

KELLEY INVESTMENT BANKING CLUB 2014 CASE COMPETITION

REQUEST FOR PROPOSAL & INSTRUCTIONS



CASE COMPETITION REQUEST FOR PROPOSAL (“RFP”)

An RFP is a proposal given to an investment bank by a client with a specific request for an analysis

The client may be looking to assess strategic acquisition opportunities, raise capital or make a divestiture

The pitch book is the investment bank’s response to the RFP; among other analyses it usually includes a full set of valuation materials

- Best Buy, a multinational retailer of consumer electronics and appliances, appreciates the opportunity to meet your firm. For the purposes of this case, you and your team are being asked to compile and deliver a New Business Presentation (“NBP”) to the Company’s Board. In the NBP, you must advise the Board of Directors on what course of action you think they should take with the Company and pitch why your plan is the best option
 - An overview of the consumer retail industry as a whole as well as the consumer electronic retail sector specifically
 - Company positioning
 - Investment thesis
 - Growth drivers
 - A comparable analysis of other similar companies in the same market
 - A discounted cash flow analysis of Best Buy with perspectives on key assumptions and current valuation¹
 - Recommended strategic direction for the Board of Directors
- The Board is specifically interested in value-add strategic information, requiring analysis and due diligence
 - Given the current investment banking landscape, many of your competitors will be presenting their analysis as well
 - In order to win the Board’s business, the expectation is to go beyond the basic and deliver a stand-out work product
- 1 A DCF template has been provided to assist teams in their analysis. The template has been formatted and populated with historical financial information. Mentors will be a resource in helping to locate the missing items. Key information and assumptions have been left blank including:
 - Revenue growth rates
 - Discount rate
 - Terminal EBITDA multiples
 - Terminal growth rates
 - Tax rate
 - Net debt
 - Shares outstanding



RULES, PROCEDURES AND GUIDELINES

The case is a great learning experience for all involved. It will be most effective if all teams abide by the rules of fair competition

Investment banking is an industry that requires sound personal judgment and integrity, apply these principles to this competition and you will do well

- The IBC Case Competition is based upon a system of honor whereby we expect participants to employ ethical guidelines in making this an equitable competition. Strict adherence to the rules is therefore also required. If you are in need of clarification on any specific rule or scenario, please consult with any of the competition officials. Any doubts or disputes will be dealt with by competition officials, who are free to use their discretion on a case-by-case basis
- Case preparation
 - Each team, comprised of 3-4 individuals, will prepare and present one pitch based within the context provided by the Request for Proposal (“RFP”)
 - Each team is allowed to use an unlimited number of communal resources provided by Indiana University and the Kelley School of Business. Such resources include, but are not limited to: materials distributed directly to IBC members by IBC Co-Presidents, Bloomberg Terminals, Factset (solely through IBW mentors), ThomsonOne and assorted other financial information services
 - The teams are not allowed to discuss the case or their presentation with anyone outside the team during the competition
- Presentations
 - Presentations must be made using Microsoft PowerPoint. The teams may use notes and/or cue cards during the presentations
 - Each team will compete against additional teams in their assigned, preliminary-round pool. Teams will be placed within pools at random. There are two pools in the first round
 - Each team presents their case solution in the preliminary rounds. From this round, 2 winning teams from each pool will advance to the final round of presentations in which one team is elected the winner of the competition by a panel of judges
 - The preliminary rounds of each presentation will consist of a 10-minute (maximum) presentation followed by a 5-minute (maximum) question and answer session with the judging panel
 - The presentation in the preliminary rounds will not count in the evaluation of the presentation in the final round



RULES, PROCEDURES AND GUIDELINES (continued)

If at any point a team is unsure of a rule or has any questions, please contact the IBC Co-Presidents or IBN Senior Advisor:

Max Van Vliet –
mvanvlie@indiana.edu

Kinjal Dasgupta –
dasguptk@indiana.edu

IBN Senior Advisor:

Paul Gillette –
psgillet@indiana.edu

- Teams are not permitted to watch each other team's presentation in the preliminary round. Furthermore, finalists are not allowed to watch the other finalist team's presentation, should one precede their own
- IBW mentors may attend the presentations of their respective teams. However, once a mentor enters the room, he/she cannot leave until after the final presentation. IBW mentors are not allowed to communicate with his/her team until after the final round (should the group qualify)
- Practicalities
 - Participants, to be eligible to compete, must be either freshman or sophomores that are not part of the Investment Management Workshop or Investment Banking Workshop, and must be a member of the Investment Banking Club
 - Each team should bring their PowerPoint with them to the presentation

CASE TIMELINE AND LOGISTICS

If at any point a team is unsure of a rule or has any questions, please contact the IBC Co-Presidents or IBN Senior Advisor:

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mvanvlie@indiana.edu

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dasguptk@indiana.edu

IBN Senior Advisor:

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psgillet@indiana.edu

- 2/12 – Case announced at Investment Banking Club meeting, individual sign-ups take place
- 2/14 – Case distributed via email, along with team and coach assignments
- 2/21 – Case competition | 12pm – 5pm in CG1050 / CG1056
- Prizes
 - 1st place – Dinner with Professor Haeberle and deal toy (Lucite)
 - Runner up – Deal toy (Lucite)
- Suggested resources
 - Factset (company financials)
 - ThomsonOne (equity research reports)
 - Bloomberg (debt and equity statistics, market data)
 - Factiva (relevant company news)
 - Dealbook (company and industry news)
 - WSJ.com (company, industry and market news)

Best Buy (BBY)

DECREASE TARGET PRICE

Rating	OUTPERFORM* [V]
Price (17 Jan 14, US\$)	24.43
Target price (US\$)	(from 48.00) 40.00 ¹
52-week price range	44.33 - 15.12
Market cap. (US\$ m)	8,452.97
Enterprise value (US\$ m)	9,068.57

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

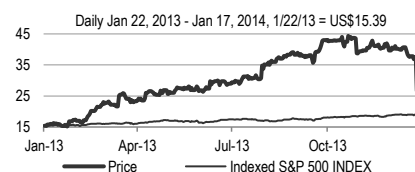
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Best Buy Lost a Battle, But It Is a Long War

- Best Buy is attempting a transformation from a poor service brick-and-mortar consumer electronics retailer to an omni-channel service provider for customers searching for multimedia devices. To make that change they need to change the culture, the cost structure, the e-commerce site, the touch points with consumers, the prior poor service orientation, and of course, their price image. As well, they will need to take on competitors who have significant advantages from both a price and service perspective over them, with Amazon being by far the most formidable foe. While Wall Street would like a neat earnings growth story, and clearly does not appreciate the multiple years of change required for possible success, real life does not live on a quarterly or even annual reporting basis. Real life is a continuum, and as with most efforts to transform, the hard steps need to happen early. We are lowering our EPS estimates, reflecting the Christmas miss and we are reverting back to a target price of \$40.
- If we had to give a grade to Mr. Joly, Ms. McCollam, and team in year one, it would be an incomplete, as there are so many transformations currently in progress so it is way too early to judge. Ironically, their biggest mistake, in our opinion, was not in execution, we believe becoming price competitive is a necessary first step, but in delivering their message to Wall Street. This will be a multiyear battle, and investors not ready for that should look elsewhere, but management made a mistake in providing guidance around this Christmas' results. The one worry raised from that is whether this management team appreciates the strength and fortitude of BBY's direct competitors, as those competitors are unlikely to relent next Christmas.
- We are not pleased, but not dissuaded by the stock price action. As Graham and Dodd wrote "in the short term the stock market acts as a voting machine, but in the long term as a weighing machine". Wall Street maybe sent this stock up too quickly in 2013, as evidence of cost cuts and smarter direction took hold. (*Continued on the next page...*)

Share price performance



On 01/17/14 the S&P 500 INDEX closed at 1838.7

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	0.73	0.21	0.04	1.39
2014E	0.32	0.32	0.21	0.96
2015E	—	—	—	—

Financial and valuation metrics

Year	02/13A	02/14E	02/15E	02/16E
EPS (CS adj.) (US\$)	2.54	1.79	2.16	2.79
Prev. EPS (US\$)	—	2.40	2.58	3.19
P/E (x)	9.6	13.6	11.3	8.8
P/E rel. (%)	54.8	82.2	74.7	64.3
Revenue (US\$ m)	44,045.0	42,857.8	42,786.1	43,220.5
EBITDA (US\$ m)	2,351.0	1,810.7	1,973.7	2,284.2
OCFPS (US\$)	4.18	3.82	4.75	4.66
P/OCF (x)	3.8	6.4	5.1	5.2
EV/EBITDA (current)	4.0	5.0	4.3	3.5
Net debt (US\$ m)	1,058	616	8	-562
ROIC (%)	19.25	14.30	17.19	20.49
Number of shares (m)	346.01	IC (current, US\$ m)		4,773.00
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

However, beyond the competitive reactions, BBY this Christmas was caught by limited industry growth (if any), six less shopping days at Christmas, and weather, seemingly encouraging consumers to shop from iPads, PCs, and other smartphones. We expect each year to get incrementally better, assuming BBY stays true to its turnaround efforts and doesn't let Wall Street force pricing back up.

- We view investing in BBY stock as buying a call option on an effort; however, one with downside should that effort fail. Prior to the current management team taking over, BBY was generating significant cash, but with its lack of investment in any customer facing interactions, either online or in the store, the stock looked like it would be a slow bleed to oblivion. Since taking over, the bleed arguably has accelerated with EBITDA declining 23% y/y for two years in a row. To Wall Street, as we saw from the stock reaction the last two days and from the numerous downgrades from those analysts who decided to take the lifeboat rather than see if the current listing of the ship is a signal of an impending drowning, the numbers are the story. You lowered price, you raised your customer service levels at the store, and you lost. Game, set, match.
- In this note, we try to look past the last quarter and even look past the next year, and ask, is this an exercise in futility, as maybe no one can disrupt the Amazon rocket ship, because their service levels are too superior (note, while many investors and managers look at price and argue somewhat foolishly that AMZN can't sustain its pricing, the reality is AMZN's gross profit dollars have shown better growth than nearly all of my retailers for the last few years) and this is a service battle. Prime customers are sticky and satisfied. Amazon delivers in two days for free, has great in-stock availability levels, knows you when you are checked in, knows your preferences, has more data on product comparisons and reviews than anyone, and effectively is more valuable than any partially trained sales person at a consumer electronics store. Think of Amazon as Santa Claus or perhaps the NSA.
- The battle of course is not just with Amazon. This Christmas Wal-Mart and to a lesser degree Target, were very aggressive in their pricing, particularly right around Black Friday and then in the week before Christmas. Given the damage they impacted on BBY, there is no reason to believe that they will be less competitive next Christmas. However, it is up to BBY to decide which battles it wants to fight, as matching price against an \$88 private label, limited feature 32-inch TV may be futile. Here, the company needs to stress service and more importantly, get the vendors to support UPP or ideally limit distribution, as it is in the vendors' interests to sustain pricing.
- That said, BBY is no slouch, it has leading market shares in most of its categories and done right (and right now it is done wrong as we discuss later) it can utilize these to offset some of the speed advantages that Amazon offers. We like that it is taking price off the table, as it can't win losing that battle.
- The challenge accepted by the new management team at BBY: Can they through a combination of streamlining a bloated infrastructure, investing in customer facing efforts at both the store and online, improving their relationship with vendors, and playing the price game, while trying to move away from the direct price game, provide the service levels to consumers that allow BBY to improve its returns? We don't know and management doesn't know either (maybe Jeff Bezos has an idea), but BBY is trying, and while we are dissatisfied with efforts or lack of movement in some areas, we are encouraged in others. While we go through some of these below, our bottom-line remains, one will likely not get hurt (from here) owning this stock, as it trades at 4.5x consensus 2014 EBITDA and if management shuts off the turnaround efforts that cash could sustain BBY for multiple years. Conversely, should they succeed in finding firmer ground and more allies in this battle, the upside potential of a lower cost, higher sales and margin story are significant, and we can easily see this stock as a double from here. Unlike 2013, that will not happen even from here in 2014, as some investors are lost forever after last week. However, in our opinion, at least one army in

this war is still mobilizing and while some of the generals may need to be shuffled along the way, we like the risk/reward of waiting out the battle and we remain Outperform.

- We encourage anyone expecting an overnight success or for that matter any success to read the authorized biography on Jeff Bezos, to understand how maniacal a competitor he is, and just how far ahead Amazon is in this battle. More worrisome, is given Jeff's focus on victory at all costs, and as we saw with the discussion of drones on *60 Minutes*, we doubt that the book really laid out what Mr. Bezos will bring to battles in the future, with much of the dialogue likely a diversionary tactic for those foolish enough to take him on.
- Best Buy management, putting aside the dismal Q4 results, made significant progress in 2013, and has a clear roadmap to further improvements in 2014. We in the commentary business, usually devoid of any real life execution skills, are quick to deride the slow pace of change, but there is a reality that seeps into real life. There was actually impressive progress made in 2013, but we are likely two years away from knowing if the new ship will be seaworthy.
- One visible area of success has been service levels in the stores. To us at the end of the day we view this as a service battle, and the improvement in Net Promoter Score is the best signal of a turn. It is bad enough that Best Buy loses customers with its weak Internet presence, but it is a shame if it loses a customer that has decided to enter its stores. The effort to improve training and service and partner with vendors to get their trained support is critical. If BBY can close the online service gap, it has a huge advantage here as Amazon does not have a store presence, so once a customer steps into a store it is BBY's customer to lose. As well, it will be the service and assortment weapon, not price that will win against the discount stores.
- A second clear success has been vendor partnerships. BBY is effectively the last remaining specialty brick-and-mortar store primarily focused on consumer electronics. Its high market shares in consumer electronics say that customers appreciate what they have to offer. By creating partnerships with vendors, it is more likely over time that these vendors will appreciate that uncontrolled distribution and excess supply in the channel does no one any favors. We hope to see further partnerships and more vendor support in the future.
- We have also been impressed to date by the run rate of expense reductions, although more is needed and some of the expense reductions were easy as the infrastructure was bloated and outside consultants were used as extra employees. Some of the tougher cost cutting and realignments lie ahead. These include restructuring the company's supply chain to deal with returns and faster delivery times, having marketing on the same page as merchandising, and even in merchandising thinking through the traffic drivers by season.
- Near term, legacy costs that the company is dealing with mask the savings, but those will go away by the end of next year. By our estimate, the negative EBITDA impact from the pricing and SG&A investments and the increased operational costs resulting from changes to its credit card and warranty program, partially offset by the positive impact of the Renew Blue cost savings, is \$173.2mm to \$206.7mm in 2013 and \$148.8mm to \$232.7mm in 2014. Those are material hits, but will be easier compares in a year.
- Now the challenges: One of the most important realities of life is that the vast majority of consumers today, even if they don't buy online, begin their purchase journey there, with 70% of BBY's customers looking online first and 50% of their customers actually browsing and using the Internet while they're in the store. Of course, as seen from the data, more and more consumers never make it into the store as their transactions are

done online. We believe the majority of BBY's market share losses happen here. Their website remains abysmal, and while the company may talk about improving search capabilities or other step function improvements, it remains a sorry excuse for an e-commerce effort against Amazon. We have been surprised by how slow the company has been in fixing their website and improving the tracking of customers, and integrating the multiple customer databases BBY possesses. This is where the battle will be fought, and today, they are losing by encouraging customers to leave their website.

- Among the other issues that BBY has been slow to address, in our opinion, is delivery. Delivery from a BBY website is still up to a seven day affair, versus two to three days at Amazon. We don't understand this gap, given the inventory in many cases is sitting right at the store, and the company has talked about utilizing its stores as a distribution weapon, but our visits as recently as yesterday say this is still not working properly. We view this as a critical advantage for Best Buy, but to date at least they are not using it.
- Another area where Best Buy remains behind is a concerted effort in developing customer loyalty. Best Buy should have information on your previous purchases if you are a *My Best Buy* rewards customer. In addition, they should get data from their private label credit card, be able to track who came to visit their website before, and be targeting Geek Squad users who did not purchase their products at BBY. What are those customers getting other than some emails promising special access (which does not seem that exciting) and compare that to being a prime customer at Amazon. As a prime customer, I know I am saving on shipping with each Amazon order and I am constantly receiving additional features including Amazon video on demand (if I figure out how to use it). There is an identifiable value to being a prime customer, but what is the value of being a BBY loyalist?
- There are other areas where BBY has significant work to do. Internally, we believe that its marketing program is not in step with its vendors, and that is an easy fix. The riches that the company talks about that may come from handling returns better (today a \$400 million loss area) have not been seen and that on its own we estimate could add \$0.43 to EPS or \$245 million in gross profit dollars. Also what is Best Buy using to drive traffic to its stores and website during the holiday season, particularly for those customers looking for gifting ideas, at a time when DVD and CD sales are moving to zero? Who is leading the merchandising efforts here? It is quite easy to sit down with Samsung and say we will take six models of every screen size from 32 to 60 inches. However, other than the person looking for that TV, what gets the customer in the door? How come there is such a disparity in the offering in PCs, where Best Buy has worked with vendors to develop value-added products, versus televisions where with the exception of private label, there seems to be nothing different in the BBY offering?
- We believe management may need to think more outside the box. There seems to be areas where they can partner to move faster and utilize strong third-party partners to improve their results. We look at the recent agreement between GNC and Dunnhumby as a retailer reaching out to an experienced third-party to vault ahead. Why is BBY not in discussions with Google and eBay, two companies monitoring every move at Amazon to partner on daily delivery and maybe even on backend support and web interactions? We don't need a hero, we need progress.
- Bottom-line: We encourage this management team to continue on the path it has begun on, perhaps with more urgency on the issues discussed above. Up to now, given the reputation of this management team and given the easy pickings in expense savings, they had many investors on board. Perhaps they overpromised, but clearly Wall Street was way ahead on expectations than the management team could deliver. It is encouraging and frustrating to hear about all the opportunities still ahead. Encouraging because we believe management can effectively attack and fix these,

and frustrating as some are new discoveries by management, raising the question of do they have their arms around all the issues. Importantly, we do not recall any retailer that cut costs to a sustainable improvement, so at some point we will need to see the gross profit dollars begin to rise, as that is true test of sustainability. We encourage the management team to lower the near-term expectations, but to give us visible signals of improvement, especially a better web presence. If they do, we believe we can be rewarded in the long term.

- Most important, we want to see improvement in customer facing interfaces. Yes it is good that the service levels at the store are higher, but a stronger web presence will make or break this story. We hope more of the focus will be here and if top executives are tied up with the numerous other efforts, we would expect that the management team can find outsiders to join who have the background in e-commerce to make a difference.
- We are lowering our EPS estimates, reflecting the Christmas miss and we are reverting back to a target price of \$40. The thinking on Wall Street last week quickly changed from admiration of what this team has and can do, to starting the countdown to when they become the next Circuit City. As we detailed above, management has made many steps in the right direction. But BBY is not yet ready for prime time, but should it get there, the reward will be better in our universe than anything else we cover.

Our New EPS Estimates

We are lowering our EPS estimates for 2013, 2014, and 2015 to \$1.79, \$2.16, and \$2.79, respectively. Our 2013 EPS reduction reflects our updated Q4 estimate of \$0.96 (from \$1.56) after BBY reported comps of -0.8% (-0.9% domestically) for the first nine weeks of the quarter and guided to operating margin declines of 175 to 185 bps y/y driven by gross margin declines of +250 bps (down ~300 bps domestically). Ironically, given a current shortage of high-end televisions and the Super Bowl in two weeks, BBY will likely end the year on a slightly better note than Christmas delivered. However, those are small potatoes in the big picture.

2013 results continue a trend of worsening financial metrics for Best Buy. Over a two-year period, EBITDA has decreased from \$3.05 billion in 2011 to an estimated \$1.81 billion in 2013, a decline of 40.6%. Free Cash Flow has seen an even bigger drop, which has decreased from \$2.32 billion in 2011 to an estimated \$572 million in 2013, a decline of 75.4%. In addition, we estimate Best Buy will hit a 15-year low in operating margins in 2013 with EBIT margins of 2.6%, 228 bps lower than the 4.8% BBY had in 2011. It is this decline in operating margins that has led to a 49.4% decrease in EPS from \$3.54 in 2011 to an estimated \$1.79 for this year. While this is concerning, the move to lower pricing and the investments, in our opinion, is the only way BBY will sustain better results longer term. So while the direction of numbers may look scary, they are necessary for this story to work.

In 2014, we expect BBY's financial metrics to improve after a 1H of investments. We are estimating domestic comps of +0.8% for the year, reflecting continued growth in appliances and computing & mobile phones amid an improving TV market. On the margin side, we are estimating BBY's gross margin will stay fairly consistent y/y, not yet rebounding from the estimated 158 bps of erosion it saw in 2013. We have modeled SG&A dollar growth to decline 2.1% (driven by domestic dollar growth of -2.5%), as we believe management will prudently take fixed costs out of the company. Together this forecast leads to 40 bps of operating margin expansion and EBITDA growth of 9.0% y/y. Exhibit 1 illustrates BBY's 2014 EPS under different assumptions for domestic gross margin and SG&A dollar growth. Cells highlighted in yellow represent upside to the updated consensus for EPS of \$2.19 in 2014.

Exhibit 1: Sensitivity Analysis of BBY's 2014 EPS to Changes in Domestic Gross Margin and SG&A Dollar Growth

		Domestic SG&A Dollar Growth										
		0.0%	(0.5%)	(1.0%)	(1.5%)	(2.0%)	(2.5%)	(3.0%)	(3.5%)	(4.0%)	(4.5%)	(5.0%)
Domestic Gross Margin	21.7%	\$1.52	\$1.58	\$1.64	\$1.71	\$1.77	\$1.83	\$1.90	\$1.96	\$2.02	\$2.09	\$2.15
	21.8%	\$1.58	\$1.65	\$1.71	\$1.77	\$1.84	\$1.90	\$1.96	\$2.03	\$2.09	\$2.15	\$2.22
	21.9%	\$1.65	\$1.71	\$1.78	\$1.84	\$1.90	\$1.97	\$2.03	\$2.09	\$2.16	\$2.22	\$2.28
	22.0%	\$1.72	\$1.78	\$1.84	\$1.91	\$1.97	\$2.03	\$2.10	\$2.16	\$2.22	\$2.29	\$2.35
	22.1%	\$1.78	\$1.85	\$1.91	\$1.97	\$2.04	\$2.10	\$2.16	\$2.22	\$2.29	\$2.35	\$2.41
	22.2%	\$1.85	\$1.91	\$1.97	\$2.04	\$2.10	\$2.16	\$2.23	\$2.29	\$2.35	\$2.42	\$2.48
	22.3%	\$1.91	\$1.98	\$2.04	\$2.10	\$2.17	\$2.23	\$2.29	\$2.36	\$2.42	\$2.48	\$2.55
	22.4%	\$1.98	\$2.04	\$2.11	\$2.17	\$2.23	\$2.30	\$2.36	\$2.42	\$2.49	\$2.55	\$2.61
	22.5%	\$2.05	\$2.11	\$2.17	\$2.24	\$2.30	\$2.36	\$2.43	\$2.49	\$2.55	\$2.62	\$2.68
	22.6%	\$2.11	\$2.18	\$2.24	\$2.30	\$2.36	\$2.43	\$2.49	\$2.55	\$2.62	\$2.68	\$2.74
	22.7%	\$2.18	\$2.24	\$2.30	\$2.37	\$2.43	\$2.49	\$2.56	\$2.62	\$2.68	\$2.75	\$2.81

Source: Company data, Credit Suisse estimates

As we detailed in this note, we believe that the weak holiday results at Best Buy reflect management's efforts to compete with the big powers, Wal-Mart and Amazon, with less than a full quiver of arrows. From a deficient website, to poor tracking tools, to poorly thought-out marketing programs, to still significant holes in its CRM program, we don't think Best Buy can win against Amazon or Wal-Mart with its current offering. That said, it is by no means over for BBY, as many of those that missed the rally were quick to emphasize. BBY hit a giant speed bump on what we still believe is an effort to improve.

We have many 'safer' stocks under our coverage, including the Home Improvement and DIY Auto names. But this name continues to offer the most upside, albeit with a much higher degree of risk.

Companies Mentioned (Price as of 17-Jan-2014)

Amazon.com Inc. (AMZN.OQ, \$399.61)
Best Buy (BBY.N, \$24.43, OUTPERFORM[V], TP \$40.0)
General Nutrition Centers, Inc. (GNC.N, \$53.09)
Google, Inc. (GOOG.OQ, \$1150.53)
Target Corporation (TGT.N, \$60.24)
Wal-Mart Stores, Inc. (WMT.N, \$76.19)
eBay Inc. (EBAY.OQ, \$53.2)

Disclosure Appendix

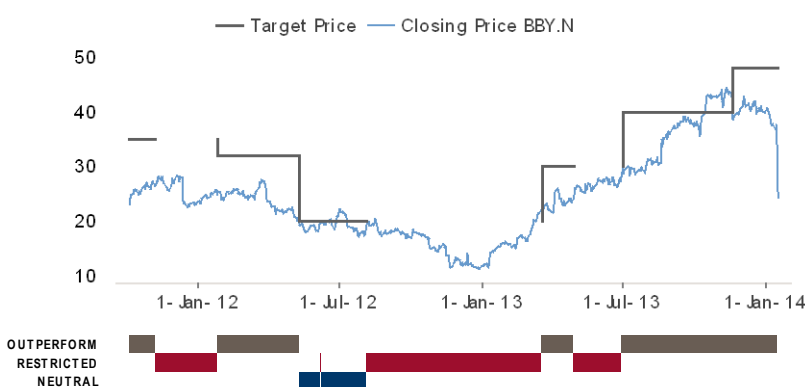
Important Global Disclosures

I, Gary Balter, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Best Buy (BBY.N)

BBY.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
05-Oct-11	23.16	35.00	O
07-Nov-11	26.46		R
27-Jan-12	25.44	32.00	O
11-May-12	19.28	20.00	N
07-Jun-12	19.70		R
08-Jun-12	19.98	20.00	N
06-Aug-12	19.99		R
20-Mar-13	23.07	30.00	O
30-Apr-13	25.99		R
01-Jul-13	29.74	40.00	O
19-Nov-13	38.78	48.00	

* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(53% banking clients)
Neutral/Hold*	41%	(49% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for Best Buy (BBY.N)

Method: Our \$40 target price for BBY reflects 14x our FY 16 EPS estimate of \$2.79. We believe that a 14x multiple is warranted given the turnaround and earnings upside potential at BBY partially offset by concerns over ongoing weak demand in the consumer electronics category.

Risk: Investing in Hardline Retail stocks entails certain risks: changes in consumer spending and its components, retail industry competition, and general market risk. Other risks to BBY and our \$40 target price are increased competition from the discount store segment and online retailers as well as increased reliance on overseas economies for the supply of its product.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

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Credit Suisse provided non-investment banking services to the subject company (BBY.N) within the past 12 months

Credit Suisse has managed or co-managed a public offering of securities for the subject company (BBY.N) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (BBY.N) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (BBY.N) within the next 3 months.

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The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (BBY.N) within the past 12 months

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Rating
Buy

North America
United States

Consumer
Retailing / Hardlines

Company
Best Buy

Reuters
BBY.N

Bloomberg
BBY UN

Exchange
NYS

Ticker
BBY

Date
16 January 2014

Forecast Change

Price at 16 Jan 2014 (USD)	26.83
Price target	36.00
52-week range	44.33 - 14.62

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Asking and Answering 5 Key Questions about BBY today

What happened and what do we do from here?

The simple answer to the first part is that aggressive pricing failed to drive sales growth. It appears that the typically aggressive posture in the space over the Black Friday weekend continued through December, which was unexpected. BBY responded, resulting in a gross margin hit of about 300 bps domestically, but not only did the pricing not drive enough footsteps, the deflation also hurt average ticket. BBY is cutting costs, but couldn't do it fast enough. We maintain a Buy however as we believe substantial cost cuts are still ahead which will ultimately fund the more aggressive pricing.

Was it environmental or structural?

Probably some of both. The price competitiveness won't subside (structural), but is probably more pronounced in 4Q. And product cycles are still not that robust although maybe a bit better. But, it also seems clear to us that there is pressure from overall retail weakness as the list of retailers missing is long and diverse. The reasons for the overall weakness are probably a combination of snowstorms on the weekends, general consumer weariness and perhaps the shorter selling period. In fact, we show that December sales were below trend in 1996, 2002 and 2008, the last 3 times that we had the Thanksgiving shift.

Are the headwinds too much to overcome even for this management team?

We don't think so, it will just take a bit of time. We think the right playbook for management is to substantially lower their cost structure to fund a lower selling margin to improve its competitiveness vs AMZN, WMT and others to drive share. We think this will work, but will take time to play out as selling margins come down faster than BBY can cut costs. BBY also has a few other incremental opportunities, including better utilizing its customer data file to improve market efficiency and improving its supply chain efficiency. This will enable BBY to increase its EBIT dollars even with offsets from more aggressive pricing. We are more conservative on COGS due to pricing give backs, but more bullish on SG&A against a bloated NA corporate G&A number of \$4.2b.

What is the long term earnings power?

We think \$4.00 in 2016. This year, the sales and margin miss in 4Q is bringing estimates down about 25% to \$1.86 from \$2.43. For 2014 and 2015, we are going to \$2.18 and \$2.97 from \$2.90 and \$3.77. For our long term earnings power estimate, we see a three year turn around driving a 2016 earnings estimate of \$4.00. Our new price target is \$36 (prior \$50), based on 12x 2015E EPS (prior 13x2015E), in line with what we think is the normalized long term growth rate. The biggest risk to this position is the competitive environment, which continues to weigh against gross margins and could result in market share loss.

Forecasts And Ratios

Year End Jan 31	2013A	2014E	2015E
1Q EPS ¹	0.76	0.32A	0.29
2Q EPS	0.26	0.32A	0.31
3Q EPS	0.04	0.18A	0.30
4Q EPS	1.55	1.02	1.29
FY EPS (USD)	2.62	1.86	2.18

Source: Deutsche Bank estimates, company data

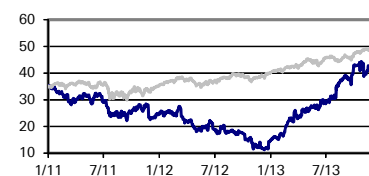
¹ Includes the impact of FAS123R requiring the expensing of stock options.

Key changes

Price target	50.00 to 36.00	↓	-28.0%
EPS (USD)	2.43 to 1.86	↓	-23.5%
Revenue (USDm)	43,093.7 to 42,586.9	↓	-1.2%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-35.7	-35.5	82.9
S&P 500 INDEX	3.5	7.4	25.5

Source: Deutsche Bank

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Model updated: 16 January 2014

Running the numbers

North America

United States

Retailing / Hardlines

Best Buy

Reuters: BBY.N

Bloomberg: BBY UN

Buy

Price (16 Jan 14) USD 26.83

Target Price USD 36.00

52 Week range USD 14.62 - 44.33

Market Cap (m) USDm 9,278

EURm 6,822

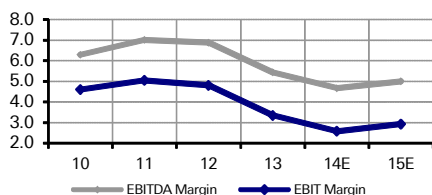
Company Profile

Best Buy is the world's largest consumer electronics retailer, with annual sales of \$30 billion. The company operates over 800 stores in the U.S. and Canada, selling consumer electronics, software, technology and appliances. The company has plans to expand into China in the near future. Sales are also generated through the company's website www.bestbuy.com.

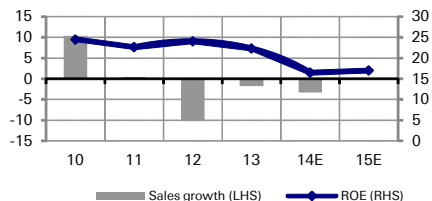
Price Performance



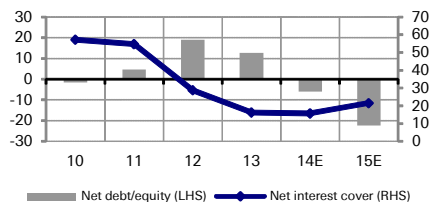
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Jan

Financial Summary

	2010	2011	2012	2013	2014E	2015E
DB EPS (USD)	3.19	3.51	3.61	2.62	1.86	2.18
Reported EPS (USD)	3.32	3.81	3.61	2.62	1.86	2.18
DPS (USD)	0.56	0.56	0.56	0.56	0.56	0.56
BVPS (USD)	16.28	17.06	11.20	10.96	11.86	13.94

Valuation Metrics

Price/Sales (x)	0.3	0.3	0.2	0.1	0.2	0.2
P/E (DB) (x)	11.6	11.1	7.8	7.2	14.4	12.3
P/E (Reported) (x)	11.2	10.2	7.8	7.2	14.4	12.3
P/BV (x)	2.3	2.0	2.1	1.5	2.3	1.9
FCF yield (%)	6.5	4.1	20.4	18.0	nm	9.7
Dividend yield (%)	1.5	1.4	2.0	3.0	2.1	2.1
EV/Sales	0.3	0.3	0.3	0.2	0.2	0.2
EV/EBITDA	5.0	4.7	3.7	2.9	4.5	3.8
EV/EBIT	6.9	6.6	5.3	4.6	8.2	6.6

Income Statement (USDm)

Sales	49,694	49,902	44,816	44,045	42,587	42,620
EBITDA	3,124	3,498	3,084	2,392	1,986	2,132
EBIT	2,286	2,516	2,152	1,475	1,102	1,249
Pre-tax profit	2,246	2,470	2,077	1,384	1,031	1,190
Net income	1,420	1,596	1,369	888	644	762

Cash Flow (USDm)

Cash flow from operations	1,652	1,378	2,922	1,891	614	1,609
Net Capex	-615	-706	-747	-742	-750	-700
Free cash flow	1,037	672	2,175	1,149	-136	909
Equity raised/(bought back)	0	-1,193	-1,368	-253	0	0
Dividends paid	-240	-235	-213	-190	-194	-195
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	0	0	0	0	0	0
Net cash flow	797	-755	594	706	-330	714
Change in working capital	-606	-1,200	621	86	-915	-36

Balance Sheet (USDm)

Cash and cash equivalents	1,916	1,360	1,401	1,826	1,915	2,754
Property, plant & equipment	4,070	3,809	3,491	3,270	2,706	2,523
Goodwill	0	0	0	0	0	0
Other assets	12,316	14,185	12,424	11,691	11,042	11,055
Total assets	18,302	19,354	17,316	16,787	15,663	16,332
Debt	1,802	1,690	2,211	2,296	1,669	1,669
Other liabilities	9,536	10,606	10,855	10,776	9,893	9,801
Total liabilities	11,338	12,296	13,066	13,072	11,562	11,470
Total shareholders' equity	6,964	7,147	4,250	3,715	4,101	4,862
Net debt	-114	330	810	470	-246	-1,085

Key Company Metrics

Sales growth (%)	10.4	0.4	-10.2	-1.7	-3.3	0.1
DB EPS growth (%)	11.4	10.0	2.9	-27.4	-29.1	17.6
Payout ratio (%)	16.9	14.7	15.5	21.4	30.1	25.6
EBITDA Margin (%)	6.3	7.0	6.9	5.4	4.7	5.0
EBIT Margin (%)	4.6	5.0	4.8	3.3	2.6	2.9
ROE (%)	24.5	22.6	24.0	22.3	16.5	17.0
Net debt/equity (%)	-1.6	4.6	19.1	12.7	-6.0	-22.3
Net interest cover (x)	57.2	54.7	28.7	16.2	15.7	21.5

DuPont Analysis

EBIT margin (%)	4.6	5.0	4.8	3.3	2.6	2.9
x Asset turnover (x)	2.9	2.7	2.4	2.6	2.6	2.7
x Financial cost ratio (x)	1.0	1.0	1.0	0.9	0.9	1.0
x Tax and other effects (x)	0.6	0.6	0.7	0.6	0.6	0.6
= ROA (post tax) (%)	8.3	8.5	7.5	5.2	4.0	4.8
x Financial leverage (x)	2.9	2.7	3.2	4.3	4.2	3.6
= ROE (%)	24.5	22.6	24.0	22.3	16.5	17.0
annual growth (%)	-8.3	-7.5	6.2	-7.2	-26.1	3.1
x NTA/share (avg) (x)	13.6	16.8	15.0	11.7	11.3	12.8
= Reported EPS	3.32	3.81	3.61	2.62	1.86	2.18
annual growth (%)	15.3	14.8	-5.4	-27.4	-28.9	17.2

Source: Company data, Deutsche Bank estimates



What happened in 4Q?

Aggressive pricing failed to drive sales growth

BBY knew it was going to be competitive. But it appears that the typically aggressive posture from main competitors like Amazon and Wal-Mart over the Black Friday weekend continued all the way through December, which was unexpected. BBY responded, resulting in a gross margin hit of about 300 bps domestically, far greater than most had modeled.

The bigger issue is that the lower pricing didn't drive enough incremental volume to grow sales, and domestic comps fell 0.9%. Not only did the pricing not drive enough footsteps, the deflation from selling products at big markdowns hurt comps by probably a couple of hundred basis points.

Best Buy is cutting costs, but can't reduce them fast enough in that short amount of time, and as such, domestic operating margins will be down about 175 bps and total 4Q operating margins will be about 4.0% versus 5.7% last year.

In turn, EPS for 4Q will be about \$1.02 versus our estimate of \$1.59 previously and the full year will be about \$1.86, a reduction of 24% from \$2.43 previously.

Was it environmental or structural?

Probably a bit of both

Consumer electronics is a tough space with real structural issues around price competitiveness and this likely won't subside much. And product cycles, while giving some hope, are still not robust. So, in that sense the issues that plagued BBY this holiday season are in part structural.

But, it also seems clear to us that there is pressure from overall retail weakness at play this holiday season. BBY was not alone in reporting weak holiday results on both the sales and margin line. The list of retailers missing is long and diverse, spanning product categories and geographies.

The reasons for the weak holiday period across retail are probably a combination of snowstorms on the weekends which hurt traffic (to wit, BBY's online sales were up) and the shorter selling period. **Figure 1** shows that the last 3 times that we had the later Thanksgiving in 1996, 2002 and 2008, December sales were below trend. Also, consumers may be experiencing some sticker shock from higher health care costs. We are not overly bullish on the consumer in 2014, but it seems to us that the weak holiday period across retail could rebound after the weather and calendar issues reset and as consumers become accustomed to higher health care costs.



Figure 1: December sales trends in years with shorter period between Thanksgiving and Christmas

Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
4.3%	0.1%	1.1%	-0.3%	-5.3%	-3.9%	-2.5%	-6.0%	-4.9%	-3.0%	-6.5%	-4.1%	-5.4%
Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03
4.4%	2.7%	3.9%	3.7%	2.2%	2.1%	4.2%	2.1%	0.8%	3.2%	2.4%	3.7%	5.7%
Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Jul-97
7.0%	6.3%	3.2%	8.6%	4.9%	3.6%	8.0%	2.9%	7.4%	3.9%	4.6%	4.8%	6.3%

Source: Deutsche Bank and US Census

Are the structural headwinds too much for even a talented management team?

We don't think so it will just take a bit of time

We think the right playbook for management is to substantially lower their cost structure to fund a lower selling margin to improve its competitiveness versus Amazon, Wal-Mart and others. We think this will work, but will take time to play out as selling margins come down faster than BBY can cut costs. But, the cost cuts will come, in our view.

The increased price competitiveness will drive most of the share stabilization or gains in our view. But, BBY has a few other incremental opportunities, including better utilizing its customer data file to improve market efficiency. Remember, this is something that CFO Sharon McCollam had a substantial hand in doing at her previous company. BBY has yet to attack this opportunity, but will be in a position to do so by next holiday season. Similarly, the ability to ship product bought online from stores should be an incremental share opportunity next year versus this year as well.

What is the earnings power in the next three years and how do we get there?

\$4 per share

To us, the key number to make the BBY story work is the disclosure from November 2012 that North American corporate G&A was \$4.2b, which equated to 10% of North American sales at that time. In our experience, most companies of BBY size should have a corporate G&A ratio of 5% or lower. This suggests a substantial cost savings opportunity.

Against this, BBY outlined an original SG&A plan of \$400mm, which we believe is way too low. Even with that kind of takeout, corporate G&A would be 9% of sales, still too high.

They have also articulated a \$325mm reduction in COGS, which we think may be too aggressive because of the likely offset from more aggressive pricing. The ship from store initiative, which will reduce returns and replacements and could be a \$300mm incremental opportunity will also help, but again we believe its prudent to assume gross profit dollar declines due to pricing.

In total though, the original plan is \$725mm in savings, against which they have taken out \$550mm (Figure 2).



Figure 2: BBY Domestic cost reduction plan

\$mm	BBY Plan	Achieved to date*	DB model**
COGS savings	\$325	\$180	(\$782)
SGA savings	\$400	\$370	(\$1,236)
Total EBIT	\$725	\$550	\$454

*This assumes that \$45mm incremental savings from 4Q is split \$15mm to COGS and \$30mm to SG&A

** Based on 2012 as the base year and going through 2016, and assumes a 1% average annual comp

Source: Deutsche Bank and company data

Our long term model assumes a net domestic gross profit dollar decline, using 2012 as the base year and going out to 2016 of \$782mm, or \$1.1b more aggressive than BBY's \$325mm savings, due to more aggressive pricing. But, we also assume a net domestic SG&A savings of \$1.2b from 2012 to 2016 compared to BBY's plan of \$400mm in savings and about \$200mm in reinvestments, or a net number of about \$200mm. In other words, we are \$1.1b more conservative on the gross profit, but \$1b more aggressive on the SG&A takeout. While our SG&A savings is much higher than BBY, it looks reasonable if we go back to the original premise that a \$4.2b North American corporate G&A number is bloated by about 50%.

Putting these gross margin and SG&A assumptions together, we assume a \$454mm increase in operating profit dollars from 2012 to 2016. This is below the \$725mm in savings articulated from BBY, leaving plenty of room for the price decline offsets.

In the shorter term, we are expecting some of the 4Q domestic gross margin reduction in the triple digit range to continue into early next year, before leveling-off against this year's big reduction in the 4th quarter.

Other important line items in our three year outlook include:

- Average annual domestic comps of 1% to 1.5% in 2014 through 2016 from market share gains, which again is the whole premise behind the price reductions
- An international operating profit assumption of 0.8% in 2016 versus about flat in 2013, so not much recovery
- BBY begins buying back stock later in 2015. We assume annual buybacks of about \$1.5b in those two years. This results in a 2016 adjusted debt to EBITDAR ratio of 2.25x, about in line with the hardline average. At that level of buybacks, they'd end each of the next three years with about \$2b in cash and \$400mm in net cash after about \$1.6b in debt.
- Interest expense in the \$60mm range and a 36% tax rate

Using these assumptions, our 2013, 2014, 2015 and 2016 EPS estimates go to \$1.86, \$2.18, \$2.97 and \$3.98 from \$2.90, \$3.77, and \$4.75. Our margin



assumptions are 2.9%, 3.7% and 4.4% compared to 2.6% in 2013. Domestically, our margin assumptions are 3.4%, 4.2%, 5.0% versus 3.0% in 2013 (**Figure 3**).

Figure 3: EPS estimate changes

	EPS		Domestic operating margin	
	Old	New	Old	New
FY13E (ending Jan. 14)	\$2.43	\$1.86	3.7%	3.0%
FY14E (ending Jan. 15)	\$2.90	\$2.18	4.3%	3.4%
FY15E (ending Jan. 16)	\$3.77	\$2.97	5.3%	4.2%
FY16E (ending Jan. 17)	\$4.75	\$3.98	6.1%	5.0%

Source: Deutsche Bank and company data

What do we do from here?

Maintaining our Buy rating

The bad news for Best Buy is that they make most of their money in 4Q, so the timing of the consumer retrenchment is particularly painful. The good news is that they've taking that pain today, which minimizes short term risk ahead and may position the stock better than those of retailers that still haven't discussed the holidays.

The stock is down 28%, fairly consistent with what looks like it will be a 24% drop in current year earnings. This implies no recovery in trends from the holiday miss in our view. We on the other hand do believe margins can recover, primarily due to the cost opportunity as noted. As such, we think the sell off is overdone, and we are keeping our Buy rating.

On our lowered estimates, our new 5 year long term growth rate is 24%, which uses 2013 as the base. On the EBIT line, so to exclude the benefits of buybacks, the growth rate assumption is 16%. These compare to the hardline averages of 14% and 10%. But, the BBY growth rates are exaggerated up due to 2013 estimate (base year) being depressed. We think a more normalized growth rate is about 12%. Against that growth rate, we apply a target multiple of 12x against our 2015 EPS estimate to derive our new price target of \$36.

The biggest risk to this position is the competitive environment, which continues to weigh against gross margins and could result in market share loss.



Figure 4: Condensed BBY income statement

FYE January	END STORES	TOTAL SALES	GROSS MARGIN	MARGINS						PRO-FORMA EPS	AVG. SHARES (MM)	AVG. SQ FT (total)	% CHANGE			
				SG&A	NET INTEREST	OP MGN	PRE-TAX INCOME	TAX RATE	NET INCOME				COMPS	SALES	NET	EPS
FY08	3,863	\$45,015.9	24.4%	20.0%	-0.1%	4.5%	\$1,955.4	38.2%	\$1,209.4	\$2.86	422.9	12.4%	-1.1%	12.5%	-14.0%	-8.0%
FY09	3,823	\$49,694.0	24.5%	19.9%	-0.1%	4.6%	\$2,246.1	39.3%	\$1,362.7	\$3.19	427.7	19.3%	0.4%	10.4%	12.7%	11.4%
FY10	4,073	\$49,902.0	25.1%	20.1%	-0.1%	5.0%	\$2,470.0	40.6%	\$1,468.3	\$3.51	418.8	3.0%	-0.6%			
FY11	4,308	\$44,816.0	24.2%	19.4%	-0.2%	4.8%	\$2,077.0	34.1%	\$1,369.0	\$3.61	379.6	3.4%	-2.1%	-10.2%	-6.8%	2.9%
1Q12	4,335	\$10,373.0	24.9%	21.0%	-0.2%	3.9%	\$380.0	31.3%	\$261.0	\$0.76	342.8	3.4%	-4.7%	3.4%	3.2%	20.6%
2Q12	4,316	\$9,339.0	24.2%	22.3%	-0.3%	1.9%	\$157.0	43.3%	\$89.0	\$0.26	338.6	1.6%	-3.2%	-3.6%	-49.7%	-42.7%
3Q12	4,379	\$9,381.0	23.7%	23.4%	-0.2%	0.4%	\$18.9	25.8%	\$14.0	\$0.04	337.2	-0.2%	-4.2%	-5.2%	-92.7%	-91.9%
4Q12	4,379	\$14,952.0	22.4%	16.7%	-0.2%	5.7%	\$828.0	36.7%	\$524.0	\$1.55	338.1	-2.3%	-0.3%	-1.6%	-29.9%	-25.4%
FY12	4,379	\$44,045.0	23.7%	20.3%	-0.2%	3.3%	\$1,383.9	35.8%	\$888.0	\$2.62	339.0	-0.2%	-2.9%	-1.7%	-35.1%	-27.4%
1Q13	2,001	\$9,380.0	23.1%	21.2%	-0.2%	2.0%	\$164.0	33.4%	\$109.2	\$0.32	341.0	-5.4%	-1.3%	-9.6%	-58.2%	-57.9%
2Q13	1,988	\$9,300.0	23.7%	21.5%	-0.2%	2.2%	\$185.0	39.5%	\$112.0	\$0.32	344.4	-6.1%	-0.6%	-0.4%	25.8%	21.7%
3Q13	1,983	\$9,362.0	23.2%	21.8%	-0.1%	1.4%	\$119.0	44.3%	\$64.3	\$0.18	348.9	-5.6%	0.4%	-0.2%	359.1%	343.7%
4Q13E	2,021	\$14,544.9	19.7%	15.7%	-0.1%	4.0%	\$563.5	36.7%	\$356.6	\$1.02	348.9	-4.7%	-2.4%	-2.7%	-31.9%	-34.1%
FY13E	2,021	\$42,586.9	22.1%	19.5%	-0.2%	2.6%	\$1,031.5	37.7%	\$642.1	\$1.86	345.8	-3.7%	-1.2%	-3.3%	-27.7%	-29.1%
1Q14E	2,054	\$9,429.5	22.1%	20.3%	-0.2%	1.8%	\$158.3	36.0%	\$101.3	\$0.29	348.9	-2.2%	1.0%	0.5%	-7.2%	-9.3%
2Q14E	2,087	\$9,285.8	22.6%	20.7%	-0.2%	2.0%	\$169.5	36.0%	\$108.5	\$0.31	348.9	-0.6%	0.5%	-0.2%	-3.1%	-2.8%
3Q14E	2,121	\$9,235.2	22.8%	20.9%	-0.2%	1.9%	\$161.5	36.0%	\$103.3	\$0.30	348.9	-0.2%	-1.2%	-1.4%	60.8%	60.8%
4Q14E	2,157	\$14,669.7	19.6%	14.7%	-0.1%	4.9%	\$701.1	36.0%	\$448.7	\$1.29	348.9	-0.1%	0.9%	0.9%	25.8%	25.8%
FY14E	2,157	\$42,620.2	21.5%	18.6%	-0.1%	2.9%	\$1,190.4	36.0%	\$761.8	\$2.18	348.9	-1.9%	0.4%	0.1%	18.7%	17.6%
FY15E	2,291	\$43,057.6	21.5%	17.8%	-0.1%	3.7%	\$1,515.2	36.0%	\$969.7	\$2.97	326.8	-0.2%	1.2%	1.0%	27.3%	35.9%
FY16E	2,425	\$43,568.9	21.5%	17.1%	-0.1%	4.4%	\$1,847.3	36.0%	\$1,182.3	\$3.98	297.3	-0.2%	1.4%	1.2%	21.9%	34.0%
FY16E	2,559	\$43,900.7	21.5%	16.7%	-0.1%	4.8%	\$2,028.6	36.0%	\$1,298.3	\$4.71	275.5	-0.2%	0.9%	0.8%	9.8%	18.5%
FY18E	2,693	\$44,235.2	21.5%	16.3%	-0.1%	5.1%	\$2,213.6	36.0%	\$1,416.7	\$5.53	256.0	-0.2%	0.9%	0.8%	9.1%	17.4%
CAGR 2013-2018		0.8%				15.6%	16.5%		17.1%	24.4%	-5.8%	1.0%				

Source: Deutsche Bank and company data



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Best Buy	BBY.N	26.83 (USD) 16 Jan 14	1,7,14,17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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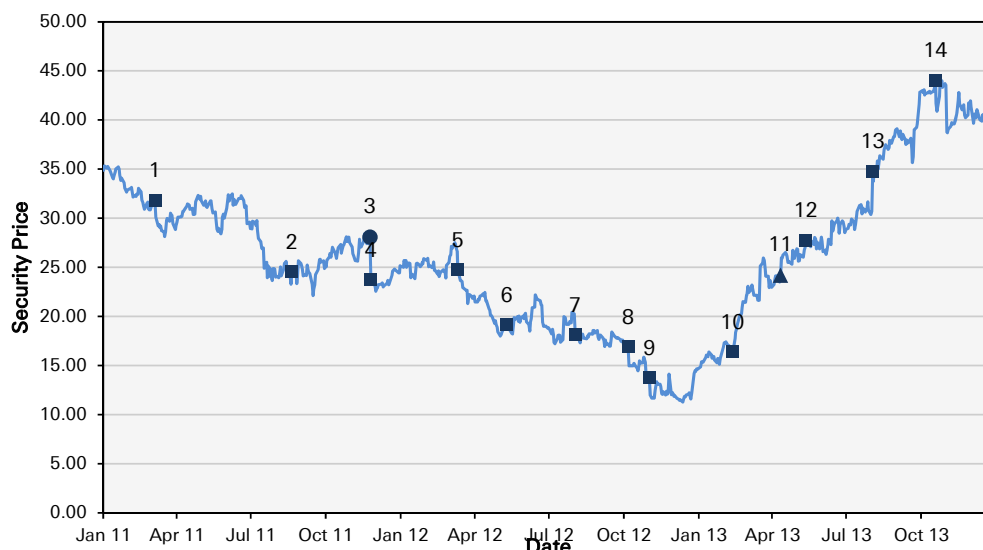
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Historical recommendations and target price: Best Buy (BBY.N) (as of 1/16/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 03/24/2011:	Buy, Target Price Change USD37.00	8. 10/25/2012:	Hold, Target Price Change USD16.00
2. 09/08/2011:	Buy, Target Price Change USD34.00	9. 11/20/2012:	Hold, Target Price Change USD13.00
3. 12/13/2011:	Downgrade to Hold, USD34.00	10. 03/02/2013:	Hold, Target Price Change USD17.00
4. 12/14/2011:	Hold, Target Price Change USD27.00	11. 04/30/2013:	Upgrade to Buy, Target Price Change USD28.00
5. 03/30/2012:	Hold, Target Price Change USD25.00	12. 05/31/2013:	Buy, Target Price Change USD31.00
6. 05/29/2012:	Hold, Target Price Change USD22.00	13. 08/21/2013:	Buy, Target Price Change USD40.00
7. 08/21/2012:	Hold, Target Price Change USD18.00	14. 11/06/2013:	Buy, Target Price Change USD50.00

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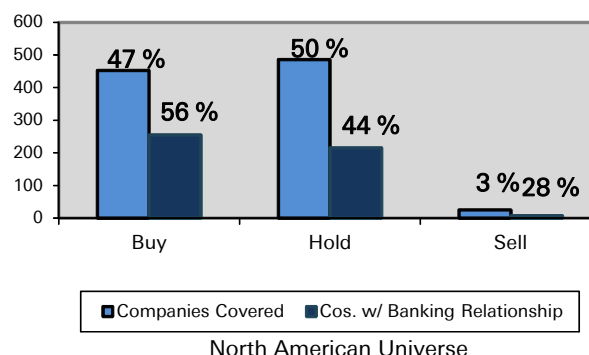
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COMPANY NOTE

Target | Estimate Change

USA | Consumer | Retailing/Hardlines

January 17, 2014

Jefferies

Best Buy (BBY) Still Upbeat on Management

Key Takeaway

As BBY stepped up promotion following softer traffic in 1H Dec, it gave up avg. ticket and margin. We still believe this good management team has a lot of opportunities to improve profitability by lowering costs in G&A and labor, as well as improving product transition margins and dramatically lowering losses associated with open box returns and damaged goods. Cost saves are now expected to be well above the original \$725 million plan.

BBY took share at a cost. The holiday period was more promotional than most expected, but some of the margin woes were self-inflicted as BBY went after the business more aggressively (particularly mobile) when traffic softened post TG weekend. Elasticity was not what they hoped resulting in soft sales and margin erosion. In our conversations post call, we did get the impression that Best Buy was a disrupter in the market and not just reacting to competition. This suggests to us that they have some control over their margin destiny. That said, management appears to be committed on its price investment and will go after cost reduction and margin opportunities to improve profitability. While details are not being provided yet, we believe additional cost opportunities exist and also very visible opportunities to enhance margins associated with product transition, open box returns and damaged goods. We believe this alone could be in the \$500 million range and achieved in the next 18 months.

Investors likely questioning Q4 profitability going forward. We think that the main question that investors are grappling with today is around whether this story will be any different next year. We think that this is a fair question, but we also believe that these hyper promotional environments tend to run in cycles. If all the main players felt similar pain, we could see more rational behavior next year. That said, management is not counting on it so it will accelerate cost cutting programs and better equip itself with the right tools to compete better online. We already think BBY is looking at its own price actions, which in some cases may have been excessive relative to the market, resulting in less profitable share gains.

Valuation/Risks

Our 12-month PT of \$38 (down from \$52) is based on shares selling at about 13x (a premium to 5-year avg PE) our FY16 estimate of \$2.95. **Risks:** Choppy earnings as it transforms the business; product cycle shortfalls; convergence of technology; competitive pressures from WMT and AMZN; and a less favorable macro environment.

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
EBITDA (MM)	--	2,392.0	2,228.0	1,844.0	2,677.0	2,198.0	2,998.0	2,471.0
EV/EBITDA		3.7x		4.8x		4.0x		3.6x
Cons. EPS Diluted	--	--	2.46	2.23	2.88	2.63	3.33	3.04
EPS								
May	--	0.76	--	0.32A	0.47	0.39	--	--
Aug	--	0.26	--	0.32A	0.47	0.43	--	--
Nov	--	0.03	--	0.18A	0.38	0.33	--	--
Feb	--	1.55	1.73	1.03	2.04	1.36	--	--
FY Feb	--	2.62	2.57	1.87	3.37	2.52	3.87	2.95
FY P/E		10.2x		14.3x		10.6x		9.1x

BUY

Price target \$38.00

(from \$52.00)

Price \$26.83

Financial Summary

Book Value (MM):	\$3,744.0
Book Value/Share:	\$10.99
Net Debt (MM):	(\$501.0)
Return on Avg. Equity:	20.6%
Long-Term Debt (MM):	\$1,624.0
LTD/Cap:	30.3%
Dividend Yield:	1.8%
Cash & ST Invest. (MM):	\$2,170.0

Market Data

52 Week Range:	\$44.66 - \$13.83
Total Entprs. Value (MM):	\$8,782.2
Market Cap. (MM):	\$9,283.2
Insider Ownership:	20.5%
Institutional Ownership:	74.8%
Shares Out. (MM):	346.0
Float (MM):	269.9
Avg. Daily Vol.:	6,011,740

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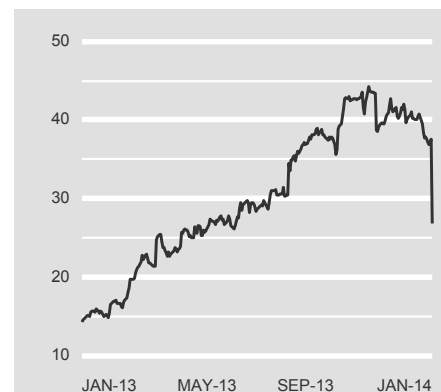
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Price Performance



Scenarios

Target Investment Thesis

- LSD comp store sales with share gains.
- Assumes space reallocation benefits are somewhat offset by other factors such as competition and lulls in product cycles.
- Competitive pricing in the industry.
- Significant cost cuts with some reinvested back into price and service levels.
- Investments in eCommerce allow Best Buy to increase conversion rate.
- FY16 EPS: \$2.95; Target Multiple: 13x; Target Price: \$38.

Upside Scenario

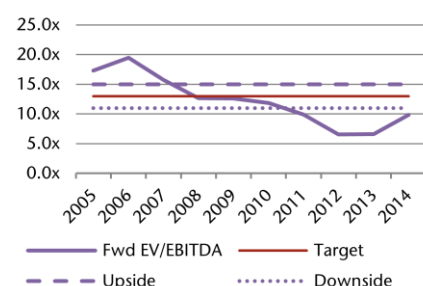
- Better than expected results from space reallocation, price investments, improved service levels and product cycles, resulting in MSD comp store sales next year.
- Rational pricing returns to the industry, allowing for accelerating comp and profitable share gains.
- Online sales tax collection laws are adopted in more states.
- FY16 EPS: \$3.45; Target Multiple: 15x; Target Price: \$52.

Downside Scenario

- Macro, competitive and secular headwinds persist leading to soft sales.
- Investment spending outweighs cost cutting and price investment yields soft results.
- Space reallocation proves less beneficial than expected and comp store sales flat to down in FY15.
- FY16 EPS: \$2.20; Target Multiple: 12x; Target Price: \$24.

Long Term Analysis

1 Year Forward P/E



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

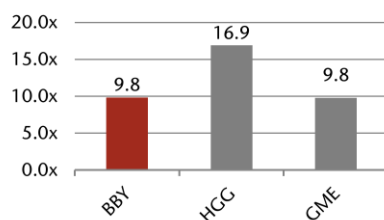
LT EPS CAGR	8.0%
Domestic SSS Growth	2.5-3.0%
International SSS Growth	3.0%
EBIT Margin	3.5-4.5%

Other Considerations

Best Buy outperforms many retailers in sales and gross profit per sq. ft. However, Best Buy lags behind many retailers on SG&A per sq. ft., resulting in mediocre EBIT per sq. ft., suggesting there are still opportunities to squeeze costs and improve profitability. Recent space reallocation initiative could materially improve sales and profit productivity.

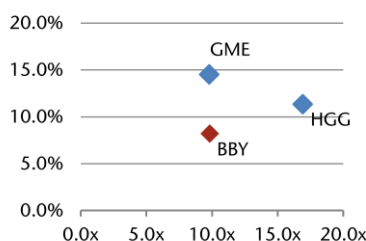
Peer Group

Group P/E



Source: FactSet, Jefferies estimates

Earnings Growth vs P/E



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
BBY	BUY	\$38.00
HGG	HOLD	\$12.00
GME	NC	NC

Catalysts

- Cost cuts lead to significant price investment and service level improvements, allowing the company to regain market share.
- Upside in gaming this year as new consoles are introduced. Growing housing market drives better appliance sales.
- More states adopt laws requiring online retailers to collect sales tax.
- Space reallocation work provides upside.

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Company Description

With operations in the United States, Canada, Europe, China, Mexico, Best Buy is a multinational retailer of technology and entertainment products and services with a commitment to growth and innovation. It operates its retail stores and call centers, as well as online retail operations under various brand names, such as Best Buy, Best Buy Mobile, The Carphone Warehouse, Five Star, Future Shop, Geek Squad, Magnolia Audio Video, Pacific Sales, and The Phone House. Total sales in FY13 are just under \$50 billion and operating margin was 3.0% for the year, down from 4.6% in FY12.

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Investment Opinion

We are maintaining our Buy rating on BBY shares following the pullback after disappointing holiday results. With the news out, the stock is down and, not surprisingly, the market seems to be factoring in very little margin recovery in Q4 next year. Since we believe this management team has numerous profit enhancing opportunities to pursue, we are maintain our rating at these levels. We are however reducing our estimates for this year and next to reflect the holiday disappointment. Our new FY14, FY15 and FY16 EPS is \$1.87, \$2.52 and \$2.95, respectively. This is down from \$2.57, \$3.37 and \$3.87. Our 12 month price target is \$38 and based on shares selling at 13x our FY16 EPS of \$2.95. Nearer term, we think BBY shares are likely to be stuck in the penalty box until investors see a rebound in sales and profit improvement. Even then, it is unlikely to get the 15x multiple we were previously targeting on a earning recovery story. We believe investors will continue to price in added risk for the Q4 period when other players use the category to promote traffic. Hence, our decision to reduce our P/E multiple target to 13x from 15x.

November sales and profit were on plan – December was what disappointed.

At the end of November, Best Buy was on its sales and profit plan, but the lull in traffic in the first two weeks of December could not be made up in the shorter holiday shopping period.

BBY took share at a cost. The holiday period was more promotional than most expected, but some of the margin woes were self-inflicted as BBY went after the business more aggressively (particularly mobile) when traffic softened post TG weekend. Elasticity was not what they hoped resulting in soft sales and margin erosion. In our conversations post call, we did get the impression that Best Buy was a disrupter in the market and not just reacting to competition. This suggests to us that they have some control over their margin destiny. That said, management appears to be committed on its price investment and will go after cost reduction and margin opportunities to improve profitability. While details are not being provided yet, we believe cost opportunities exist across the organization and also very visible opportunities to enhance margins associated with product transition, open box returns and damaged goods. We believe this alone could be in the \$500 million range and achieved in the next 18 months.

Investors likely questioning Q4 profitability going forward. We think that the main question that investors are grappling with today is around whether this story will be any different next year. We think that this is a fair question, but we also believe that these hyper promotional environments tend to run in cycles. If all the main players felt similar pain, we could see more rational behavior next year. That said, management is not counting on it, so it will accelerate cost cutting programs and better equip itself with the right tools to compete better online. We already think BBY is looking at its own price actions, which in some cases may have been excessive relative to the market, resulting in less profitable share gains.

Product cycles still matter, but management is focused on conversion. We haven't given up hope for what the gaming cycle could do for the company's comp store sales as well as a potential TV replacement cycle, as the earlier flat panels TVs age and are replaced. However, that has never been the basis of our recommendation and certainly not the reason this management thinks it can turn this tough business into a better, more profitable one. This story remains about conversion. Best Buy will focus on the following: 1) remaining priced right every day on key products with a price match guarantee, 2) improving the marketing message, 3) customer communication in direct email, including

specialized offers, 4) an improved eCommerce experience, 5) leveraging the new benefits of its loyalty program to attract more customers, 6) continuing improving customer service through store level Renew Blue certification and 7) improving Geek Squad, which is a differentiated support service that has not been executed to management's satisfaction.

15% Jump in Loyalty members. Although it was hard to find good news in this release, Best Buy did indicate to us that it experienced a solid 15% hike in loyalty card sign-ups. This is significant and helps to build a bank of more potential shoppers in the future. What will change in the coming year is the way Best Buy communicates with them. It will work toward creating special offers designed for individual customers based on their shopping patterns. This is something other online players do well, but BBY has largely missed.

Another \$45 million in costs reduced in Q4. While we weren't expecting much in the busy Q4 period, management cut another \$45 million in annualized costs, bringing the program to \$550 million to date. Although management initially set an expectation of \$725 million in cost savings, it announced today that it expects the savings to be much higher. We expect greater clarity on this when it reports Q4. Meanwhile SG&A per sq. ft. remains well above other retailers and margin opportunities exist in product transition as we outlined above.

Online sales jump 23.5%. Store traffic is negative, but Best Buy offset negative transaction growth in stores, with higher transaction growth online. Management did not detail the ticket and traffic components of comp store sales, but suggested there was substantial ticket erosion baked into the 0.9% domestic comp store sales decline. This primarily reflected lower average unit retail (AUR) as goods were heavily discounted to spur sales growth.

Vendors likely to be asked to put more support in the business and controls on its resellers. After years of irrational pricing in TV, several manufacturers put unilateral pricing policies in place to prevent resellers from selling newer model TVs below a certain price. From what BBY has told us, UPP held up in holiday, but obviously it doesn't cover all models. Best Buy will be looking to plan more strategically with vendors going forward and will likely ask more of them to follow the lead of TV vendors with unilateral pricing policies. It took a long time for TV manufacturers to get to that point, so we aren't expecting quick action on this from other vendors.

Chart 1: Best Buy Co. Inc. – Quarterly Earnings Model

	2013A			2014A					2015E			2016E
	FY	Q1A	Q2A	Q3A	Q4E	FY	Q1E	Q2E	Q3E	Q4E	FY	FY
	(Jan)	(Apr)	(Jul)	(Oct)	(Jan)	(Jan)	(Apr)	(Jul)	(Oct)	(Jan)	(Jan)	(Jan)
Domestic	36,848	7,979	7,809	7,847	12,365	36,000	8,120	8,032	8,085	12,735	36,972	38,081
International	7,197	1,401	1,491	1,515	2,208	6,615	1,300	1,427	1,532	2,233	6,492	6,777
Total Sales	\$44,045	\$9,380	\$9,300	\$9,362	\$14,572	\$42,614	\$9,420	\$9,459	\$9,617	\$14,969	\$43,464	\$44,858
COGS LIFO	33,627	7,210	7,095	7,192	11,705	33,202	7,250	7,226	7,382	11,939	33,797	34,875
Gross Profit	10,418	2,170	2,205	2,170	2,867	9,412	2,170	2,232	2,235	3,030	9,667	9,983
%	23.7%	23.1%	23.7%	23.2%	19.7%	22.1%	23.0%	23.6%	23.2%	20.2%	22.2%	22.3%
SG&A	(8,943)	(1,984)	(1,999)	(2,039)	(2,296)	(8,318)	(1,938)	(1,979)	(2,038)	(2,263)	(8,218)	(8,262)
%	20.3%	21.2%	21.5%	21.8%	15.8%	19.5%	20.6%	20.9%	21.2%	15.1%	18.9%	18.4%
Domestic												
Operating Income	1,739	228	205	143	481	1,057	273	259	208	667	1,407	1,647
%	4.7%	2.9%	2.6%	1.8%	3.9%	2.9%	3.4%	3.2%	2.6%	5.2%	3.8%	4.3%
International												
Operating Income	72	(36)	1	(12)	90	43	(41)	(5)	(11)	99	42	74
%	1.0%	-2.6%	0.1%	-0.8%	4.1%	0.7%	-3.1%	-0.4%	-0.7%	4.4%	0.6%	1.1%
EBIT	1,475	186	206	131	571	1,094	232	254	197	766	1,448	1,721
%	3.3%	2.0%	2.2%	1.4%	3.9%	2.6%	2.5%	2.7%	2.0%	5.1%	3.3%	3.8%
Interest Income/(Expense)	(91)	(22)	(7)	(12)	(12)	(53)	(12)	(12)	(12)	(11)	(46)	(40)
%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
EBT	1,384	164	199	119	559	1,041	220	242	185	755	1,402	1,681
%	3.1%	1.7%	2.1%	1.3%	3.8%	2.4%	2.3%	2.6%	1.9%	5.0%	3.2%	3.7%
Income Taxes	(495)	(54)	(87)	(55)	(201)	(397)	(84)	(90)	(69)	(273)	(516)	(617)
%	35.8%	32.7%	43.9%	46.2%	35.9%	38.1%	38.2%	37.2%	37.4%	36.1%	36.8%	36.7%
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Income: Operations	889	110	112	64	359	644	136	152	116	483	887	1,064
%	2.0%	1.2%	1.2%	0.7%	2.5%	1.5%	1.4%	1.6%	1.2%	3.2%	2.0%	2.4%
Non-recurring Charge (Gain)	(1,132)	(13)	125	(21)	0	91	0	0	0	0	0	0
Net Income	(249)	(81)	266	43	359	586	135	152	116	483	887	1,064
EPS Operations: Diluted	\$2.62	\$0.32	\$0.32	\$0.18	\$1.03	\$1.87	\$0.39	\$0.43	\$0.33	\$1.36	\$2.52	\$2.95
EPS Fully Diluted	-\$0.73	-\$0.24	\$0.77	\$0.12	\$1.03	\$1.70	\$0.39	\$0.43	\$0.33	\$1.36	\$2.52	\$2.95
Shares Outstanding: Basic	339.0	339.0	340.4	342.8	345.3	341.9	347.3	349.3	351.3	353.3	350.3	358.3
Shares Outstanding: Diluted	339.8	341.0	344.4	348.9	347.3	344.4	349.3	351.3	353.3	355.3	352.3	360.8
Y/Y Percentage Change												
Total Sales	-1.7%	-9.6%	-0.4%	-0.2%	-2.5%	-3.2%	0.4%	1.7%	2.7%	2.7%	2.0%	3.2%
Total Domestic Sales	-0.4%	-9.6%	0.1%	2.3%	-1.5%	-2.3%	1.8%	2.9%	3.0%	3.0%	2.7%	3.0%
Total International Sales	-7.8%	-9.7%	-2.9%	-11.3%	-8.1%	-8.1%	-7.2%	-4.3%	1.1%	1.1%	-1.9%	4.4%
Domestic Comp Sales	-1.7%	-1.1%	-0.4%	1.7%	-1.0%	-0.3%	2.0%	3.0%	3.0%	3.0%	2.8%	3.0%
International Comp Sales	-7.4%	-2.8%	-1.8%	-6.4%	0.0%	-2.5%	-3.0%	-2.0%	2.0%	2.0%	0.0%	3.0%
Total Comp-Store Sales	-2.7%	-1.4%	-0.6%	0.2%	-0.8%	-0.7%	1.3%	2.2%	2.8%	2.8%	2.4%	3.0%
Gross Profit	-3.8%	-16.0%	-2.5%	-2.6%	-14.3%	-9.7%	0.0%	1.2%	3.0%	5.7%	2.7%	3.3%
SG&A	3.1%	-8.9%	-3.9%	-7.0%	-7.9%	-7.0%	-2.3%	-1.0%	0.0%	-1.4%	-1.2%	0.5%
EBIT - Total	-31.5%	-54.1%	13.8%	263.9%	-33.1%	-25.8%	24.8%	23.1%	50.1%	34.2%	32.4%	18.8%
Net Income: Operations	-35.2%	-57.7%	25.4%	357.1%	-31.7%	-27.5%	23.4%	36.1%	80.9%	34.6%	37.6%	20.0%
EPS Operations: Diluted	-27.6%	-57.5%	23.3%	343.0%	-33.4%	-28.5%	20.4%	33.4%	78.7%	31.6%	34.5%	17.2%
Y/Y Basis Point Change												
Gross Margin TOTAL	-0.51%	-1.78%	-0.50%	-0.57%	-2.70%	-1.57%	-0.10%	-0.11%	0.06%	0.56%	0.15%	0.01%
SG&A - Total	0.95%	0.14%	-0.78%	-1.59%	-0.91%	-0.78%	-0.58%	-0.57%	-0.59%	-0.64%	-0.61%	-0.49%
EBIT- Total	-1.45%	-1.92%	0.28%	1.02%	-1.79%	-0.78%	0.48%	0.47%	0.65%	1.20%	0.77%	0.50%
Interest Expense	-0.16%	0.01%	0.18%	0.05%	0.09%	0.08%	0.11%	-0.05%	0.01%	0.01%	0.02%	0.02%
Net Income: Operations	-1.04%	-1.34%	0.25%	0.53%	-1.05%	-0.51%	0.27%	0.41%	0.52%	0.76%	0.53%	0.33%
Total Store Count	4,379	4,390	4,377	4,372	4,374	4,374	4,373	4,374	4,376	4,378	4,380	4,386

Source: Jefferies estimates, company data

Company Description

Best Buy Co., Inc. is North America's No. 1 specialty retailer of consumer electronics. The company operates over 1,100 Best Buy stores, 5 Magnolia Audio Video stores, and over 320 Best Buy Mobile in 48 U.S. states, plus over 200 stores in Canada under the Best Buy and Future Shop banners and over 200 smaller appliance stores in China. Best Buy Inc. sells consumer electronics, home-office products, entertainment software, appliances and related services. In addition to selling products, the stores offer installation and maintenance services, technical support, and subscriptions for cell phone and Internet services. The company's Geek Squad service is a 24-hour computer support task force focusing solely on computer support and repair.

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The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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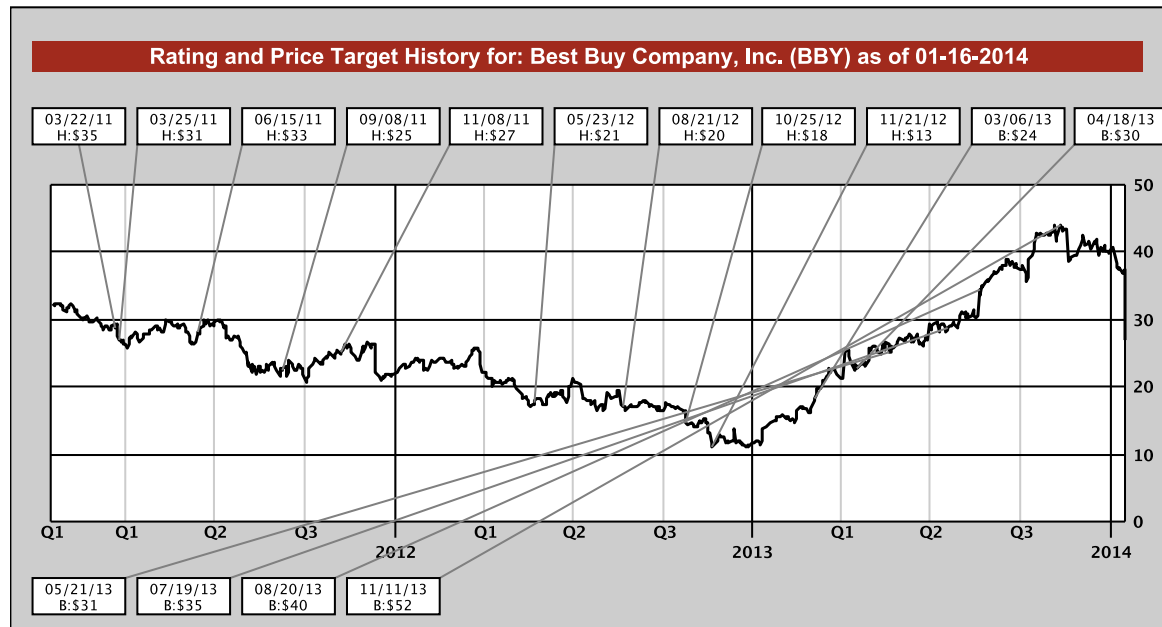
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Other Companies Mentioned in This Report

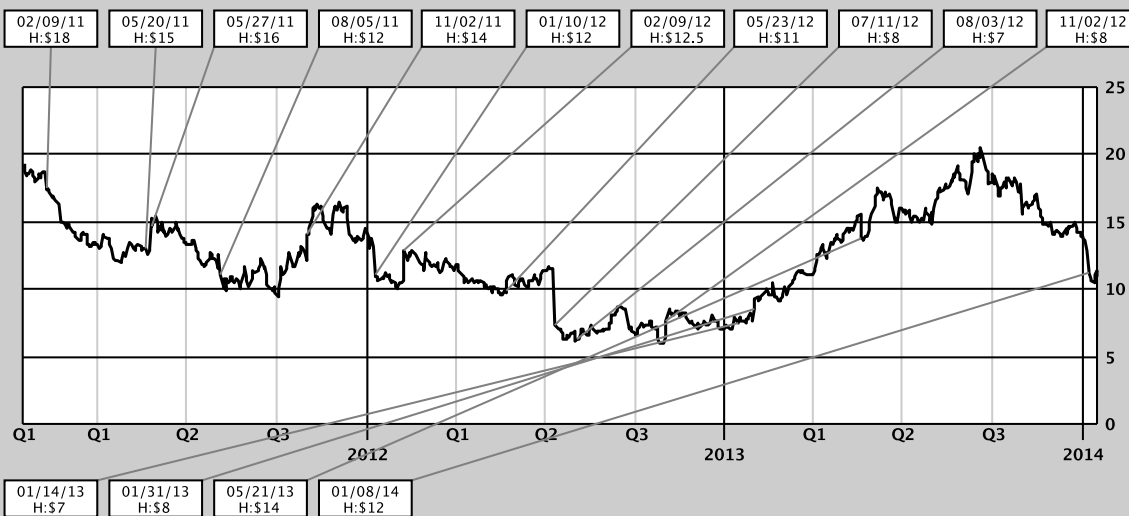
- Amazon.com, Inc (AMZN: \$395.80, BUY)
- Best Buy Company, Inc. (BBY: \$26.83, BUY)
- hhgregg, Inc. (HGG: \$10.91, HOLD)
- Wal-Mart Stores, Inc. (WMT: \$76.76, BUY)



Rating and Price Target History for: Amazon.com, Inc (AMZN) as of 01-16-2014



Rating and Price Target History for: hhgregg, Inc. (HGG) as of 01-16-2014



Rating and Price Target History for: Wal-Mart Stores, Inc. (WMT) as of 01-16-2014



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	890	49.09%	206	23.15%
HOLD	774	42.69%	123	15.89%
UNDERPERFORM	149	8.22%	4	2.68%

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Best Buy

Structural Setback Aside, Transformational Opportunities Remain

Best Buy reported holiday results well outside of the realm of our downside scenario with comps of negative 80 bps and 4Q *EBIT* (not gross) margin guided to be down 175-185 bps. The critical question is how much of the gross margin pressure (estimated down ~300 bps in the domestic segment for 4Q) will carry forward into 2014. We believe that: (1) sales and margins were intact in early December but promotions in mobile, computing, and TV intensified as Christmas neared and (2) promotions in January have receded significantly from December but remain higher YOY led by continued pressures in mobile. HGG also commented that TV promotions were intense around Black Friday and leading into Christmas but had receded. *The estimated ~300bp decline in 4Q gross margin is 200 bps higher than our forecast and we are assuming that an incremental ~70 bps will persist through 3Q14 while we forecast no recapture or incremental pricing pressure in 4Q14 (with the 4Q scenario similar to 4Q12 when BBY lapped a promotional 2011 holiday season).*

- **Story less robust but fair value still appears higher; more info on 4Q call.**

We believe that the stock's fair value is above current levels and while the story appears less robust, we believe that abundant sales, gross margin, and cost-out opportunities remain ahead, partly led by unlocking inventory from all of its 1,000 big-box stores (which began Jan 6th and compared to none a year ago). We believe BBY could capture an incremental \$400MM of efficiency opportunities on top of its \$725MM target (of which \$550MM has been captured so far). This equates to another ~\$0.70 of earnings. Stepping back, we believe the bull case may have changed from a 5.5% EBIT margin business to something in the 4.5% range. This would still imply EPS in the \$3.50 area and the company is yielding about 10% to equity holders. We are looking forward to learning management's evaluation of the 4Q in its entirety on the Feb 27th earnings call including how much of the sales and margin issues persist and the update on efficiency opportunities and cash usage. We are lowering our FY13 estimate to \$1.79 from \$2.48 and our FY14 number goes to \$2.08 from \$2.75. Our Dec 14 price target is reduced roughly by the level of our earnings revisions to \$34 (from \$49) and is based on 5.6x EV/EBITDA using our 2014 forecasts (equating to 5x on our 2015 estimates).

- **Near-term challenges could weigh on stock.** In the near term, this absence of information and expected significant cuts to forecasts could add incremental pressure on the stock. We see potential near-term bear case downside into the \$23-\$25 area based on the implied 4Q EPS miss and prior trading levels.

Best Buy (BBY;BBY US)

FYE Feb	2012A	2013E	2013E	2014E	2014E	2015E	2015E
		(Prev)	(Curr)	(Prev)	(Curr)	(Prev)	(Curr)
EPS - Reported (\$)							
Q1 (May)	0.76	0.32A	0.32A	0.34	0.38	-	-
Q2 (Aug)	0.26	0.32A	0.32A	0.34	0.30	-	-
Q3 (Nov)	0.04	0.18A	0.18A	0.25	0.24	-	-
Q4 (Feb)	1.47	1.65	0.97	1.84	1.17	-	-
FY	2.54	2.48	1.79	2.75	2.08	3.00	2.25

Source: Company data, Bloomberg, J.P. Morgan estimates.

Overweight

BBY, BBY US

Price: \$26.83

▼ Price Target: \$34.00

Previous: \$49.00

Retailing — Hardlines

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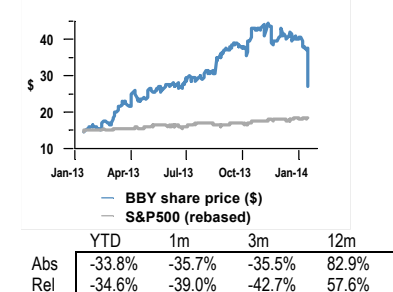
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Price Performance



Company Data

Price (\$)	26.83
Date Of Price	16 Jan 14
52-week Range (\$)	44.66-13.83
Market Cap (\$ mn)	9,197.32
Fiscal Year End	Feb
Shares O/S (mn)	343
Price Target (\$)	34.00
Price Target End Date	31-Dec-14

See page 8 for analyst certification and important disclosures.

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- **Comps revert back to negative.** Comps likely returned to negative territory after being positive for the first time in 13 quarters in 3Q. Holiday revenues declined 0.8% vs. our Q4 estimate of +0.8% vs. (1.4%) LY and were negatively impacted by (1) aggressive promotional activity, (2) supply constraints for key products, (3) declines in store traffic, and (4) a weak mobile phone market. Looking forward, we expect comps to return positive as online growth remains robust, pricing becomes more rational following holiday, and BBY cycles its easiest compare in 1Q14.
- **Weak consumer and persistently soft sales at mass hit category; ecommerce capabilities encourage a later (and promotional) season.** With the likes of WMT and TGT (and many apparel retailers) missing sales for the better part of 2014, these giants turned to electronics as a traffic driver with what appears to be limited success. This set the promotional environment on fire early. BBY handled this (with gross margin trending down an estimated 100 bps). However, traffic at retail receding in the interim combined with the shortened holiday season led to another promotional push. Also, retailers' expanded ecommerce capabilities appear to have effectively encouraged consumers to wait until the last minute with promises of two-day shipping, which added a final layer of promotion as retailers chased sales. *Longer-term, the latter bears watching as greater price discovery and more retailers targeting two-day shipping (as they unlock inventory at the store level with ship from store) could make for later and later shopping seasons and lead to structurally lower margins (in 4Q in particular given the hard stop at Christmas).*

Table 1: BBY Category Performance

Domestic Segment Summary				
	Revenue Mix Summary		Comparable Store Sales	
	Three Months Ended		Three Months Ended	
	<u>1/4/2014</u>	<u>1/5/2013</u>	<u>1/4/2014</u>	<u>1/5/2013</u>
Consumer Electronics	32%	33%	(6.0%)	(6.8%)
Computing & Mobile Phones	46%	45%	3.2%	12.1%
Entertainment Software	12%	13%	(6.6%)	(17.8%)
Appliances	5%	4%	16.9%	10.7%
Services	4%	4%	(0.9%)	(3.1%)
Other	1%	1%	n/a	n/a
Total	100%	100%	(0.9%)	0.0%
International Segment Summary				
	Revenue Mix Summary		Comparable Store Sales	
	Three Months Ended		Three Months Ended	
	<u>1/4/2014</u>	<u>1/5/2013</u>	<u>1/4/2014</u>	<u>1/5/2013</u>
Consumer Electronics	31%	34%	(8.5%)	(15.3%)
Computing & Mobile Phones	40%	38%	4.8%	(2.8%)
Entertainment Software	12%	12%	2.4%	(16.0%)
Appliances	13%	12%	6.2%	(12.3%)
Services	4%	4%	(1.2%)	(10.6%)
Other	0%	0%	n/a	n/a
Total	100%	100%	0.1%	(10.3%)

Source: Company reports

Investment Thesis, Valuation and Risks

Best Buy (Overweight; Price Target: \$34.00)

Investment Thesis

Overweight Rating. Our rating is based on the following: (1) having the right management team that can drive “self help” financial improvement; (2) BBY’s ongoing efforts to regain price and assortment leadership after yielding that mantle to AMZN in recent years combined with a leveling of the tax playing field; (3) the high correlation of TVs and appliance to housing; and (4) valuation. Financially, after years of conflicting directions of comp/gross margin performance (that resulted in significant downward EPS revisions), we see second-derivative improvement while CEO Jolly and CFO McCollam drive cost efficiencies in the COGS and SG&A lines.

Valuation

\$34 Dec 2014 price target. We are lowering our FY13 estimate to \$1.79 from \$2.48 and our FY14 number goes to \$2.08 from \$2.75. Our Dec 14 price target is reduced roughly by the level of our earnings revisions to \$34 (from \$49) and is based on 5.6x EV/EBITDA using our 2014 forecasts (equating to 5x on our 2015 estimates).

Risks to Rating and Price Target

Key Downside Risks. A significant step up in price investment from other retailers and AMZN could cause BBY to need to reinvest more into price. BBY still needs a long-term solution to its average store size. BBY is a high-beta investment, and should risk tolerance change in the market, it would have an outsized impact on this stock. Housing improvement is critical to our thesis. The International division (7% of EBIT dollars) could still cause earnings to miss expectations despite its small size. Finally, the convergence of digital products could lead to a more formidable headwind than anticipated.

Valuation Matrix

	2013E	2014E	2015E
EPS	\$1.79	\$2.08	\$2.25
PE	15.0x	12.9x	11.9x
Hist Avg		9.0x	8.0x
Hist Trough		8.0x	7.0x
Hist Peak		20.0x	17.0x
EBITDA	\$1,825.1	\$2,007.0	\$2,092.9
EV/EBITDA	4.8x	4.4x	4.2x
Hist Avg		4.0x	4.0x
Hist Trough		3.8x	3.3x
Hist Peak		9.0x	8.5x
Price Target		\$34.00	
PE	18.9x	16.3x	15.1x
EV/EBITDA	6.3x	5.6x	5.2x
Upside / (Downside)		26.7%	

Source: J.P. Morgan estimates and Bloomberg.

Comparables Matrix

Ticker	PE 2014E	Ticker	PEG Ratio	Ticker	EV / EBITDA 2014E	Ticker	FCF / EV 2014E (%)
TCS	56.1x	SPLS	3.3	TCS	21.9x	HGG	14.8
ODP	39.5x	GPC	2.4	TSCO	14.4x	SPLS	9.6
TSCO	27.0x	AAP	2.2	COST	11.9x	PETM	7.4
COST	22.9x	ORLY	2.1	ORLY	11.6x	TGT	7.1
ORLY	20.5x	COST	2.0	GPC	10.9x	ODP	7.0
AAP	19.7x	VSI	1.8	AZO	10.6x	BBBY	6.8
GPC	19.0x	HGG	1.6	HD	10.6x	LOW	6.4
VSI	18.8x	WSM	1.5	GNC	10.1x	AAP	5.8
HD	18.5x	WMT	1.4	LOW	9.4x	WMT	5.6
LOW	18.2x	TSCO	1.3	AAP	9.1x	HD	5.4
DKS	17.8x	AZO	1.2	DKS	8.7x	VSI	5.1
WSM	17.2x	DKS	1.1	VSI	8.6x	BBY	5.1
HGG	15.6x	BBBY	1.1	WSM	7.8x	GNC	5.0
GNC	15.4x	HD	1.0	WMT	7.7x	AZO	4.9
AZO	15.3x	PETM	1.0	BBBY	7.2x	WSM	4.8
PETM	14.5x	BBY	0.8	PETM	7.2x	ORLY	4.3
WMT	13.5x	LOW	0.8	TGT	7.1x	GPC	4.2
TGT	13.1x	TCS	0.8	SPLS	5.7x	COST	2.3
BBY	12.9x	GNC	0.7	ODP	5.4x	TSCO	2.1
BBBY	12.4x	TGT	0.5	BBY	4.4x	TCS	1.5
SPLS	10.9x	ODP	NM	HGG	3.8x	DKS	0.4
Average	19.9x	Average	1.4x	Average	9.2x	Average	5.5x
Median	17.8x	Median	1.3x	Median	8.7x	Median	5.1x

Source: J.P. Morgan estimates and Bloomberg.

BEST BUY - Consolidated Qrtly Income \$	04/30/11					05/05/12					05/04/13					05/04/14					05/04/15				
	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E				
Domestic Sales	8,392.0	7,977.0	8,055.0	12,583.0	37,007.0	8,822.0	7,803.0	7,670.0	12,550.0	36,848.0	7,979.0	7,809.0	7,847.0	12,363.1	35,998.1	7,985.5	7,767.5	7,761.7	12,262.0	35,776.7	35,910.6				
International Sales	1,636.0	1,715.0	1,836.0	2,619.0	7,806.0	1,551.0	1,536.0	1,703.0	2,402.0	7,197.0	1,401.0	1,491.0	1,515.0	2,114.2	6,521.2	1,306.2	1,397.6	1,479.8	2,101.9	6,285.5	8,340.7				
Total Sales	10,028.0	9,692.0	9,891.0	15,202.0	44,813.0	10,373.0	9,339.0	9,381.0	14,952.0	44,045.0	9,380.0	9,300.0	9,362.0	14,477.3	42,519.3	9,291.7	9,165.1	9,241.5	14,364.0	42,062.3	42,251.4				
COGS	7,517.0	7,265.0	7,433.0	11,771.0	33,986.0	7,789.0	7,078.0	7,153.0	11,607.0	33,627.0	7,210.0	7,095.0	7,192.0	11,657.5	33,154.5	7,188.2	7,092.2	7,154.9	11,519.2	32,954.5	33,109.0				
Gross Profit	2,511.0	2,427.0	2,458.0	3,431.0	10,827.0	2,584.0	2,261.0	2,228.0	3,345.0	10,418.0	2,170.0	2,205.0	2,170.0	2,819.8	9,364.8	2,103.5	2,072.9	2,086.6	2,844.8	9,107.8	9,142.3				
SG&A	2,100.0	2,118.0	2,150.0	2,325.0	8,663.0	2,179.0	2,080.0	2,192.0	2,492.0	8,943.0	1,984.0	1,999.0	2,039.0	2,253.2	8,275.2	1,872.0	1,889.2	1,939.8	2,173.9	7,873.0	7,863.3				
Operating Income (EBIT)	411.0	308.0	308.0	1,106.0	2,164.0	405.0	181.0	36.0	853.0	1,475.0	186.0	206.0	131.0	566.6	1,089.6	231.4	184.6	147.8	670.8	1,234.8	1,278.6				
Net Interest Income (Expense)	(10.0)	(23.0)	(32.0)	(10.0)	(75.0)	(25.0)	(24.0)	(17.0)	(25.0)	(91.0)	(22.0)	(21.0)	(16.0)	(22.0)	(81.0)	(19.0)	(20.0)	(16.0)	(22.0)	(77.0)	(73.0)				
Pretax Income	401.0	285.0	307.0	1,096.0	2,089.0	380.0	157.0	19.0	828.0	1,384.0	164.0	185.0	115.0	544.6	1,008.6	212.4	164.6	131.8	648.8	1,157.8	1,209.1				
Income Taxes	148.0	105.6	115.0	382.0	748.6	119.0	68.0	5.0	329.0	521.0	54.0	76.2	51.0	207.0	388.2	80.7	62.6	50.1	246.6	440.0	459.4				
Earnings from Continuing Operations	255.0	179.4	192.0	714.0	1,340.4	261.0	89.0	14.0	499.0	863.0	110.0	108.8	64.0	337.7	620.5	131.7	102.1	81.7	402.3	717.8	749.6				
Minority Interest in Earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Net Earnings	255.0	179.4	192.0	714.0	1,340.4	261.0	89.0	14.0	499.0	863.0	110.0	108.8	64.0	337.7	620.5	131.7	102.1	81.7	402.3	717.8	749.6				
EPS - Continuing Operations	\$0.64	\$0.47	\$0.52	\$1.99	\$3.53	\$0.76	\$0.26	\$0.04	\$1.47	\$2.54	\$0.32	\$0.32	\$0.18	\$0.97	\$1.79	\$0.38	\$0.30	\$0.24	\$1.17	\$2.08	\$2.25				
Free Diluted Shares OS	400.7	385.6	372.4	359.6	379.7	342.8	338.6	338.1	338.5	339.8	341.0	344.4	348.9	348.9	345.8	347.4	345.9	344.4	342.9	345.2	332.9				
GAAP EPS	0.65	0.39	0.47	(0.73)	(3.57)	0.47	0.04	(0.04)	(1.21)	(0.73)	0.32	0.77	0.12	0.97	1.79	0.38	0.30	0.24	1.17	2.08	2.25				
% of Sales																									
Gross Profit	25.0%	25.0%	24.9%	22.6%	24.2%	24.9%	24.2%	23.8%	22.4%	23.7%	23.1%	23.7%	23.2%	19.5%	22.0%	22.6%	22.6%	22.6%	19.8%	21.7%	21.6%				
SG&A	20.9%	21.9%	21.4%	15.3%	19.3%	21.0%	22.3%	23.4%	16.7%	20.3%	21.2%	21.5%	21.8%	15.6%	19.5%	20.1%	20.6%	21.0%	15.1%	18.7%	18.6%				
Operating Income	4.10%	3.2%	3.4%	7.26%	4.8%	3.90%	1.9%	0.4%	5.7%	3.3%	2.0%	2.2%	1.4%	3.9%	2.6%	2.5%	2.0%	1.6%	4.7%	2.9%	3.0%				
Interest Expense	(0.1%)	(0.2%)	(0.3%)	(0.1%)	(0.2%)	(0.2%)	(0.3%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)				
Earnings from Continuing Operations	2.5%	1.9%	1.9%	4.7%	3.0%	2.5%	1.0%	0.1%	3.3%	2.0%	1.2%	1.2%	0.7%	2.3%	1.5%	1.4%	1.1%	0.9%	2.8%	1.7%	1.8%				
Tax Rate	36.4%	37.1%	37.5%	34.9%	35.8%	31.3%	43.3%	26.3%	39.7%	37.6%	32.9%	41.2%	44.3%	38.0%	38.5%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%				
YOY % Growth																									
Domestic	(1.4%)	(2.5%)	1.5%	(0.2%)	(0.6%)	5.1%	(2.2%)	(4.7%)	(0.3%)	(0.4%)	(9.6%)	0.1%	2.3%	(1.5%)	(2.3%)	0.1%	(0.5%)	(1.1%)	(0.8%)	(0.6%)	0.9%				
International	(41.8%)	(36.9%)	(39.7%)	(35.9%)	(38.3%)	(5.2%)	(10.4%)	(7.0%)	(8.3%)	(7.8%)	(9.7%)	(2.9%)	(11.3%)	(12.0%)	(9.4%)	(6.8%)	(6.3%)	(2.3%)	(0.6%)	(3.6%)	0.4%				
Total Sales	(11.4%)	(11.1%)	(9.9%)	(9.0%)	(10.2%)	3.4%	(3.6%)	(5.2%)	(1.6%)	(1.7%)	(9.6%)	(0.4%)	(0.2%)	(3.2%)	(3.5%)	(0.9%)	(1.5%)	(1.3%)	(0.8%)	(1.1%)	0.4%				
Gross Profit	(12.0%)	(14.1%)	(14.5%)	(13.6%)	(13.6%)	2.9%	(6.8%)	(9.4%)	(2.5%)	(3.8%)	(16.0%)	(2.5%)	(2.6%)	(15.7%)	(10.1%)	(3.1%)	(6.0%)	(3.8%)	0.9%	(2.7%)	0.4%				
SG&A	(13.5%)	(13.0%)	(13.3%)	(14.0%)	(13.4%)	3.8%	(1.8%)	3.4%	7.2%	3.2%	(8.9%)	(3.9%)	(7.0%)	(9.6%)	(7.5%)	(5.6%)	(5.5%)	(4.9%)	(3.5%)	(4.9%)	(0.2%)				
Operating Income (EBIT)	(4.0%)	(21.2%)	(21.3%)	(12.7%)	(14.0%)	(1.5%)	(41.2%)	(89.4%)	(22.9%)	(31.8%)	(54.1%)	13.8%	263.9%	(33.6%)	(26.1%)	24.4%	(10.4%)	12.9%	18.4%	14.4%	13.3%				
Interest Expense	(0.1%)	53.3%	220.0%	0.0%	63.0%	150.0%	0.3%	(46.9%)	150.0%	21.3%	(12.0%)	(12.5%)	(5.9%)	(12.0%)	(11.0%)	(13.6%)	(4.8%)	0.0%	0.0%	(4.9%)	(5.2%)				
Earnings from Continuing Operations	(0.8%)	(22.3%)	(29.7%)	(17.9%)	(17.8%)	2.4%	(50.4%)	(92.7%)	(30.1%)	(35.6%)	(3.8%)	22.2%	357.1%	(32.3%)	(28.1%)	19.7%	(6.2%)	27.7%	19.1%	15.4%	15.7%				
EPS - Continuing Operations	21.8%	(8.6%)	(12.0%)	(2.1%)	(2.3%)	19.6%	(43.5%)	(92.0%)	(25.8%)	(28.1%)	(57.6%)	20.2%	343.0%	(34.3%)	(29.4%)	17.5%	(6.6%)	29.4%	21.2%	15.9%	8.3%				
Same-Store Sales and Store Detail																									
Total Same-Store Sales	(3.1%)	(3.8%)	(0.3%)	(1.0%)	(1.9%)	(5.2%)	(3.3%)	(5.1%)	(1.4%)	(3.5%)	(1.3%)	(0.6%)	0.3%	(0.9%)	(0.6%)	0.1%	(0.2%)	(0.0%)	(0.2%)	(0.1%)	1.1%				
Domestic (Best Buy) Same-Store Sales	(3.8%)	(4.1%)	0.1%	(1.1%)	(2.1%)	(3.7%)	(1.6%)	(4.0%)	0.9%	(1.7%)	(1.1%)	(0.4%)	1.7%	(1.0%)	(0.3%)	(0.0%)	(0.1%)	(0.6%)	(0.2%)	(0.2%)	1.0%				
International Same-Store Sales	0.7%	(2.2%)	(2.0%)	(0.5%)	(1.0%)	(13.4%)	(11.3%)	(10.3%)	(12.6%)	(12.0%)	(2.8%)	(1.8%)	(6.4%)	0.0%	(2.7%)	0.5%	(1.0%)	3.0%	0.0%	0.6%	1.5%				
Best Buy store link																									
U.S. Best Buy Stores	1,102	1,105	1,105	1,103	1,103	1,103	1,062	1,056	1,056	1,056	1,055	1,055	1,055	1,054	1,054	1,049	1,044	1,041	1,039	1,039	1,024				
Domestic Stores	1,340	1,367	1,425	1,447	1,447	1,468	1,460	1,486	1,503	1,503	1,512	1,509	1,504	1,503	1,503	1,498	1,493	1,490	1,488	1,488	1,473				
International Stores (Ex. Europe)	409	430	447	468	468	474	484	500	487	487	489	479	479	478	478	478	476	478	477	477	473				
Total Stores (Ex. Europe)	1,749	1,797	1,872	1,915	1,915	1,942	1,944	1,986	1,990	1,990	2,001	1,988	1,983	1,981	1,981	1,976	1,969	1,968	1,965	1,965	1,946				
Square Footage Analysis																									
Subtotal - Domestic Segment	43,758	43,848	43,885	43,785	43,785	43,810	42,426	42,223	42,232	42,232	42,187	42,195	42,071	42,026	42,026	41,801	41,576	41,441	41,351	41,351	40,676				
Subtotal - International Segment	14,026	14,609	15,047	15,852	15,852	15,885	16,077	16,362	15,049	15,049	13,452	13,165	13,110	13,091	13,091	12,997	12,890	12,803	12,884	12,884	12,674				
Total Square Footage	57,863	58,457	58,932	59,637	59,637	59,695	58,503	58,605	57,281	57,281	55,639	55,360	55,181	55,117	55,117	54,798	54,466	54,344	54,235	54,235	53,350				
% Growth Year over Year	2.9%	2.9%	2.8%	3.7%	3.7%	3.2%	0.1%	(0.6%)	(4.0%)	(4.0%)	(6.8%)	(5.4%)	(5.8%)	(3.8%)	(3.8%)	(1.5%)	(1.6%)	(1.5%)	(1.6%)	(1.6%)	1.4%				
Sales Per Avg Square Foot	174	167	169	256	765	174	158	160	258	753	166	168	169	263	757	169	168	170	265	769	753				
% Growth Year over Year						0.0%	(5.2%)	(4.9%)	0.6%	(1.5%)	(4.4%)	6.0%	5.7%	1.7%	0.4%	1.8%	0.1%	0.3%	0.8%	1.7%	2.1%				
Gross Margin \$ Per Square Foot	43.5	41.7	41.9	57.9	184.8	43.3	38.3	38.1	57.7	178.2	38.4	39.7	39.3	51.1	166.6	38.3	37.9	38.4	52.4	166.6	170.0				
% Growth Year over Year						(0.5%)	(8.3%)	(9.1%)	(0.2%)	(3.6%)	(11.3%)	3.8%	3.2%	(11.4%)	(6.5%)	(0.4%)	(4.5%)	(2.3%)	2.5%	(0.0%)	14.6%				
SG&A \$ Per Square Foot	36.4	36.4	36.1	39.2	147.9	36.5	35.2	37.4	43.0	153.0	35.1	36.0	36.9	40.9	147.2	34.1	34.6	35.6	40.0	144.0	140.1				
% Growth Year over Year						0.3%	(3.4%)	3.7%	9.7%	3.4%	(3.8%)	2.3%	(1.5%)	(5.0%)	(3.7%)	(3.1%)	(4.0%)	(3.4%)	(2.0%)	(2.2%)	1.5%				
EBIT \$ Per Square Foot	7	5	6	19	37	7	3	1	15	25	3	4	2	10	19	4	3	3	12	23	24				
% Growth Year over Year</																									

Best Buy: Summary of Financials

Income Statement - Annual	FY12A	FY13E	FY14E	Income Statement - Quarterly	1Q13A	2Q13A	3Q13A	4Q13E
Revenues	44,045	42,519	42,062	Revenues	9,380A	9,300A	9,362A	14,477
COGS	(33,627)	(33,155)	(32,955)	COGS	(7,210)A	(7,095)A	(7,192)A	(11,658)
Gross Profit	10,418	9,365	9,108	Gross Profit	2,170A	2,205A	2,170A	2,820
SG&A	(8,943)	(8,275)	(7,873)	SG&A	(1,984)A	(1,999)A	(2,039)A	(2,253)
Operating income	1,475	1,090	1,235	Operating income	186A	206A	131A	567
EBITDA	2,351	1,825	2,007	EBITDA	396A	371A	293A	765
Interest, Net	(91)	(81)	(77)	Interest, Net	(22)A	(21)A	(16)A	(22)
Pretax income	1,384	1,009	1,158	Pretax income	164A	185A	115A	545
Income taxes	(521)	(388)	(440)	Income taxes	(54)A	(76)A	(51)A	(207)
Tax rate	37.6%	38.5%	38.0%	Tax rate	32.9%A	41.2%A	44.3%A	38.0%
Net income - operating	863	620	718	Net income - operating	110A	109A	64A	338
Diluted Shares Outstanding	340	346	345	Diluted Shares Outstanding	341A	344A	349A	349
Operating EPS	2.54	1.79	2.08	Operating EPS	0.32A	0.32A	0.18A	0.97
Balance Sheet and Cash Flow Data	FY12A	FY13E	FY14E	Ratio Analysis and Valuation	FY12A	FY13E	FY14E	
Cash and Equivalents	1,665	1,330	1,614	Sales growth	(1.7%)	(3.5%)	(1.1%)	
Inventories	6,042	5,995	5,959	Same store sales	-	-	-	
Current assets	12,047	11,988	12,221	EBITDA growth	(22.9%)	(22.4%)	10.0%	
PP&E	2,918	2,780	2,604	EBIT Growth	(31.8%)	(26.1%)	13.3%	
Total assets	16,787	16,590	16,647	EPS growth - operating	(28.1%)	(29.4%)	15.9%	
Short-term Debt	544	0	0	Gross margin	23.7%	22.0%	21.7%	
Current Liabilities	10,810	10,192	10,142	EBIT margin	3.3%	2.6%	2.9%	
Long-term Debt	1,150	1,150	1,150	EBITDA Margin	5.3%	4.3%	4.8%	
Total Liabilities	13,072	12,454	12,404	Inventory growth	(11.2%)	(0.8%)	(0.6%)	
Shareholders' equity	3,715	4,136	4,243	AP/inventory	98.2%	98.5%	98.5%	
Net Income (including charges)	(233)	679	718	Debt/EBITDA	1.2%	(9.9%)	(23.1%)	
D&A	876	735	772	Debt/Capital (book)	0.8%	(4.6%)	(12.3%)	
Other adjustments	-	-	-	Return on capital employed (ROCE)	15.5%	12.5%	14.3%	
Changes in Working Capital	(608)	(350)	2	Enterprise value / revenues	0.2	0.2	0.2	
Cash flow from Operations	1,422	1,064	1,492	Enterprise value / EBITDA	3.9	4.9	4.4	
Capex	(742)	(597)	(597)	Free Cash Flow Yield	8.1%	5.6%	10.2%	
Free Cash Flow	737	517	943	P/E	10.6	15.0	12.9	
Free Cash Flow/Share	2.17	1.49	2.73					
Dividends	-	-	-					
Dividend Yield	-	-	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Feb

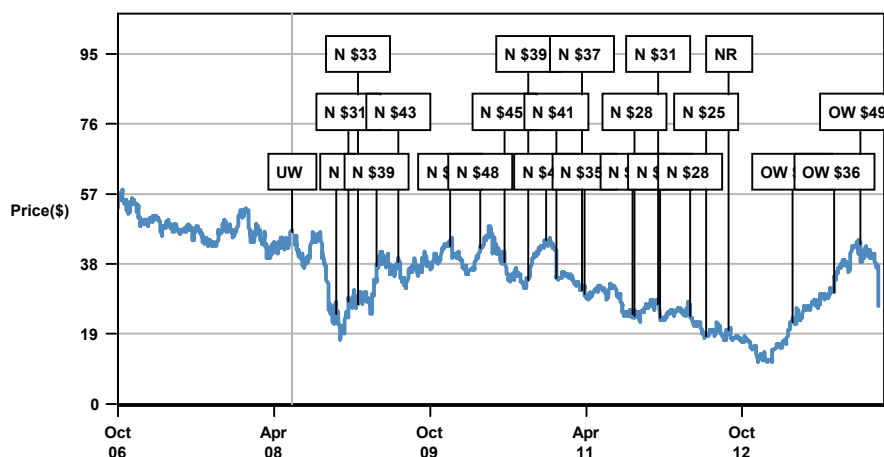
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Best Buy (BBY, BBY US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Jun 02, 2008 - Oct 31, 2008.

Date	Rating	Share Price (\$)	Price Target (\$)
02-Jun-08	UW	46.69	--
31-Oct-08	N	24.61	--
17-Dec-08	N	27.68	31.00
20-Jan-09	N	27.23	33.00
27-Mar-09	N	37.67	39.00
09-Jun-09	N	38.64	43.00
11-Dec-09	N	43.21	45.00
26-Mar-10	N	42.66	48.00
15-Jun-10	N	38.56	45.00
08-Sep-10	N	33.69	39.00
08-Nov-10	N	44.75	45.00
15-Dec-10	N	34.50	41.00
17-Mar-11	N	30.87	37.00
25-Mar-11	N	30.13	35.00
09-Sep-11	N	24.20	30.00
14-Sep-11	N	24.01	28.00
08-Dec-11	N	27.42	31.00
14-Dec-11	N	23.35	29.00
30-Mar-12	N	23.68	28.00
23-May-12	N	18.46	25.00

06-Aug-12	NR	19.99	--
18-Mar-13	OW	22.13	29.00
19-Aug-13	OW	30.37	36.00
14-Nov-13	OW	43.33	49.00

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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J.P. Morgan Equity Research Ratings Distribution, as of January 1, 2014

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	43%	45%	12%
IB clients*	57%	49%	36%
JPMS Equity Research Coverage	43%	50%	7%
IB clients*	75%	66%	59%

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