

Henderson State University

Analysis Report- Best Buy Inc.

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Market Profile

Corning Inc.	
Ticker Symbol	BBY
Exchange	NYSE
Industry	Retail
Sector	Cons. Goods
Peer	RadioShack
Shares Owned	-
Purchase Date	-
Purchase Price	-
Current Price	28.26
52-wk Low	16.42
52-wk High	48.03
52-wk Change	-37.79%
52-wk Relative	4.24%
1 Year Target Price	31.34
Market/Book	1.33
Market Cap.	11.7B
Beta	1.57
EPS (ttm)	2.97
Price/Earnings	11.5
PEG	0.94
Dividend & (Yield)	0.56 & 1.80%
Dividend Payout	0.14
Interest Coverage	19.94
ROE	34.32%
Recommendation:	
Hold!	

Company History:

Best Buy Co., Inc., together with its subsidiaries, operates as a specialty retailer of consumer electronics, home office products, entertainment software, appliances, and related services primarily in the United States, Canada, and China. It offers various video products, including televisions, digital cameras and accessories, digital camcorders and accessories, and DVD players; and audio products, such as MP3 players and accessories, navigation products, and home theater audio systems and components, as well as mobile electronics, including car stereo and satellite radio products. The company also offers home-office products that comprise notebook and desktop computers, monitors, mobile phones, hard drives, networking products, and accessories; and entertainment software, including video gaming hardware and software, DVD movies, CDs, and computer software. In addition, it provides kitchen appliances, plumbing fixtures, air conditioners, small electrics, and house wares, as well as snacks and beverages. Further, the company offers broadband, voice, data, and information technology services; computer-related services; product repair services; and delivery and installation of home theater, mobile audio, and appliances. It operates retail stores and Web sites under the brand names, Best Buy, Five Star, Future Shop, Geek Squad, Magnolia Audio Video, Pacific Sales Kitchen and Bath Centers, and Speakeasy.

Product Mix

- Various video products, including televisions, digital cameras and accessories, digital camcorders and accessories, and DVD players. This segment accounts for 45% of revenues.
- Various audio products, such as MP3 players and accessories, navigation products, and home theater audio systems and components, as well as mobile electronics, including car stereo and satellite radio products. This segment accounts for 13% of revenues.

- Various home-office products that comprise notebook and desktop computers, monitors, mobile phones, hard drives, networking products, and accessories; and entertainment software, including video gaming hardware and software, DVD movies, CDs, and computer software. This segment accounts for 30% of revenues.
- Various kitchen appliances, plumbing fixtures, air conditioners, small electrics, and house wares, as well as snacks and beverages. This segment accounts for 5% of revenues.
- It offers broadband, voice, data, and information technology services; computer-related services; product repair services; and delivery and installation of home theater, mobile audio, and appliances. This segment accounts for 7% of revenues.

Stock Chart- Six Months



Recent Headlines

Feb 18, 2009

- [\[\\$\\$\] A Value Stock with a P/E of 40? at Real Money by TheStreet.com](#)
- [The Survivors' Edge at The Wall Street Journal Online](#)
- [UPDATE - Circuit City liquidation sale ahead of schedule at Reuters](#)

Feb 13, 2009

- [For millions, digital TV deadline still is now AP](#)
- [Circuit City: Going Once, Going Twice at Forbes.com](#)

- Schaeffer's Option Skews: Relatively Heavy Put Activity on Morgan Stanley, Goldman Sachs Group Inc, and Best Buy Co Inc

Feb 12, 2009

- Speakeasy Customer Service Standard Helps Drive Growth

Feb 11, 2009

- Best-in-Class Retailers Reduce Online IT Costs Due to SaaS Deployments
- Best Buy Expands With Phone Shops-at The Wall Street Journal Online

Feb 10, 2009

- Best Buy, Other Retailers Tap Tech to Boost Sales-at Business Week

Industry Overview

Current Rank: 71

Portfolio Percentage Rank:

Monetary Policy Indicator: Cyclical Consumer Goods

Industry Opinion:

Best Buy believes once Circuit City finishes liquidating the company, it will gain 30-40 percent of their customer sales. There are very few large competitors. This gives Best Buy a strong chance to be profitable as long as it can survive the economic situation.

Key Issues Affecting the Industry:

Sales are declining because customers aren't spending as much.

Porter's Five Forces

1. Rivalry

It is hard for new entrants to compete against companies like Best Buy due to economies of scale. There are high entry costs. It is a very competitive industry.

2. Threats of Substitutes

Since there are many different brands of products and competitors, substitutes are readily.

3. Buying Power

With Circuit City closing, customers will be able to purchase products at discounted prices. After the final closing, customers will have limited places to shop for a large assortment and variety of goods. Best Buy will be able to increase sales without lowering their prices.

4. Supplier Power

There are many manufacturers producing goods carried by Best Buy. Supplier power is weak because of the saturated market.

5. Barriers to Enter

There are high entry costs and dense competition.

Recent Results- 10Q

BEST BUY CO., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(\$ in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 29,	December 1,	November 29,	December 1,
	2008	2007	2008	2007
Revenue	\$ 11,500	\$ 9,928	\$ 30,291	\$ 26,605
Cost of goods sold	8,639	7,591	22,916	20,237
Gross profit	2,861	2,337	7,375	6,368
Selling, general and administrative expenses	2,587	1,986	6,485	5,350
Operating income	274	351	890	1,018
Other (expense) income				
Investment income and other	(3)	32	27	98
Investment impairment	(111)	—	(111)	—
Interest expense	(35)	(23)	(69)	(53)
Earnings before income tax expense, minority interests and equity in income (loss) of affiliates	125	360	737	1,063
Income tax expense	68	129	296	386
Minority interests	(11)	(1)	(13)	(4)

Equity in income (loss) of affiliates	6	(2)	5	(3)
Net earnings	\$ 52	\$ 228	\$ 433	\$ 670

Economic Outlook- 10K

During fiscal 2009, we expect to open approximately 140 new stores in the U.S., Canada, China and Mexico. Most of the new stores will be opened in markets where we already have stores, leveraging our infrastructure and making shopping more convenient for our customers. In the U.S., we anticipate opening 85 to 100 new Best Buy stores, as well as relocating four existing Best Buy stores. We also expect to open five to ten Pacific Sales stores in western states. Additionally, we are extending our Best Buy Mobile experience to the majority of our U.S. Best Buy stores in the next 18 months. We will also look to improve the customer experience in the computing space by expanding our collaborative relationships with Dell, Hewlett-Packard and Toshiba, as well as adding Apple products and services to approximately 250 more U.S. Best Buy stores. In Canada, we expect to open approximately six Future Shop stores and six Best Buy stores, as well as close one Future Shop store and relocate six existing Future Shop stores. In China, we plan to open 20 to 25 Five Star stores. We also expect to open five to eight additional Best Buy stores in China in fiscal 2009. Finally, we anticipate extending our international presence by opening our first two to five stores in Mexico in the second half of fiscal 2009 and our first one or two stores in Turkey in the early part of fiscal 2010.

We ended fiscal 2008 with \$1.5 billion of cash and cash equivalents and short-term investments, compared with \$3.8 billion at the end of fiscal 2007. Working capital, the excess of current assets over current liabilities, was \$0.6 billion at the end of fiscal 2008, down from \$2.8 billion at the end of fiscal 2007. The decreases in cash and cash equivalents, short-term investments and working capital were due primarily to the liquidation of a substantial portion of our investment portfolio to repay debt and to fund our ASR program. In addition, at March 1, 2008, we reclassified \$417 million (par value) of our short-term investments in auction-rate securities to non-current assets within equity and other investments in our consolidated balance sheet given the uncertainty of when these investments can be successfully liquidated at par as a result of the current market failures for auction-rate securities as described below.

In accordance with our investment policy, we invest with issuers who have high-quality credit and limit the amount of investment exposure to any one issuer. The primary objective of our investment activities is to preserve principal and maintain a desired level of liquidity to meet working capital needs. We seek to preserve principal and minimize exposure to interest-rate fluctuations by limiting default risk, market risk and reinvestment risk. All investment debt securities we own are investment grade. We do not have any investments in securities that are collateralized by assets that include mortgages or subprime debt. The vast majority of our investments in auction-rate securities are AAA/AAA-rated and collateralized by student loans, which are guaranteed 95% to 100% by the U.S. government.

Until February 2008, the market for auction-rate securities was highly liquid. Beginning February 11, 2008, a substantial number of auctions began to fail as the amount of securities submitted for sale in those auctions exceeded the aggregate amount of the bids. Substantially our entire auction-rate securities portfolio at March 1, 2008, has been subject to failed auctions. For each unsuccessful auction, the interest rate moves to a

maximum rate defined for each security. To date, we have collected all interest due on our auction-rate securities and expect to continue to do so in the future. Since March 1, 2008 and through April 25, 2008, we have liquidated \$20 million of auction-rate securities at par value. At April 25, 2008, our auction-rate securities portfolio was \$397 million (par value). The principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues, which range from 8 to 40 years.

We believe that the credit quality of our auction-rate securities is high and that we will ultimately recover all amounts invested in these securities. We do not believe the current illiquidity of these investments will have a material impact on our ability to execute our business plans as described below in the *Outlook for Fiscal 2009* section of this MD&A.

Financial Ratios

Valuation Ratios

	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	11.05	0.39	7.92	13.15
P/E High - Last 5 Yrs.	27.73	1.22	0.29	29.2
P/E Low - Last 5 Yrs.	6.57	0.25	0.08	6.92
Beta	1.61	1.15	0.89	0.9
Price to Sales (TTM)	0.29	0.01	0.25	1.62
Price to Book (MRQ)	2.75	0.92	1.15	2.53
Price to Tangible Book (MRQ)	6.39	1.07	1.45	4.84
Price to Cash Flow (TTM)	6.61	0.42	1.38	6.43
Price to Free Cash Flow (TTM)	--	46.1	12.88	14.08
% Owned Institutions	--	--	--	--

Dividends

	Company	Industry	Sector	S&P 500
Dividend Yield	1.85	0.04	0.06	3.23
Dividend Yield - 5 Year Avg.	0.79	0.66	1.33	1.9
Dividend 5 Year Growth Rate	--	21.16	23.73	11.57
Payout Ratio(TTM)	18.8	0.5	36.45	39.59

Growth Rates

	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	15.83	-0.56	-13.6	-0.32
Sales (TTM) vs TTM 1 Yr. Ago	10.64	0.55	-3.93	9.74
Sales - 5 Yr. Growth Rate	13.83	14.1	9.66	14.36
EPS (MRQ) vs Qtr. 1 Yr. Ago	-76.07	-81.05	-158.62	-90.08
EPS (TTM) vs TTM 1 Yr. Ago	-9.25	--	--	--
EPS - 5 Yr. Growth Rate	19.77	40.61	16.85	16.67
Capital Spending - 5 Yr. Growth Rate	1.91	21.46	14.68	10.62

Financial Strength

	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	0.31	0.62	1.11	0.92
Current Ratio (MRQ)	0.93	1.33	1.46	1.11
LT Debt to Equity (MRQ)	24.67	51.9	36.72	79.37
Total Debt to Equity (MRQ)	72.94	83.79	76.75	101.75
Interest Coverage (TTM)	19.94	0.42	0.16	31.71

Profitability Ratios

	Company	Industry	Sector	S&P 500
Gross Margin (TTM)	24.14	1.15	11.41	39.61
Gross Margin - 5 Yr. Avg.	24.19	20.78	26.26	41.21
EBITD Margin (TTM)	6.05	--	--	--
EBITD - 5 Yr. Avg	6.88	3.18	12.16	18.82
Operating Margin (TTM)	4.4	0.19	1.72	--
Operating Margin - 5 Yr. Avg.	5.38	2.51	7.84	17.87
Pre-Tax Margin (TTM)	4.35	0.18	1.81	14.44
Pre-Tax Margin - 5 Yr. Avg.	5.55	3.32	8.17	17.57
Net Profit Margin (TTM)	2.69	0.1	0.9	10.32
Net Profit Margin - 5 Yr. Avg.	3.57	2	4.96	12.35
Effective Tax Rate (TTM)	38.12	1.34	22.65	28.09
Effective Tax Rate - 5 Yr. Avg.	35.76	38.21	39.26	30.04

Management Effectiveness

	Company	Industry	Sector	S&P 500
Return on Assets (TTM)	6.52	0.23	1.03	5.85
Return on Assets - 5 Yr. Avg.	10.37	5.67	4.54	6.27
Return on Investment (TTM)	19.65	0.57	1.53	8.12
Return on Investment - 5 Yr. Avg.	20.65	8.76	6.87	8.51
Return on Equity (TTM)	27.51	0.81	3.43	20.57
Return on Equity - 5 Yr. Avg.	24.67	12.58	10.59	16.14

Efficiency

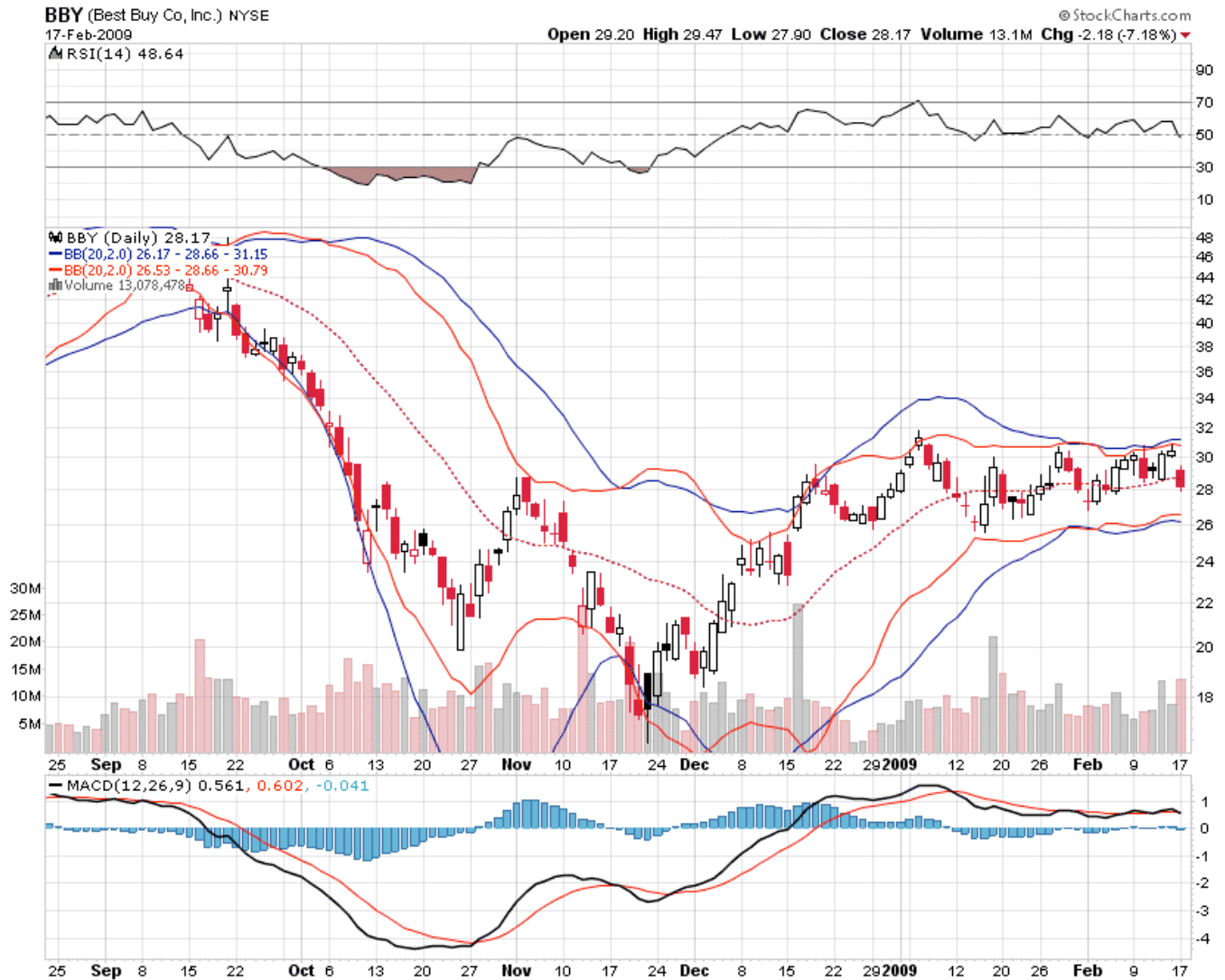
	Company	Industry	Sector	S&P 500
Revenue/Employee (TTM)	291,393	17,439	32,073,141	323,977
Net Income/Employee (TTM)	7,847	473	613,265	35,641
Receivable Turnover (TTM)	25.89	2.05	6.17	10.03
Inventory Turnover (TTM)	4.24	0.18	5.08	7.28
Asset Turnover (TTM)	2.42	0.09	0.47	0.65

DCF Model	
Beta	1.57
Valueline Safety Rating	3
Expected Growth (EPS)	2.30
Projected Growth & Dividend Yield	0.56 & 1.80%
Required Rate Return	15.60%
Projected Future P/E	16
Annualized HPR	?
PV of Future Price	?
Recommendation	Overvalued

P/E Sensitivity					
Present Value	Price 2014	P/E 20014	EPS 2014	HPR 2014	Annual Return
23.27	54.10	10.0	5.41	2.03	12.98%
27.92	64.92	12.0	5.41	2.42	16.38%
32.57	75.74	14.0	5.41	2.80	19.35%
37.23	86.56	16.0	5.41	3.18	22.01%
41.88	97.38	18.0	5.41	3.57	24.42%
46.54	108.20	20.0	5.41	3.95	26.62%

Earnings Sensitivity					
Present Value	Price 2014	P/E 20014	EPS 2014	HPR 2014	Annual Return
33.10	76.96	16.0	4.81	2.84	19.67%
34.48	80.16	16.0	5.01	2.96	20.47%
35.85	83.36	16.0	5.21	3.07	21.25%
37.23	86.56	16.0	5.41	3.18	22.01%
38.60	89.76	16.0	5.61	3.30	22.75%

Momentum



Momentum Indicator: +0

Analyst's Opinion

Why Buy BBY?

No major competitors, net income is still increasing, ranked 71, and the Fed is pumping money into the economy.

Why not buy BBY?

Momentum is at 49, overvalued stock, liquidation period of Circuit City, and 1 yr. target price.

Final Discussion:

10/15/09

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I would not buy. I believe Best Buy is going to lose sales during the economic situation along with Circuit City reducing prices to liquidate the company. Right before the end of the liquidation period, Best Buy will benefit by gaining 35-40 percent of Circuit City's customers. I think buying right before the liquidation ends will be an ideal time to buy BBY stocks, and it will allow us more time to watch how the markets are going to adapt to this economic crisis. This stock will be a safe investment with low returns.

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