

Best Buy Co., Inc.

Bull vs. Bear: Anticipating a recovery vs. signs of continued sales weakness

Reiterate Rating: UNDERPERFORM | PO: 70.00 USD | Price: 73.86 USD

CE spend remains depressed but could stabilize in 2H24

We maintain a cautious outlook on the consumer electronics (CE) industry given we expect discretionary spending pressures to persist through 1H24. Spending at CE & hobby retailers decelerated sequentially y/y (and on 4-yr basis) in December according to BAC aggregated credit and debit card data (see Exhibit 8). However, we see potential for the consumer electronics industry to stabilize in 2H24 as a post-pandemic replacement cycle returns and we begin to lap consumer spending headwinds including student loan repayments.

Promotions and inventory levels remain elevated y/y

Data tracking promotions at Best Buy (BBY) from Thinknum showed that both the breadth of promos (% of products that are discounted) and the depth of promos (markdown % of discounted products) continued to exceed pre-pandemic levels through December (see Exhibit 12). Alternative data for the U.S. appliance market showed continued y/y declines in pricing, elevated promotions, and higher shipments/inventory levels keeping us cautious on near-term appliance demand (see Chore charts, December '23 – appliance pricing still under pressure on 10 January 2024).

Bloomberg data points to F4Q sequential improvement

Bloomberg Second Measure credit and debit card data shows a sequential improvement in BBY observed sales to (13.9)% QTD (compared to (18.8)% observed in F3Q) driven by an improvement in average transaction value (ATV) while observed transactions remain depressed (see Exhibit 3). We are modeling an enterprise same-store sales decline of (6.0)% in F4Q vs. (6.9)% in F3Q given BBY expects improvement in home theater (inventory is better-positioned across price points vs. last year) and the gaming category.

Reiterate Underperform and \$70 PO

We maintain our price objective of \$70 which is based on 10x our FY25E (next fiscal year). While we expect a return to modestly positive comps next year after two down years, we remain concerned about consumer electronics (CE) category deflation and BBY's longer-term market share trend. We view a P/E below the hardline retail 1-yr forward average (around 16x) as appropriate given larger tailwinds in other hardline categories. We reiterate our rating of Underperform given more potential upside in other stocks in our coverage universe. See Exhibit 1 for our detailed bull vs. bear case analysis.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.01	7.09	6.14	6.85	7.94
GAAP EPS	9.84	6.28	5.98	6.51	7.60
EPS Change (YoY)	26.5%	-29.2%	-13.4%	11.6%	15.9%
Consensus EPS (Bloomberg)			6.15	6.12	6.75
DPS	2.76	3.50	3.35	3.44	3.55
Valuation (Jan)					
P/E	7.4x	10.4x	12.0x	10.8x	9.3x
GAAP P/E	7.5x	11.8x	12.4x	11.3x	9.7x
Dividend Yield	3.7%	4.7%	4.5%	4.7%	4.8%
EV / EBITDA*	4.5x	6.1x	6.7x	6.1x	5.6x
Free Cash Flow Yield*	16.0%	7.7%	8.6%	9.8%	11.1%

* For full definitions of *IQmethod*SM measures, see page 14.

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Timestamp: 16 January 2024 07:41AM EST

16 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	43,552.4	43,261.3
2025E Rev (m)	41,557.2	42,402.1
2026E Rev (m)	41,631.7	43,494.5
2024E DPS	3.68	3.35

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Stock Data

Price	73.86 USD
Price Objective	70.00 USD
Date Established	29-Aug-2023
Investment Opinion	B-3-7
52-Week Range	62.30 USD - 93.32 USD
Mkt Val (mn) / Shares Out (mn)	15,909 USD / 215.4
Free Float	89.2%
Average Daily Value (mn)	206.09 USD
BofA Ticker / Exchange	BBY / NYS
Bloomberg / Reuters	BBY US / BBY.N
ROE (2024E)	43.8%
Net Dbt to Eqty (Jan-2023A)	-0.3%
ESGMeterTM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CE= consumer electronics

QTD= 4Q-to-date thru 12/31

iQprofileSM Best Buy Co., Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	30.0%	21.4%	17.2%	17.3%	18.3%
Return on Equity	65.6%	55.0%	43.8%	40.2%	38.9%
Operating Margin	6.0%	4.4%	4.0%	4.4%	4.9%
Free Cash Flow	2,542	1,222	1,376	1,554	1,770

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.3x	1.6x	1.6x	1.6x
Asset Replacement Ratio	0.8x	1.0x	0.9x	0.8x	0.8x
Tax Rate	18.9%	20.9%	22.9%	22.0%	22.0%
Net Debt-to-Equity Ratio	-39.3%	-0.3%	-23.5%	-39.2%	-53.0%
Interest Cover	NM	NM	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	51,761	46,298	43,261	42,402	43,495
% Change	9.5%	-10.6%	-6.6%	-2.0%	2.6%
Gross Profit	11,634	9,912	9,574	9,685	10,091
% Change	10.0%	-14.8%	-3.4%	1.2%	4.2%
EBITDA	3,961	2,946	2,655	2,914	3,190
% Change	11.1%	-25.6%	-9.9%	9.8%	9.5%
Net Interest & Other Income	(15)	(7)	17	17	17
Net Income (Adjusted)	2,496	1,600	1,341	1,455	1,671
% Change	20.0%	-35.9%	-16.2%	8.5%	14.8%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,497	1,598	1,340	1,453	1,669
Depreciation & Amortization	869	918	933	1,068	1,068
Change in Working Capital	358	1,013	144	75	67
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(445)	(1,377)	(216)	(217)	(209)
Capital Expenditure	(737)	(930)	(825)	(825)	(825)
Free Cash Flow	2,542	1,222	1,376	1,554	1,770
% Change	54.8%	-51.9%	12.6%	13.0%	13.8%
Share / Issue Repurchase	(3,289)	(670)	0	0	0
Cost of Dividends Paid	(688)	(789)	(732)	(731)	(747)
Change in Debt	(199)	119	100	50	48

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,936	1,874	2,748	3,597	4,653
Trade Receivables	1,042	1,141	1,066	1,045	1,072
Other Current Assets	6,561	5,787	5,890	5,995	6,155
Property, Plant & Equipment	2,250	2,352	1,969	1,726	1,483
Other Non-Current Assets	4,715	4,649	4,616	4,565	4,514
Total Assets	17,504	15,803	16,289	16,928	17,876
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	10,013	8,325	8,209	8,217	8,338
Long-Term Debt	1,749	1,865	1,965	2,065	2,165
Other Non-Current Liabilities	2,722	2,818	2,785	2,734	2,683
Total Liabilities	14,484	13,008	12,958	13,017	13,185
Total Equity	3,020	2,795	3,330	3,911	4,691
Total Equity & Liabilities	17,504	15,803	16,289	16,928	17,876

* For full definitions of iQmethodSM measures, see page 14.

Company Sector

Retailing-Hardlines

Company Description

Best Buy, with \$46.3bn in 2022 revenues ("FY23"), is the #1 specialty brick & mortar retailer of consumer electronics. The company operates about 1,000 stores in the US, primarily big box Best Buy locations, and over 160 stores in Canada. The company also offers a variety of high-margin services, through its Geek Squad and Magnolia home theater channels as well as a more recent expansion into connected health and emergency services for seniors through its purchase of GreatCall.

Investment Rationale

After a successful turnaround several years ago, BBY has transformed into a hardline retailer with staying power in an increasingly competitive consumer electronics category. We believe it is in a strong position in core products and should have opportunities to expand into new categories and services going forward, although a medium-term pullback on discretionary retail categories presents a headwind to both sales growth and valuation.

Stock Data

Average Daily Volume 2,790,268

Quarterly Earnings Estimates

	2023	2024
Q1	1.57A	1.15E
Q2	1.54A	1.22E
Q3	1.38A	1.29E
Q4	2.61A	2.49E

Exhibit 1: BBY Bull vs. Bear

Key highlights of the bull and bear cases

	BBY - BULL	BBY - BEAR
Same-Store Sales	The consumer electronics industry could recover through 2024 (after two years of declines) as a post-pandemic replacement cycle returns and we begin to lap consumer spending headwinds (see Hardlines note). BBY expects to return to modestly positive same-store sales next year and could see CE growth in 2H. BBY is growing its paid membership base (6.6mn members vs. 5.8mn at beginning of year) which shop more frequently than non-members. Demographics and "premium purchases" have remained consistent and while BBY is seeing some trade down in TV's it is not seeing trade down in other categories.	BBY continues to see sales pressure in the industry attributed in part to a pandemic pull-forward of tech purchases, inflation (crowding out spending on discretionary), and a shift to services outside the home. The outlook for consumer electronics remains cautious (spending is reverting to 2019 levels-see Exhibit 8) as the timeline for industry stabilization/improvement remains uncertain. BBY is operating in a price-competitive environment as consumers seek value/deals. Foot traffic to Best Buy stores remains depressed at -11.1% F4Q-to-date compared to -11.7% (according to Placer) and F3Q observed transactions (Second Measure) continue to trend below both 2019 and 2022 levels. Alternative data also shows % of products discounted at Best Buy (excluding movies & music) running ahead of both last year and 2019 in November and December.
Stores	Stores remain integral to BBY's omnichannel strategy (Buy Online Pickup in Store represents ~40% of online sales) and BBY is focused on improving merchandise presentation (e.g. premium end caps) given shift to digital and less need to hold inventory on the store floor (stores are rightsizing traditional gaming to allow for expansion in growing categories like PC gaming). BBY still has one of the highest sales per square foot in our coverage (see Exhibit 9). Outlet stores (23 today vs. 5 in 2017) allow BBY to clear end-of-life or distressed inventory at a higher recovery rate and create room for better presentation of full priced merchandise in stores.	Higher online sales have resulted in a decline in physical store traffic and sales (& changed customer expectations/behavior). BBY has a large and expensive retail footprint, and more capex will be required to make store base more efficient. We saw a reversal in upward trend of sales per square foot in CY22 and expect sales/sq ft. to decrease further in CY23. BBY continues to evaluate stores as leases expire and expects to continue to close ~15-20 stores per year (we also note that BBY may lose some of the digital business around the area where stores are closed).
Gross Margin	BBY expects benefits from membership program and services category expansion to offset some pressure to gross margin next year from credit card profit normalization. BBY has seen an increase in vendor-funded promotions across categories (higher mix of promos hasn't necessarily pressured product margin rate) and BBY expects product margins to have a neutral impact in 2024.	Product margin rates are expected to be flattish vs. last year in F4Q (vs. a benefit in F3Q) and supply chain costs should be a slight pressure in 4Q (vs. benefit in 3Q) given last year's comparisons. Credit card profit share (which has been a tailwind for BBY the last few years) has normalized to pre-pandemic levels and should pressure gross margin in CY24 as credit losses will likely be higher the next few quarters (see BofA Consumer Finance team's report). Greater-than-expected cost inflation in supply chain (e.g. ground transportation & warehousing) could also pressure margins.
EBIT Margin	Points change to My Best Buy program, growth in paid members (annual fees), return to paid installation (in appliances/home theater), and continued improvement in the health business could all contribute to EBIT in F25. Labor rates have remained steady as a % of revenue even as sales have declined in recent quarters. If F25 sales are flattish, BBY plans to maintain a flattish EBIT rate and BBY is on track for \$1bn in cost savings by F25.	BBY EBIT levels have reverted to F2017/F016 levels, and we could see EBIT margin deleverage next year if sales are lower than expected. We do not expect as large of a benefit from labor investments moving forward (i.e. 100bps vs. F20 from store labor investments). We also note that changes to membership program may be less of a benefit than expected (e.g. fewer Total tech members may renew their membership).
Digital	Approximately one third of BBY domestic sales are online (through website or app) and BBY has invested in digital tools to optimize the pickup in store process. BBY has seen more customers using its app in stores and BBY's remote support services have the highest customer satisfaction scores.	Greater online penetration is more costly and BBY must continue to reallocate labor costs & reskill workers to assist customers in an increasingly digital landscape. BBY Health is signing up members but does not expect any sales benefit in F25.
Valuation	BBY is currently trading at 12x P/E (using Bloomberg F25E consensus EPS), in-line with its 10-year historical average. Cash generation should remain strong as Capex spending is expected to be flat-to-down modestly in F25/C24 and share repurchases should continue to support earnings growth next year.	BBY shares are trading at 12x P/E, below hardlines retail average of 16x. Given challenging industry trends (spending at consumer electronics & hobby retailers declined (10.9)% y/y in Dec. vs. (4.2)% in Nov. per BAC Card data) and risk of lower-than-expected sales and EBIT margin downside in C2024, BBY could see P/E multiple compression from current levels.
Other	Innovation (including cloud, augmented reality, expansion of broadband access and generative AI) specifically in computing could drive replacement cycles. BBY is carrying an expanded assortment of new & growing categories including health/wellness, e-transportation, and outdoor living offerings.	A lack of innovation has caused a pullback in CE demand. BBY over-indexes with higher income customers who may see increased pressure from the return of student loan repayments. Competitive capacity has arguably increased vs. pre-COVID levels in many of BBY's key categories, including Computing & Mobile (40%+ of U.S. sales), Consumer Electronics (30%+ of U.S. sales) and Appliances (~15% of U.S. sales).

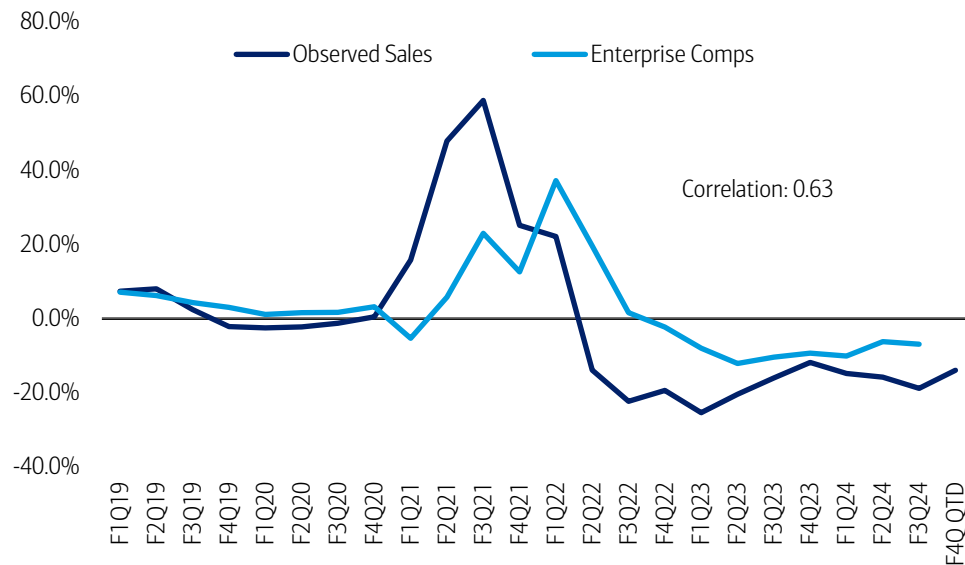
Source: BofA Global Research, Company reports

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Exhibit 2: BBY observed sales (Bloomberg Second Measure credit & debit card data) vs. BBY Enterprise Same-Store Sales

Observed sales improved sequentially to -13.9% F4Q to date vs. -18.8% observed in F3Q

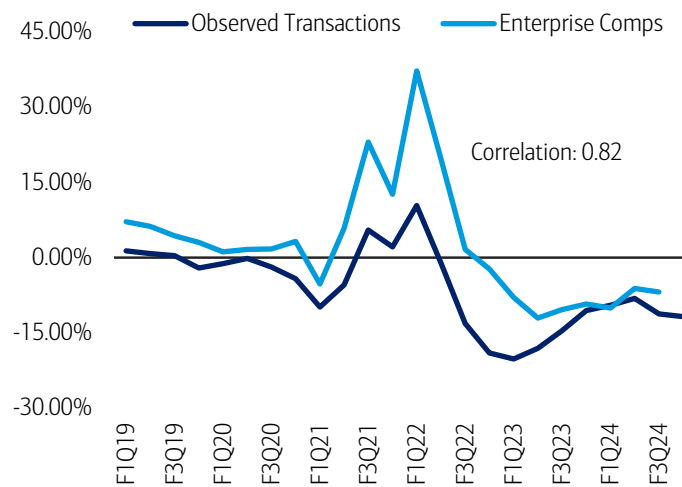


Source: Bloomberg Financial LP- ALTD <GO>, Company filings
F4Q to date through 12/31

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Exhibit 3: BBY observed transactions (Bloomberg Second Measure credit and debit card data) vs. BBY Enterprise Same-Store Sales

Observed transactions declined -11.8% F4Q to date vs. -11.3% observed in F3Q

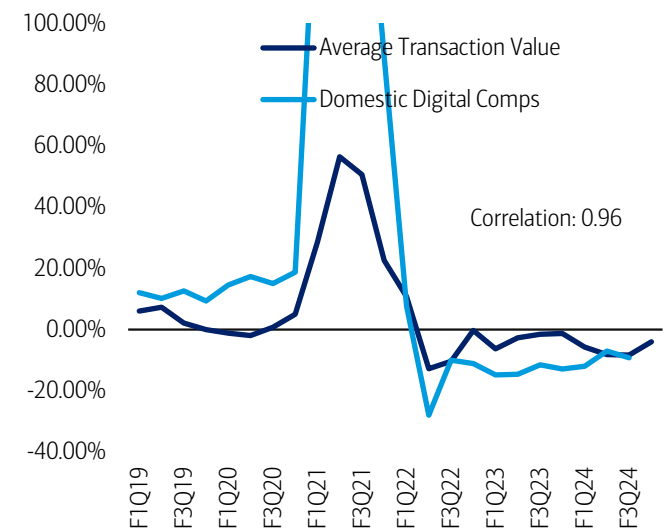


Source: Bloomberg Financial LP- ALTD <GO>, Company filings
F4Q to date through 12/31

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Exhibit 4: BBY average transaction value (Bloomberg Second Measure credit and debit card data) vs. BBY Domestic Digital Same-Store Sales

Average transaction value declined -4.1% F4Q to date vs. -8.4% observed in F3Q



Source: Bloomberg Financial LP- ALTD <GO>, Company filings
F4Q to date through 12/31

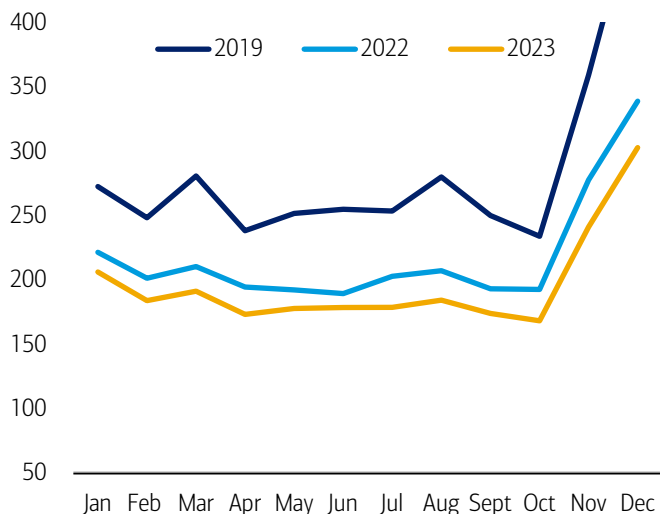
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BBY's average transaction value (ATV) continues to track below 2022 levels in December (but remains well above 2019 levels). The structural increase in average selling price (ASP) is partially attributed to inflation (BBY selectively passed on price) but mostly driven by a more premium mix (higher ASP products including appliances, larger TV's) as well as fewer lower priced items (e.g. AMZN firesticks, phone cases etc.) that are more

price competitive. BBY observed transactions continue to lag last year's levels in December according to Bloomberg Second Measure credit and debit card data.

Exhibit 5: BBY observed transactions according to Bloomberg Second Measure credit and debit card data (in thousands)

Observed transactions continue to trend below 2019 and 2022 levels

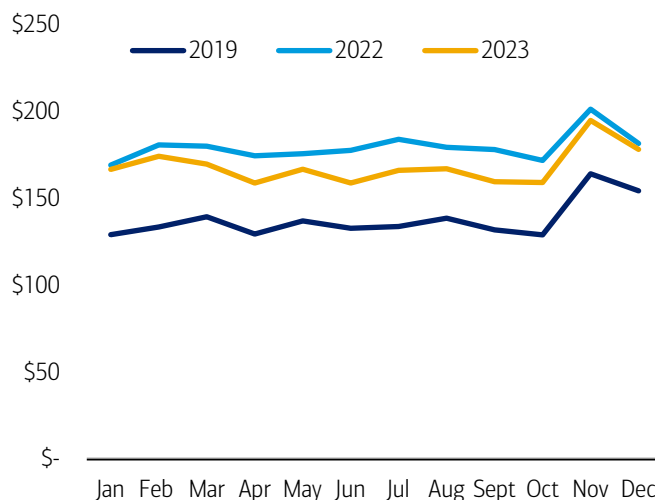


Source: Bloomberg Financial LP- ALTD <GO>

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Exhibit 6: BBY average transaction value according to Bloomberg Second Measure credit and debit card data

Average transaction value trends slightly below 2022 levels but remains elevated vs. 2019

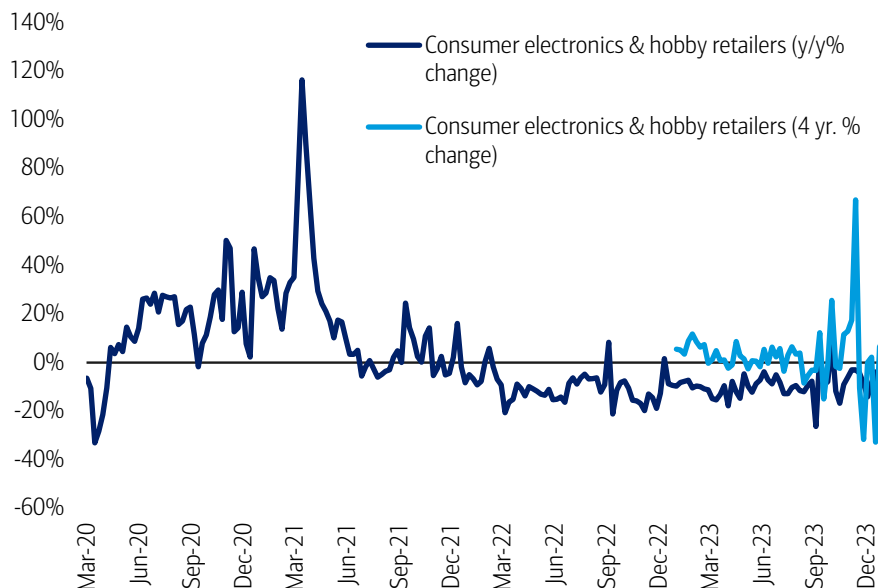


Source: Bloomberg Financial LP- ALTD <GO>

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Exhibit 7: Weekly spending at consumer electronics & hobby retailers according to BAC card data (y/y and 4 yr. % change)

Spending at consumer electronic & hobby retailers declined (10.9)% y/y in December, a deceleration from (4.2)% in November



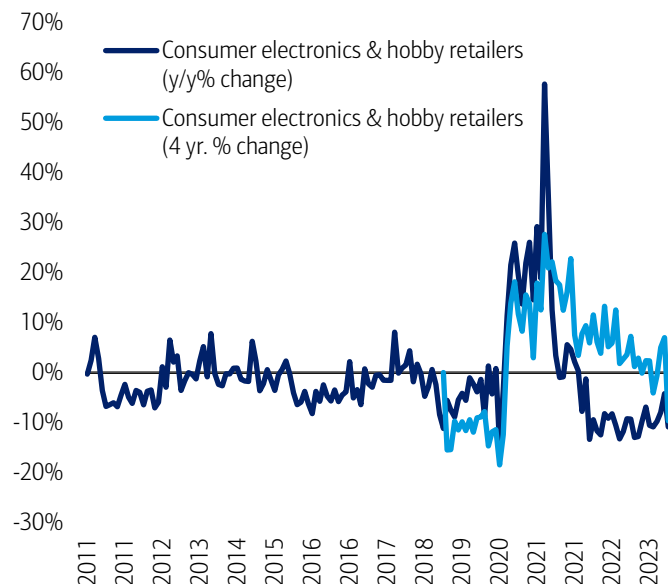
Source: BAC Internal data

Note: Consumer electronics & hobby retailers=Merchants that sell household appliances and electronic goods

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Exhibit 8: Monthly spending at consumer electronics & hobby retailers according to BAC card data

Spending at consumer electronic & hobby retailers on a 4 yr. basis declined (9.7)% in December vs. 7.0% in November



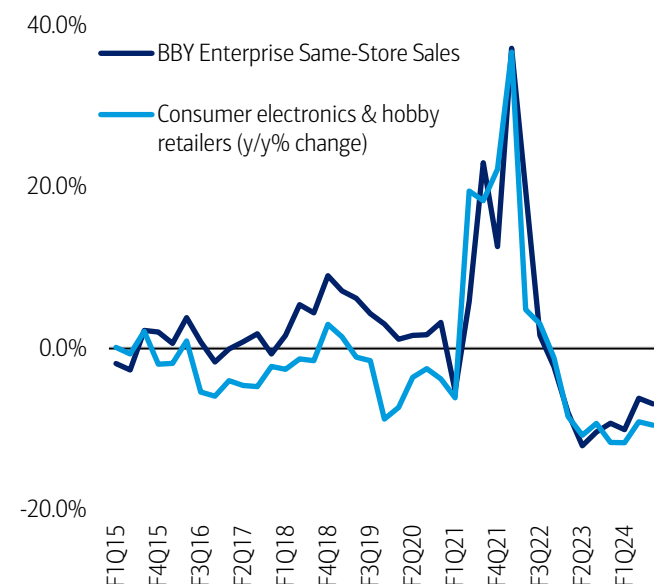
Source: BAC Internal data

Note: Consumer electronics & hobby retailers=Merchants that sell household appliances and electronic goods

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Exhibit 9: Quarterly Y/Y% change in spending at consumer electronics & hobby retailers according to BAC card data vs. BBY Enterprise Same-Store Sales

86% correlation since F1Q15



Source: BAC Internal data

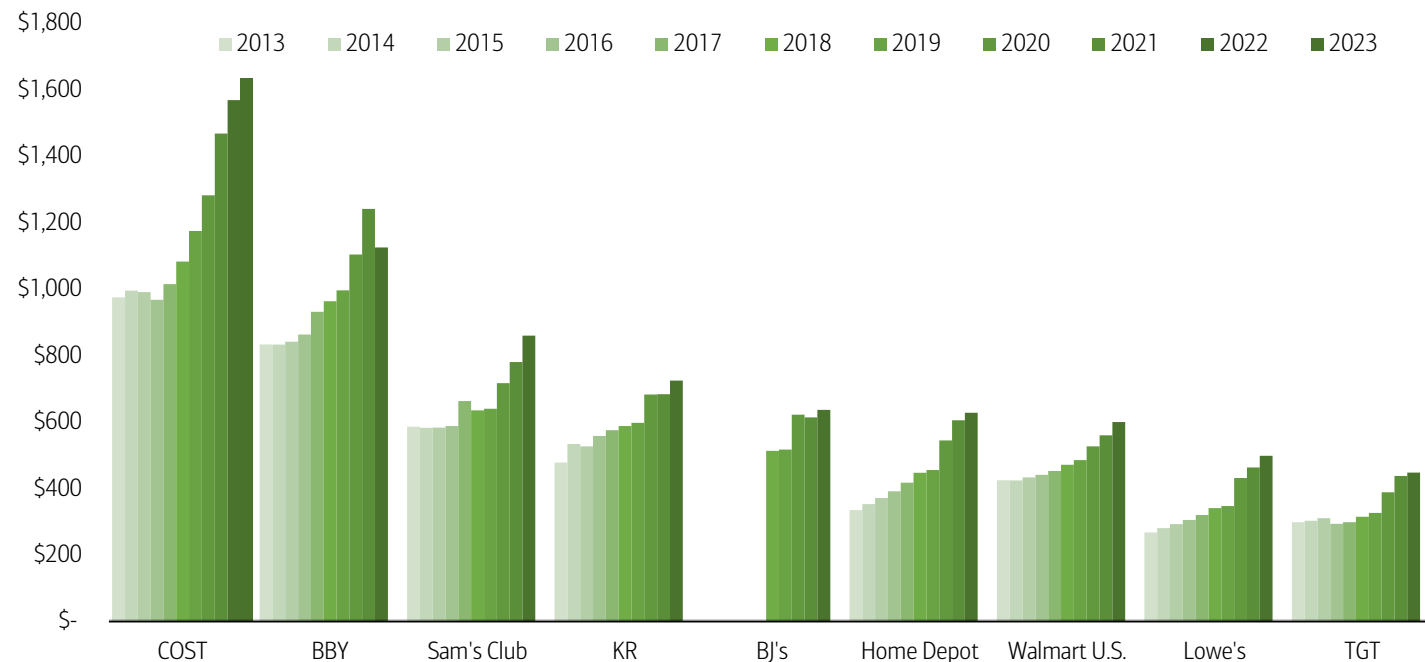
Note: Consumer electronics & hobby retailers=Merchants that sell household appliances and electronic goods

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See the latest [BofA on USA](#) note for an explanation of the methodology, disclaimers and limitations with BAC card data.

Exhibit 10: Sales per square foot for COST, BBY, Sam's Club, KR, BJ's, HD, WMT, LOW, and TGT (C2013-C2022)

After COST, BBY has the highest sales per square foot, however BBY is the only retailer to see a reversal in the upward trend



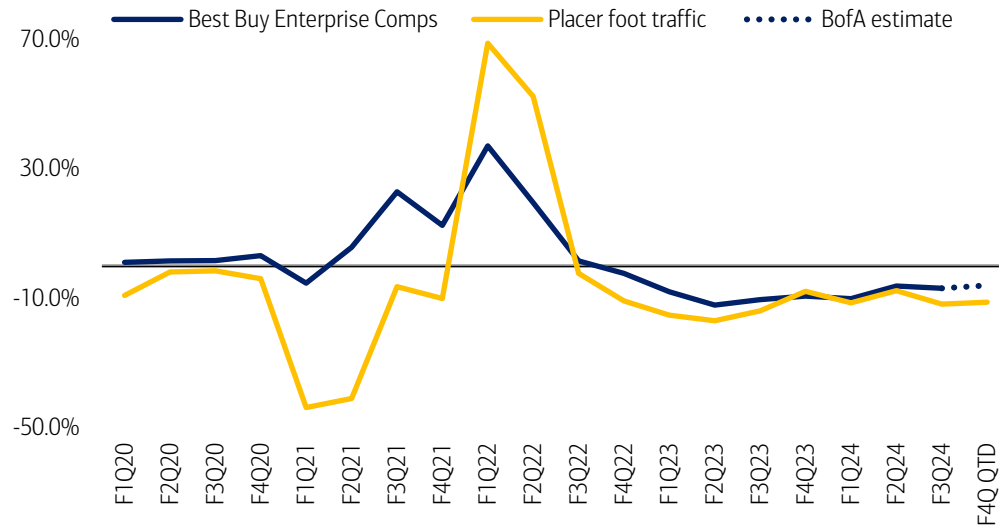
Source: BofA Global Research, Company filings

Note: COST, Sam's Club, KR, and BJ's are ex-fuel & MFI; Walmart does not provide detail on fuel
COST includes F23 (ended Aug. 2023) while remaining companies have not reported CY23

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Exhibit 11: Best Buy Enterprise Same-Store sales vs. Y/Y% change in Foot Traffic according to Placer geolocation data

Foot traffic to Best Buy stores remains depressed at -11.1% F4Q-to-date compared to -11.7% in F3Q



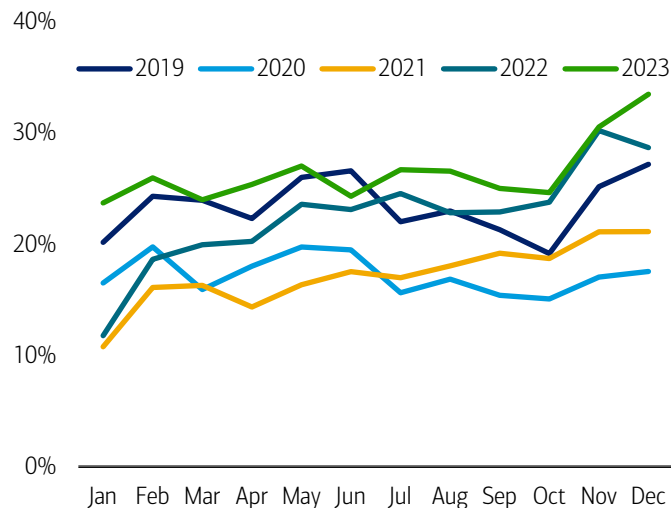
Source: Company filings, Placer.ai

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Data tracking promotions at bestbuy.com from Thinknum shows that both the breadth of promos (% of products that are discounted) and the depth of promos (markdown % of discounted products) on all Best Buy products (excl. movies & music) continue to exceed 2019 levels in December. We believe the increase in the % of discounted products in December was largely driven by Computers & Tablets (though the depth of markdowns in Computers & Tablets remains relatively consistent y/y).

Exhibit 12: % of products discounted at Best Buy- all products (excluding movies & music)

Discounts have been running at or above 2019 levels most of 2023

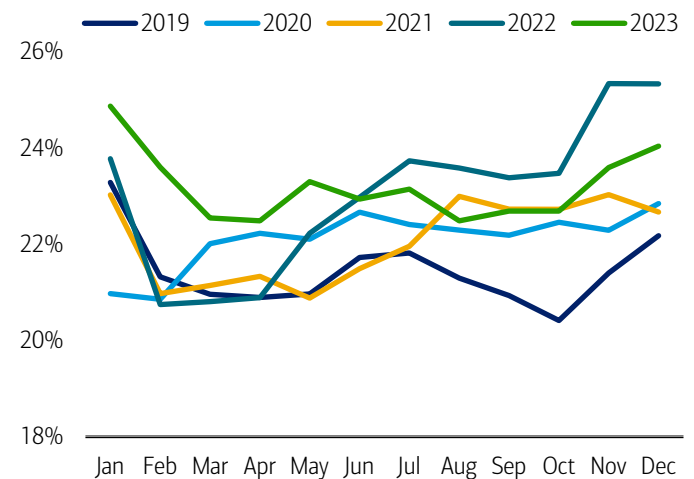


Source: Thinknum

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Exhibit 13: Markdown % of discounted products at Best Buy- all products (excluding movies & music)

The depth of promotions has been running above 2019 levels since May 2022



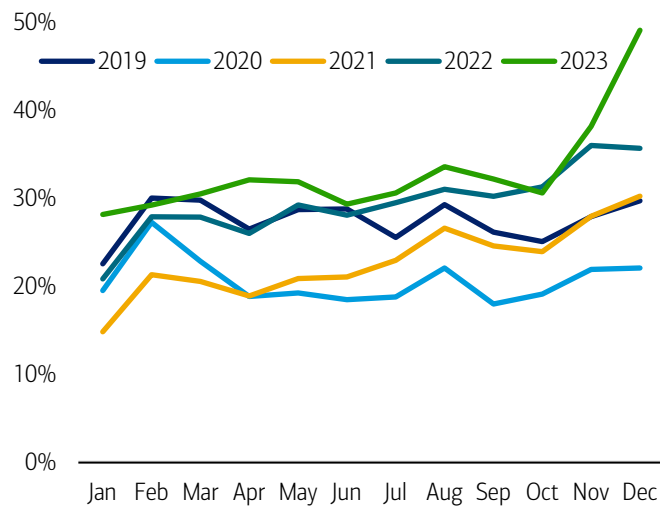
Source: Thinknum

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Exhibit 14: % of products discounted at Best Buy - Computers & Tablets

The breadth of promotions on Computers & Tablets spiked in December

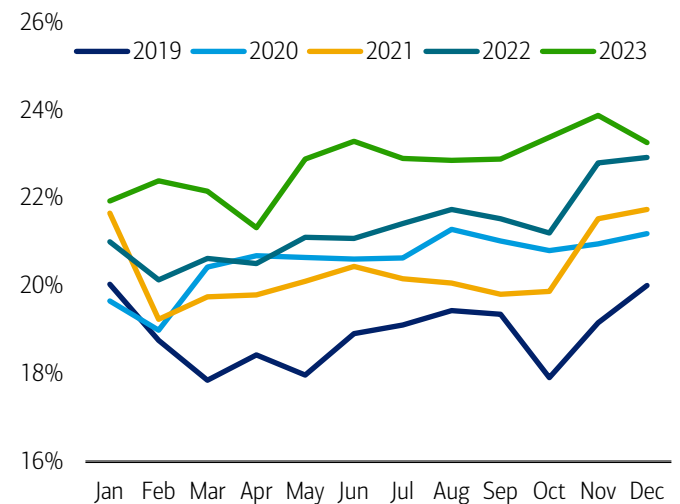


Source: Thinknum

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Exhibit 15: Markdown % of discounted products at Best Buy - Computers & Tablets

The depth of promotions on Computers & Tablets remains above pre-pandemic levels



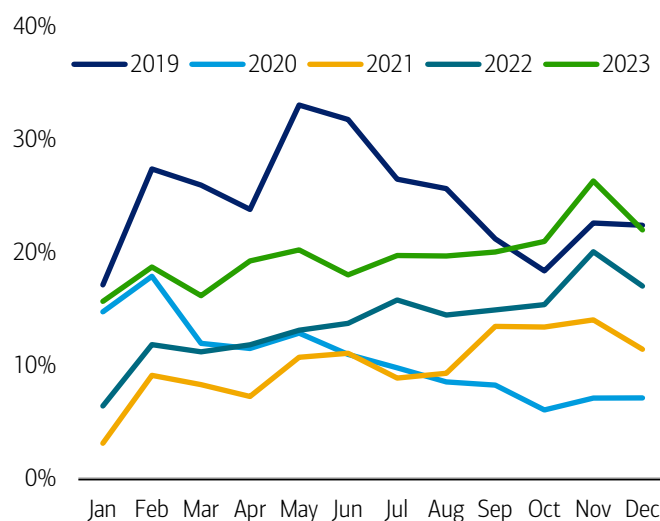
Source: Thinknum

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Alternative data for the U.S. appliance market showed continued y/y declines in pricing, elevated promotions, and higher shipments/inventory levels keeping us cautious on near-term appliance demand. Retailer management teams have cited an increase in vendor-funded incentives in the category implying original equipment manufacturers-OEMs-are paying for the promotions (i.e. extending promos over sales events periods) instead of retailers (see Chore Charts published January 10 2024).

Exhibit 16: % of products discounted at Best Buy - Appliances

The breadth of promotions in appliances remains higher y/y in December

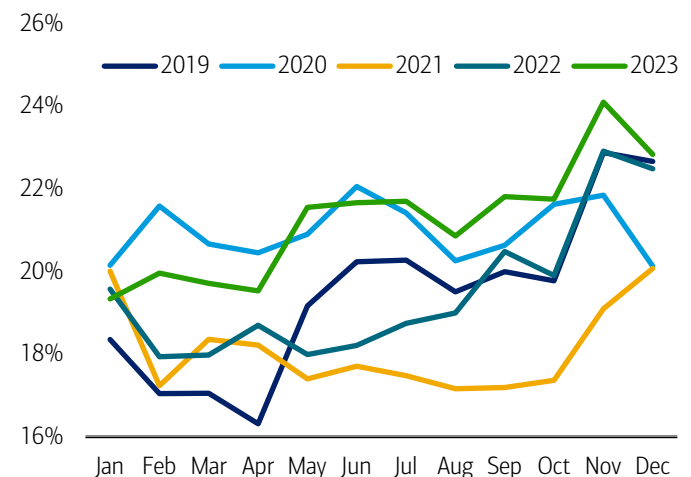


Source: Thinknum

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Exhibit 17: Markdown % of discounted products at Best Buy - Appliances

The depth of promotions in appliances remains elevated but trends closer to 2022 levels



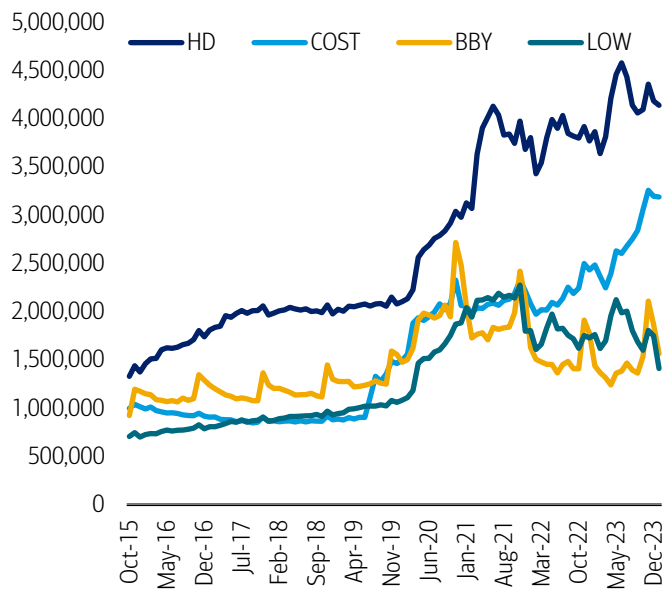
Source: Thinknum

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We looked at mobile app engagement/usage trends (based on worldwide monthly active user data, or “MAU”, from SensorTower). On a y/y basis, BBY’s MAUs have gradually improved through 2023. BBY’s mobile app represents over 20% of online revenue (or an estimated 7% of domestic revenue in FY23) and app customers engage more often than customers on other digital platforms. In Oct. 2023, BBY introduced Best Buy Drops (product releases, limited edition items/deals offered weekly) which helped to drive an increase in downloads & app visits.

Exhibit 18: BBY Mobile App Worldwide Monthly Active Users (MAUs)

BBY has seen MAUs decline since peak level in 2020

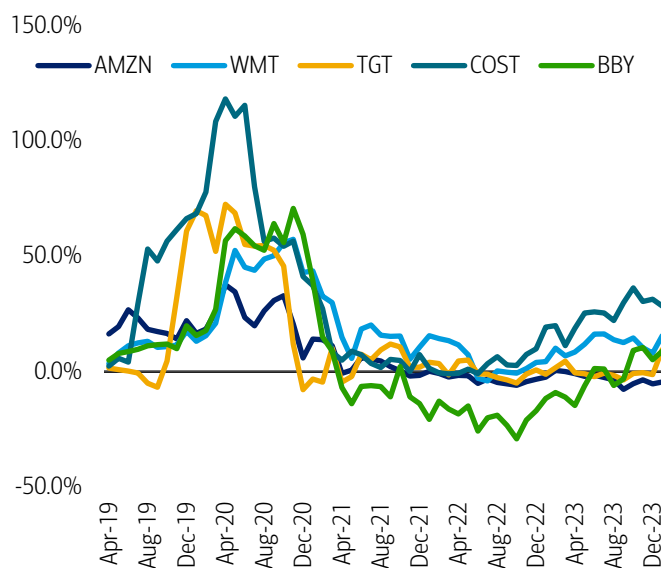


Source: SensorTower

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Exhibit 19: Mobile App Worldwide Monthly Active Users (MAUs) y/y% change

BBY has seen a gradual improvement in y/y MAUs beginning Dec. 2022

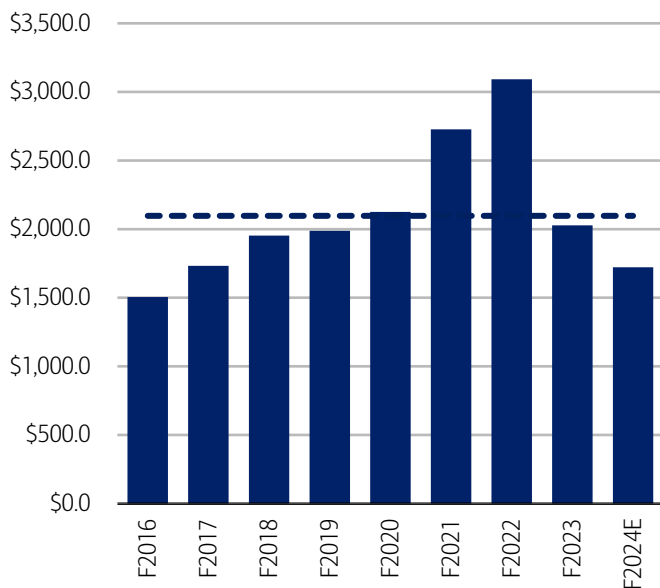


Source: SensorTower

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Exhibit 20: BBY EBIT (F2016-F2024E) in \$ millions

EBIT tracking to revert to FY16/FY17 levels in FY24



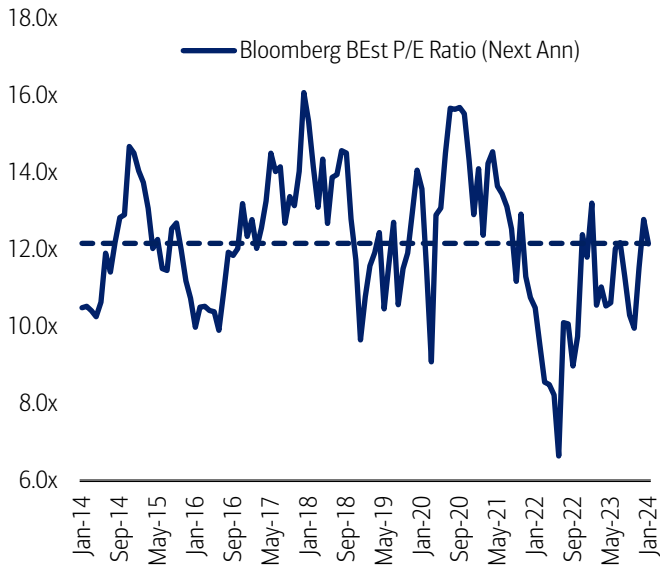
Source: BofA Global Research Estimates, Company filings

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Exhibit 21: Bloomberg 2-yr consensus P/E (F2025/C2024)

At 12.1x P/E (using Bloomberg F25E consensus EPS), BBY is current trading around its 10-year historical average P/E of 12.2x

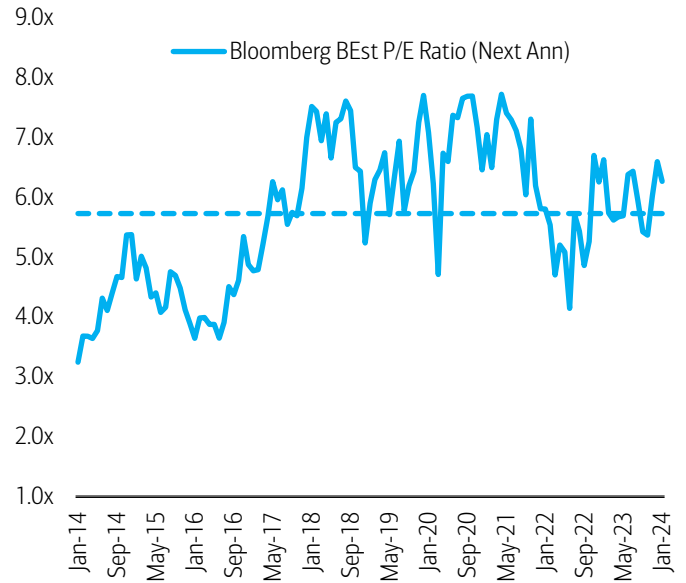


Source: Bloomberg

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Exhibit 22: Bloomberg 2-yr consensus EV/EBITDA (F2025/C2024)

At 6.1x (using Bloomberg F25E consensus EBITDA), BBY is current trading above its 10-year historical average EV/EBITDA of 5.7x

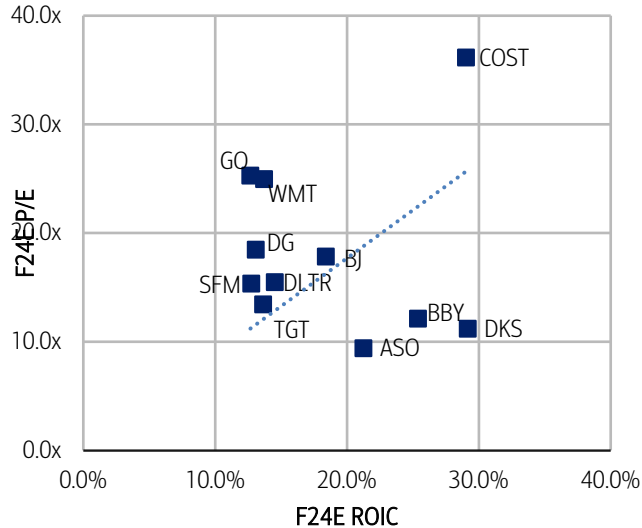


Source: Bloomberg

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Exhibit 23: Fiscal 2024 (C23) P/E vs. ROIC comparison

BBY P/E could improve based on current ROIC forecast

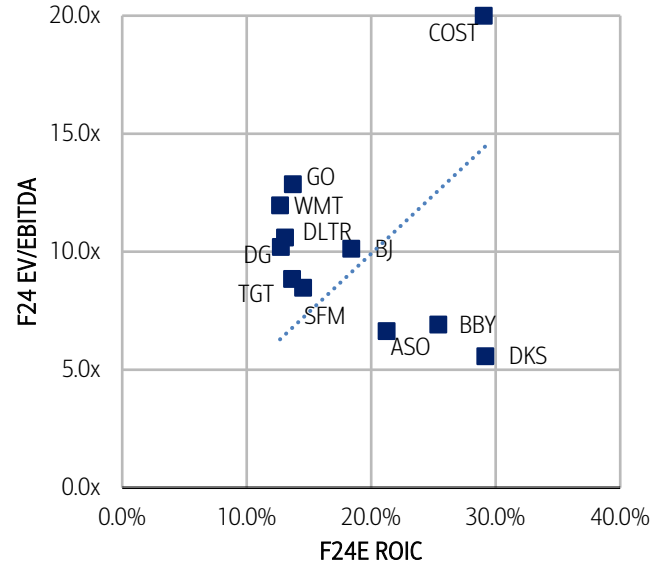


Source: Company filings, BofA Global Research estimates

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Exhibit 24: Fiscal 2024 (C23) EV/EBITDA vs. ROIC comparison

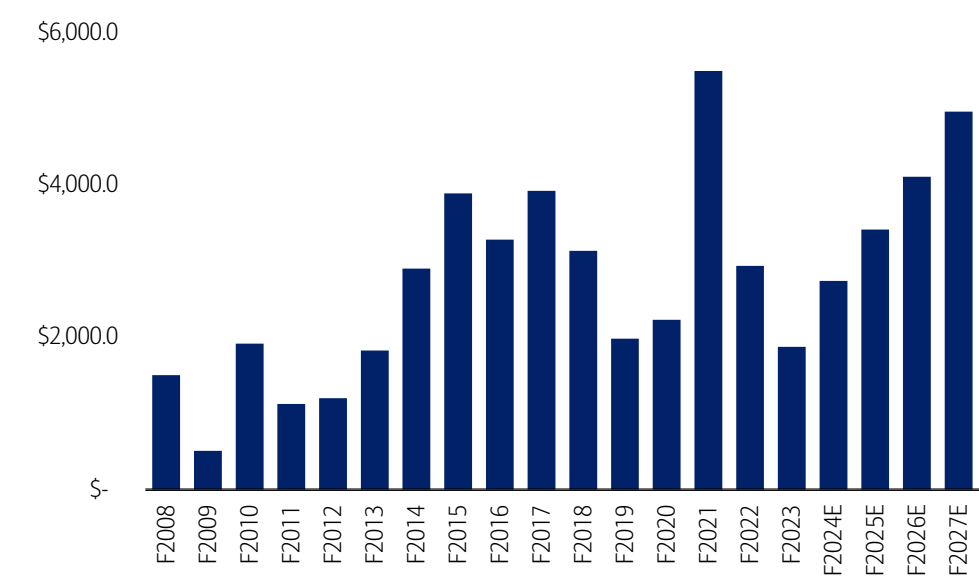
BBY EV/EBITDA could improve based on current ROIC forecast



Source: Company filings, BofA Global Research estimates

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Exhibit 25: BBY Cash and cash equivalents (F2008-F2027E)
The decrease in cash in F2023 was primarily driven by share repurchases, capex, and dividend payments offset by positive cash flows from operation (primarily driven by earnings)



Source: BofA Global Research estimates, Company filings

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Exhibit 26: BBY quarterly earnings analysis

\$ millions, except per share data

	Revenue	COGS	SG&A Expense	Optg Income	Other Inc (Expense)	P'tx Inc	Inc Tax	Minority Interest	Net Inc Cont ops	Extra Gain (Loss)	GAAP Net Inc.	Operating EPS	GAAP Reported EPS	Adj. Sh O/S (MM)
Apr-Q1	\$10,647.0	\$8,294.0	\$1,868.0	\$485.0	(\$11.0)	\$474.0	\$115.0	\$0.0	\$359.0	(\$18.0)	\$341.0	\$1.57	\$1.49	228.4
Jul-Q2	\$10,329.0	\$8,042.0	\$1,860.0	\$427.0	(\$4.0)	\$423.0	\$71.0	(\$3.0)	\$349.0	(\$43.0)	\$306.0	\$1.54	\$1.35	226.1
Oct-Q3	\$10,587.0	\$8,255.0	\$1,920.0	\$412.0	(\$6.0)	\$406.0	\$95.2	\$2.0	\$312.8	(\$35.8)	\$277.0	\$1.38	\$1.22	226.2
Jan-Q4	\$14,735.0	\$11,795.0	\$2,236.0	\$704.0	\$14.0	\$718.0	\$142.0	\$2.0	\$578.0	(\$85.8)	\$495.0	\$2.61	\$2.23	221.8
F2023	\$46,298.0	\$36,386.0	\$7,884.0	\$2,028.0	(\$7.0)	\$2,021.0	\$423.2	\$1.0	\$1,598.8	(\$182.6)	\$1,416.2	\$7.09	\$6.28	225.6
Apr-Q1	\$9,467.0	\$7,317.0	\$1,828.0	\$322.0	\$9.0	\$331.0	\$78.0	(\$1.0)	\$252.0	(\$8.0)	\$244.0	\$1.15	\$1.11	218.9
Jul-Q2	\$9,583.0	\$7,363.0	\$1,858.0	\$362.0	\$0.0	\$362.0	\$96.0	\$1.0	\$267.0	\$7.0	\$274.0	\$1.22	\$1.25	219.0
Oct-Q3	\$9,756.0	\$7,524.0	\$1,863.0	\$369.0	(\$6.0)	\$363.0	\$83.0	\$1.0	\$281.0	(\$18.0)	\$263.0	\$1.29	\$1.20	218.3
Jan-Q4E	\$14,455.3	\$11,483.3	\$2,303.4	\$668.7	\$14.0	\$682.7	\$142.0	\$1.0	\$541.7	(\$18.0)	\$523.7	\$2.49	\$2.41	217.2
F2024	\$43,261.3	\$33,687.3	\$7,852.4	\$1,721.7	\$17.0	\$1,738.7	\$399.0	\$2.0	\$1,341.7	(\$37.0)	\$1,304.7	\$6.14	\$5.98	218.4
Apr-Q1E	\$9,438.3	\$7,267.5	\$1,855.4	\$315.4	\$9.0	\$324.4	\$71.4	(\$1.0)	\$252.0	(\$18.0)	\$234.0	\$1.17	\$1.09	215.2
Jul-Q2E	\$9,546.0	\$7,270.2	\$1,867.3	\$408.5	\$0.0	\$408.5	\$89.9	\$1.0	\$319.6	(\$18.0)	\$301.6	\$1.50	\$1.41	213.2
Oct-Q3E	\$9,723.5	\$7,409.3	\$1,890.9	\$423.3	(\$6.0)	\$417.3	\$91.8	\$1.0	\$326.5	(\$18.0)	\$308.5	\$1.54	\$1.45	212.2
Jan-Q4E	\$13,694.3	\$10,769.6	\$2,225.4	\$699.3	\$14.0	\$713.3	\$156.9	\$1.0	\$557.3	(\$18.0)	\$539.3	\$2.66	\$2.58	209.2
F2025E	\$42,402.12	\$32,716.7	\$7,839.0	\$1,846.4	\$17.0	\$1,863.4	\$409.9	\$2.0	\$1,455.4	(\$72.0)	\$1,383.4	\$6.85	\$6.51	212.5
F2026E	\$43,494.5	\$33,403.8	\$7,968.4	\$2,122.3	\$17.0	\$2,139.3	\$470.7	\$2.0	\$1,670.7	(\$72.0)	\$1,598.7	\$7.94	\$7.60	210.5

Percentage Change

	Enterprise Comps	Net Sales	SG&A Expense	Optg Inc	Ptx Inc	Operating EPS
Apr-Q1	-8.0%	-8.5%	-5.1%	-34.5%	-35.8%	-29.6%
Jul-Q2	-12.1%	-12.8%	-6.5%	-48.0%	-48.3%	-48.3%
Oct-Q3	-10.4%	-11.1%	-8.9%	-40.6%	-41.0%	-33.7%
Jan-Q4	-9.3%	-10.0%	-9.7%	-15.8%	-13.8%	-4.4%
F2023	-9.9%	-10.6%	-7.7%	-34.4%	-34.3%	-29.2%
Apr-Q1	-10.1%	-11.1%	-2.1%	-33.6%	-30.2%	-26.8%
Jul-Q2	-6.2%	-7.2%	-0.1%	-15.2%	-14.4%	-20.8%
Oct-Q3	-6.9%	-7.8%	-3.0%	-10.4%	-10.6%	-6.5%
Jan-Q4E	-6.0%	-1.9%	3.0%	-5.0%	-4.9%	-4.6%
F2024	-7.1%	-6.6%	-0.4%	-15.1%	-14.0%	-13.4%
Apr-Q1E	0.0%	-0.3%	1.5%	-2.1%	-2.0%	1.7%
Jul-Q2E	0.0%	-0.4%	0.5%	12.8%	12.8%	23.0%
Oct-Q3E	0.0%	-0.3%	1.5%	14.7%	14.9%	19.4%
Jan-Q4E	0.0%	-5.3%	-3.4%	4.6%	4.5%	6.8%
F2025E	0.0%	-2.0%	-0.2%	7.2%	7.2%	11.6%
F2026E	3.0%	2.6%	1.7%	14.9%	14.8%	15.9%

Ratio Analysis

	Gr Mgn	Exp Ratio	Op Mgn	Int	Tx Rate	Ptx Mgn	Operating Net Mgn
Apr-Q1	22.1%	17.5%	4.6%	-0.1%	24.3%	4.5%	3.4%
Jul-Q2	22.1%	18.0%	4.1%	0.0%	16.8%	4.1%	3.4%
Oct-Q3	22.0%	18.1%	3.9%	-0.1%	23.4%	3.8%	3.0%
Jan-Q4	20.0%	15.2%	4.8%	0.1%	19.8%	4.9%	3.9%
F2023	21.4%	17.0%	4.4%	0.0%	20.9%	4.4%	3.5%
Apr-Q1	22.7%	19.3%	3.4%	0.1%	23.6%	3.5%	2.7%
Jul-Q2	23.2%	19.4%	3.8%	0.0%	26.5%	3.8%	2.8%
Oct-Q3	22.9%	19.1%	3.8%	-0.1%	22.9%	3.7%	2.9%
Jan-Q4E	20.6%	15.9%	4.6%	0.1%	20.8%	4.7%	3.7%
F2024	22.1%	18.2%	4.0%	0.0%	22.9%	4.0%	3.1%
Apr-Q1E	23.0%	19.7%	3.3%	0.1%	22.0%	3.4%	2.7%
Jul-Q2E	23.8%	19.6%	4.3%	0.0%	22.0%	4.3%	3.3%
Oct-Q3E	23.8%	19.4%	4.4%	-0.1%	22.0%	4.3%	3.4%
Jan-Q4E	21.4%	16.3%	5.1%	0.1%	22.0%	5.2%	4.1%
F2025E	22.8%	18.5%	4.4%	0.0%	22.0%	4.4%	3.4%
F2026E	23.2%	18.3%	4.9%	0.0%	22.0%	4.9%	3.8%

Source: BofA Global Research Estimates, Company Filings

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Price objective basis & risk

Best Buy Co., Inc. (BBY)

Our 12-month PO of \$70 is based on 10x our FY25E EPS estimate, which is a discount to BBY's long-term average of 11x and the hardline retail average of 16x. We believe this discount is warranted given the pressure on consumer discretionary spending in light of inflation. However, growing long-term demand for consumer electronics as people stay, work and learn more at home more so than pre-pandemic mitigate the potential downside to the P/E multiples at the lower end of the hardline retail group (which are in single digits).

Downside risks to our PO are slower-than-expected industry headwinds, deteriorating ASPs, a slowdown in share gains, greater-than-expected cost inflation, and a slowdown in macro and consumer trends.

Upside risks to our PO are better-than-expected margin improvements, a pickup in product cycles, market share gains, and strong investor sentiment on the Consumer Discretionary sector.

Analyst Certification

I, Robert F. Ohmes, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Elizabeth L Suzuki
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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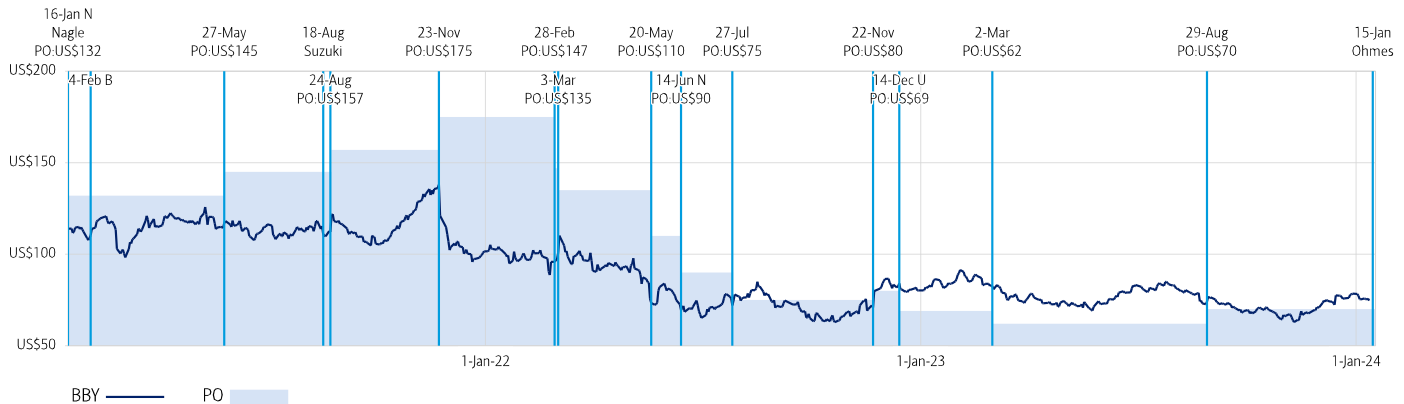
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Best Buy (BBY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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