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# Henderson State University

**Best Buy**  
**February 4, 2010**

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# Investment Thesis



**BestBuy.com™**

**Best Buy**

(BBY \$36.98)

One Year Target Price: \$46.20

Opinion: hold

- ✓ Business Model
- ✓ Strong Growth Rates
- ✓ Minimal Risks
- ✓ Earnings Outperformance
- ✓ New Products

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## QDEL Profile

General Information	
Ticker	BBY
Exchange	NYSE
Sector	Services
Industry	Electronics Stores
Headquarters	Richfield, MN
Purchase Date	Na
Purchase Price/Shares	Na
Current Price	\$36.98
Book Value	\$13.23
52- Wk Low /High	\$23.97/45.55
52- Wk Change	24.66
52- Wk Relative	28.33
Market Cap.	15.46B
Shares Outstanding	418.03M
Inst. Ownership	73.10%
Float	
Average Volume (3m)	6,596,970
Short Interest	
Beta	1.28
EPS	2.62
PE Ratio	14.12
PEG Ratio	.84
Dividend/Yield	.56/1.50%
IPO	
Secondary	

Estimates
SMF (rev, EPS, DCF)
• 1Q10E:
• 2010E:
• 2011E:
Consensus
• 1Q10E:
• 2010E:
• 2011E:
Guidance
• 2010E
– Rev
– Adj. EBITDA
– Option
–

Coverage
• Buys
– 12 Yahoo
• Holds
– 14 Yahoo
• Sells
– 0

Sources: yahoo.com, marketwatch.com, reuters.com, company documents

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# Stock Chart



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## Business Synopsis

### Description

Best Buy Co., Inc. operates as a specialty retailer in the United States, Canada, Mexico, China, and Europe. It offers consumer electronic video products, such as televisions, digital cameras and accessories, digital camcorders, and DVD players; and audio products comprising MP3 players, navigation products, home theater audio systems and components, and mobile electronics. It also offers home office products comprising notebook and desktop computers, monitors, mobile phones and related subscription service commissions, hard drives, and networking equipment; entertainment software products, such as video gaming hardware and software, DVDs, CDs, digital downloads, and computer software; and appliances, such as kitchen appliances, plumbing fixtures, snacks, and beverages. Best Buy Co. also offers service contracts; extended warranties; product repair; broadband voice, data, and information technology services; and delivers and installs home theater, mobile audio, and appliances. As of February 28, 2009, it operated 1,023 U.S. Best Buy stores, 38 U.S. Best Buy Mobile stand-alone stores, 34 Pacific Sales stores, 6 Magnolia Audio Video stores, and 6 Geek Squad stand-alone stores. The company also operated 2,465 The Carphone Warehouse and The Phone House stores in Europe, 58 Best Buy Canada stores, 3 Best Buy Mobile Canada stores, 139 Future Shop stores in Canada, 164 Five Star stores in China, 5 Best Buy China stores, and 1 Best Buy Mexico store. It also operates the Napster and Speakeasy stores. In addition, the company engages in online retailing through BestBuy.com, BestBuy.ca, BestBuy.com.cn, espanol.BestBuy.com, and BestBuyMobile.com; CarphoneWarehouse.com; Five-Star.cn; FutureShop.ca; GeekSquad.com and GeekSquad.ca; MagnoliaAV.com; Napster.com; PacificSales.com; PhoneHouse.com; and Speakeasy.net. It was formerly known as Sound of Music, Inc. and changed its name to Best Buy Co., Inc. in 1983. The company founded in 1966 and is headquartered in Richfield, Minnesota.

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# Products/Services

## About Best Buy Co., Inc.

With operations in the United States, Canada, Europe, China, Mexico and Turkey, Best Buy is a multinational retailer of technology and entertainment products and services with a commitment to growth and innovation. The Best Buy family of brands and partnerships collectively generates more than \$45 billion in annual revenue and includes brands such as Best Buy; Audiovisions; The Carphone Warehouse; Future Shop; Geek Squad; Jianguo Five Star; Magnolia Audio Video; Napster; Pacific Sales; The Phone House; and Speakeasy. Approximately 155,000 employees apply their talents to help bring the benefits of these brands to life for customers through retail locations, multiple call centers and web sites, in-home solutions, product delivery and activities in its communities. Community partnership is central to the way business is done at Best Buy, donating a combined \$33.4 million in fiscal 2009 to improve the vitality of the communities where its employees and customers live and work. Best Buy also remains committed to being a socially and environmentally responsible corporation through programs focused on leading social change and reducing the carbon footprints of its manufacturers, employees and consumers. For more information about Best Buy, visit [www.bestbuyinc.com](http://www.bestbuyinc.com).



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# Internal Analysis

ValueLine.com Safety Ranking <sup>3</sup>

### Management:

**Mr. Richard M. Schulze**, 70  
*Founder and Chairman*

**Mr. Brian J. Dunn**, 49  
*Chief Exec. Officer, Pres, Chief Operating Officer*

**Mr. James L. Muehlbauer**, 48  
*Chief Financial Officer and Exec. VP of Fin.*

**Ms. Shari L. Ballard**, 44  
*Exec. VP of Retail Channel Management*

**Mr. Elliot S. Kaplan**, 73  
*Sec., Director and Chairman of the Fin. & Investment Policy Committee*

### Channel Checking:

### SWOT Analysis:

#### Strengths-

- Strong market presence provides competitive advantage
- Growth through inorganic route

#### Weaknesses-

- Concentrated supplier base
- Constrained credit availability
- Product recalls

#### Opportunities-

- Expanding presence
- Positive outlook for private label products
- Growing online sales

#### Threats-

- Economic slowdown in the US and key international markets
- Excessive dependence on Accenture for information technology and human resource operations
- Quality issues with products manufactured in China

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# Headlines

Dunstone faces questions on demerger

Wal-Mart, others cut TV prices in Super Bowl run-up

Best Buy® Announces Exclusive Launch of Diddybeats High-Performance In-Ear Headphones from Monster and Beats by Dre

UPDATE 1-'Hope for Haiti' album shakes up US pop chart

Technology, retail giants team up on 'green' label

[\$\$] Windows 7 Fails to Boost Profits of PC Makers

A Risky, But Exciting, E-commerce Play

BEST BUY CO INC Files SEC form 8-K/A, Regulation FD Disclosure

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# Industry Analysis

How has this industry done compared to the market? Diagnostic Substances

### Industry Statistics

Market Capitalization: 15.46B

Momentum Indicator: 1 of 10

Sector Rotation: 29 of 98



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**Valuation Ratios**

	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	13.87	0.38	0.35	14.03
P/E High - Last 5 Yrs.	27.73	0.75	0.09	14.12
P/E Low - Last 5 Yrs.	6.57	0.14	0.02	3.76
Beta	1.34	1.33	0.82	1.33
Price to Sales (TTM)	0.32	0.01	0.13	2.08
Price to Book (MRQ)	2.75	1.54	0.43	2.37
Price to Tangible Book (MRQ)	5.73	1.73	0.83	5.86
Price to Cash Flow (TTM)	7.30	0.24	2.99	7.49
Price to Free Cash Flow (TTM)	9.75	10.23	4.01	17.36
% Owned Institutions	--	--	--	--

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**Dividends**

	Company	Industry	Sector	S&P 500
Dividend Yield	1.54	0.03	0.01	1.67
Dividend Yield - 5 Year Avg.	0.94	0.80	1.36	2.40
Dividend 5 Year Growth Rate	15.16	18.06	3.58	-4.83

**Payout Ratio(TTM)**

	21.12	0.43	0.52	24.80
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**Growth Rates**

	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	4.56	7.03	-5.02	8.69
Sales (TTM) vs TTM 1 Yr. Ago	9.51	0.16	-4.97	-4.79
Sales - 5 Yr. Growth Rate	12.89	13.61	10.83	7.76

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EPS (MRQ) vs Qtr. 1 Yr. Ago	318.14	-119.32	-21.09	89.13
EPS (TTM) vs TTM 1 Yr. Ago	-4.57	--	--	--
EPS - 5 Yr. Growth Rate	8.19	11.15	-3.15	9.45

Capital Spending - 5 Yr. Growth Rate	19.04	22.55	12.80	6.49
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#### Financial Strength

	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	0.34	0.62	0.35	0.84
Current Ratio (MRQ)	1.05	1.39	0.44	0.99
LT Debt to Equity (MRQ)	19.97	48.37	17.14	111.16
Total Debt to Equity (MRQ)	34.02	81.36	27.71	162.20
Interest Coverage (TTM)	96.10	1.55	0.05	12.32

#### Profitability Ratios

	Company	Industry	Sector	S&P 500
Gross Margin (TTM)	24.67	1.02	3.16	32.36

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Gross Margin - 5 Yr. Avg.	24.29	21.16	26.71	29.11
EBITD Margin (TTM)	5.94	--	--	--
EBITD - 5 Yr. Avg.	6.58	2.90	13.50	15.50

Operating Margin (TTM)	4.04	0.14	-0.68	--
Operating Margin - 5 Yr. Avg.	5.02	1.99	7.26	17.48
Pre-Tax Margin (TTM)	3.94	0.14	-0.86	12.17
Pre-Tax Margin - 5 Yr. Avg.	5.14	2.87	7.52	17.18

Net Profit Margin (TTM)	2.44	0.09	-0.71	9.52
Net Profit Margin - 5 Yr. Avg.	3.29	1.57	5.77	12.50

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Effective Tax Rate (TTM)	37.98	1.13	0.29	14.80
Effective Tax Rate - 5 Yr. Avg.	36.12	40.23	25.43	26.48

#### Efficiency

	Company	Industry	Sector	S&P 500
Revenue/Employee (TTM)	308,806	21,493	8,052,651	408,278
Net Income/Employee (TTM)	7,542	345	-312,954	34,287
Receivable Turnover (TTM)	18.17	1.16	1.60	6.95
Inventory Turnover (TTM)	4.20	0.15	1.41	5.10
Asset Turnover (TTM)	2.29	0.07	0.13	0.45

#### Management Effectiveness

	Company	Industry	Sector	S&P 500
Return on Assets (TTM)	5.60	0.17	-0.46	4.18
Return on Assets - 5 Yr. Avg.	9.70	4.71	6.30	5.14

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Return on Investment (TTM)	16.01	0.37	-0.79	5.58
Return on Investment - 5 Yr. Avg.	19.74	8.09	10.32	6.72

Return on Equity (TTM)	21.96	0.50	-1.61	12.46
Return on Equity - 5 Yr. Avg.	24.00	11.53	12.13	13.41

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# Competitors

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	<u>BBY</u>	<u>AMZN</u>	<u>AAPL</u>	<u>WMT</u>	<u>Industry</u>
Market Cap:	15.32B	54.30B	174.16B	203.58B	2.44B
Employees:	155,000	20,700	34,300	2,100,000	16.00K
Qtrly Rev Growth (yoy):	4.60%	27.80%	32.00%	1.10%	8.30%
Revenue (ttm):	47.87B	21.69B	40.34B	404.54B	4.22B
Gross Margin (ttm):	24.67%	22.60%	37.29%	25.00%	30.99%
EBITDA (ttm):	3.04B	1.16B	10.00B	30.36B	436.30M
Oper Margins (ttm):	4.45%	4.50%	23.01%	5.79%	4.92%
Net Income (ttm):	1.11B	743.00M	6.83B	13.52B	N/A
EPS (ttm):	2.615	1.696	7.489	3.454	1.53
P/E (ttm):	14.02	73.94	25.65	15.47	12.75
PEG (5 yr expected):	0.85	1.64	N/A	1.25	1.15
P/S (ttm):	0.32	2.50	4.32	0.50	0.57

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# Summation

If we own:  
If we don't

hold  
Buy when the price drops

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