equivalents of $1,205 million, long-term debt of $1,239 million and total equity of $3,125 million. In the fiscal third quarter, the company returned about $499 million to its shareholders via share buybacks of $368 million and dividend payouts of $131 million. On a year-to-date basis, Best Buy returned $1.09 billion to shareholders through buybacks of $696 million and dividend payouts of $398 million.

Guidance

Best Buy has been extensively investing to upgrade operations, with special focus on developing omni-channel capabilities, stores and supply chain, new business initiatives, cost-reduction opportunities, and strengthening partnerships with vendors. It has been making a significant headway into healthcare technology business by undertaking strategic buyouts in the space. Also, the company is on track with the next phase of its "Building the New Blue" program called "Building the New Blue: Chapter Two".

All said, management provided guidance for fourth-quarter fiscal 2020 and raised its bottom-line view for fiscal 2020. The revision is based on better-than-expected performance in the third quarter of fiscal 2020 and improved expectations for fourth quarter. The guidance also includes impact of raised tariffs on Chinese goods.

Best Buy forecasts Enterprise revenues of $43.2-$43.6 billion compared with the previous guidance of $43.1-$43.6 billion. The company reported Enterprise revenues of $42.9 billion in fiscal 2019. Furthermore, comps are expected to grow 1-2% compared with the prior view of 0.7-1.7% increase. The company's comps grew 4.8% in fiscal 2019.

Best Buy now anticipates adjusted operating margin to be up slightly compared with 4.6% recorded in fiscal 2019. The company had earlier projected adjusted operating margin to be flat to up slightly.

Moreover, adjusted earnings are now envisioned to be $5.81-$5.91, up from the prior forecast of $5.60-$5.75 per share.

For the fiscal fourth quarter, management anticipates Enterprise revenues of $14.75-$15.15 billion and comps growth of 0.5-3%. Management expects fourth-quarter adjusted earnings to be $2.65-$2.75 per share.

Recent News

Best Buy Aims $50B Revenues by 2025 – Sep 25, 2019

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 now envisions enterprise revenue of approximately $50 billion with adjusted operating income rate of 5% by 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 2020's revenue projection of $43.1-$43.6 billion.

Valuation

Best Buy shares are up 33.6% in the year-to-date period and 52.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 12.6% and 13.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector gained 21.8% and 18.7%, respectively.

The S&P 500 index is up 16.5% in the year-to-date period and 20.6% in the past year.

The stock is currently trading at 14.64X forward 12-month earnings, which compares to 18.56X for the Zacks sub-industry, 26.26X for the Zacks sector and 19.38X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.14X and as low as 8.84X, with a 5-year median of 12.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $97 price target reflects 15.52X 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	14.64	18.56	26.26	19.38
	5-Year High	18.14	21.77	26.26	19.38
	5-Year Low	8.84	8.32	19.07	15.18
	5-Year Median	12.9	11.52	22.99	17.47
P/S F12M	Current	0.54	0.41	1.1	3.59
	5-Year High	0.56	0.42	1.11	3.59
	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	8.95	5.52	15.89	12.31
	5-Year High	9.14	6.61	15.89	12.85
	5-Year Low	3.4	2.78	10.79	8.47
	5-Year Median	5.92	4.24	12.41	10.72

As of 02/20/2020

Industry Analysis **Zacks Industry Rank:** Bottom 13% (223 out of 255)

Top Peers

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

Industry Comparison Industry: Retail - Consumer Electronics

Industry Peers

	BBY Neutral	X Industry	S&P 500	AAN Neutral	GME Underperform	SYX Neutral
VGM Score	A	-	-	A	F	B
Market Cap	23.79 B	571.45 M	24.34 B	3.05 B	272.92 M	869.97 M
# of Analysts	9	4	13	8	4	1
Dividend Yield	2.18%	0.00%	1.78%	0.35%	0.00%	2.07%
Value Score	A	-	-	A	F	C
Cash/Price	0.05	0.11	0.04	0.04	1.10	0.11
EV/EBITDA	9.53	7.24	14.18	1.55	-1.61	12.35
PEG Ratio	1.67	0.45	2.09	0.45	NA	NA
Price/Book (P/B)	7.75	1.51	3.30	1.76	0.46	5.24
Price/Cash Flow (P/CF)	10.91	6.25	13.49	1.30	1.22	16.77
P/E (F1)	14.71	14.71	19.28	10.04	36.80	15.56
Price/Sales (P/S)	0.55	0.66	2.68	0.77	0.04	0.92
Earnings Yield	6.80%	6.61%	5.17%	9.97%	2.66%	6.43%
Debt/Equity	1.10	0.28	0.70	0.20	1.52	0.36
Cash Flow ($/share)	8.43	3.39	7.03	34.91	3.39	1.38
Growth Score	C	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	21.97%	20.38%	10.84%	15.96%	-16.85%	70.69%
Proj. EPS Growth (F1/F0)	5.22%	5.22%	7.09%	16.36%	NA	11.19%
Curr. Cash Flow Growth	11.12%	12.48%	6.72%	13.84%	-29.60%	-3.38%
Hist. Cash Flow Growth (3-5 yrs)	9.54%	15.62%	8.25%	20.01%	-8.05%	61.41%
Current Ratio	1.05	1.95	1.22	2.12	1.18	1.77
Debt/Capital	52.39%	26.53%	42.37%	16.41%	60.26%	26.53%
Net Margin	3.54%	4.43%	11.56%	0.80%	-9.27%	5.32%
Return on Equity	49.43%	14.70%	16.80%	14.70%	8.27%	33.72%
Sales/Assets	2.91	1.67	0.55	1.22	2.12	2.25
Proj. Sales Growth (F1/F0)	1.68%	4.92%	3.90%	12.39%	-3.99%	5.17%
Momentum Score	A	-	-	A	B	A
Daily Price Chg	1.09%	0.00%	0.01%	-19.06%	-0.24%	2.11%
1 Week Price Chg	3.67%	2.92%	1.65%	4.86%	5.51%	-3.59%
4 Week Price Chg	2.35%	-1.41%	0.36%	-25.93%	-10.39%	-6.76%
12 Week Price Chg	13.86%	-12.02%	4.39%	-23.73%	-34.80%	0.26%
52 Week Price Chg	53.81%	-10.77%	15.29%	-16.11%	-62.47%	-5.43%
20 Day Average Volume	1,800,142	44,850	1,992,841	974,467	2,433,299	34,614
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-13.84%	0.00%	0.00%
(F1) EPS Est 4 week change	0.29%	0.00%	-0.02%	-12.36%	0.00%	0.00%
(F1) EPS Est 12 week change	4.11%	-19.86%	-0.17%	-12.56%	-87.43%	0.00%
(Q1) EPS Est Mthly Chg	0.17%	0.00%	-0.48%	0.00%	0.00%	0.00%

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	C
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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