



PRESENTATION TO THE BEST BUY BOARD OF DIRECTORS

Discussion Materials | February 21, 2014



Benjamin | Dougherty



Landenwich | Mulligan



SCHEDULE OF ANALYSIS

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INVESTMENT THESIS

RAISE CAPITAL THROUGH BONDS & REPURCHASE STOCK

- Best Buy's current market position is undervalued
 - Both sales and earnings declining in recent years
 - Despite declines, analysts project an increase in value in the future
- Transformation Phase
 - Capital required in order to fund these future changes
 - Low debt on their balance sheet
 - Low earnings in the past year
 - Recommend to issue bonds to buy back stock as investment in self

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EXECUTIVE SUMMARY

Our firm seeks to offer The Best Buy Board of Directors advice established on our valuation calculations and opinion

- We constructed Valuations from analysis of discounted cash flows, precedent transactions, comparable companies, 52 week high/lows

The consumer electronic industry has a consistent annual growth rate

- Comparatively, Best Buy's overall annual growth rate remains constant with the industry benchmark
- Computers and Mobile Phones make up the largest segment for sales.

Our firm recognizes Best Buys opportunity to capture market share based on changes in its current evolution and strategy change

- Accelerating online sales, reducing costs from SG&A, and finding a more optimized balance of margin generating products are Best Buy's growth factors moving forward
- From a product standpoint, Best Buy projects its future growth to derive from the newly released video game consoles
- Valuation grounded on a football field 7.8x EV/EBITDA Multiple; valuing Best Buy at \$ 16.9 billion



THE COMPUTER & ELECTRONICS RETAIL MARKET

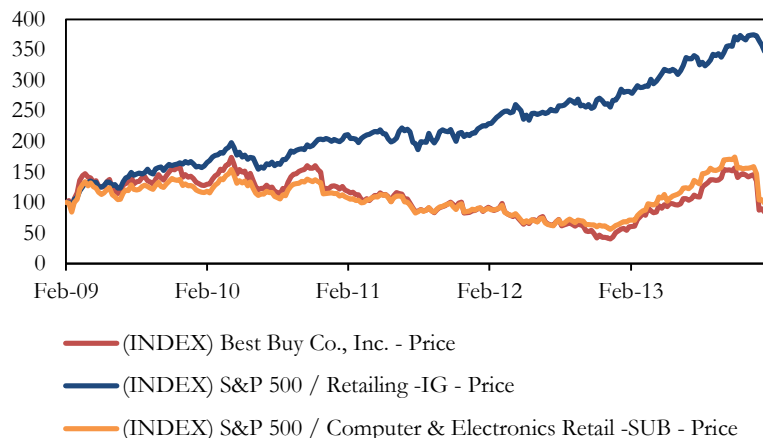
The computer & electronics industry contains a diverse set of competitors from retail giants Walmart and Amazon as well as electronic stores like RadioShack.

The market's growth is expected to increase at a consistent rate according to analyst's projections.

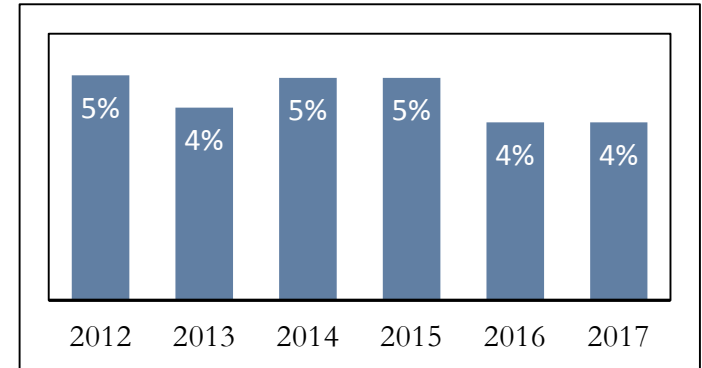
OVERVIEW

- Companies in Best Buy's industry specialize in offering consumers entertainment electronics, home office products, and appliances as well as services related to those products.
- Industry revenues tend to be cyclical with a seasonal spike coming in winter holiday seasons. Revenue generation depends on the ability to attract customers in stores and develop repeat customers.
- According to Hoovers, the US market is dominated by the largest companies in the industry. These 50 companies generate 70% of all annual sales.

Stock Price Growth Comparison



INDUSTRY GROWTH RATE



CONSISTENT INDUSTRY GROWTH

- Financial performance for the industry is projected to consistently grow at the same rate in the coming years.
- Analysts expect demand for smartphones and tablets to contribute to this growth estimate. A more significant driver of this growth is likely to come from the release of new video game consoles. (S&P)

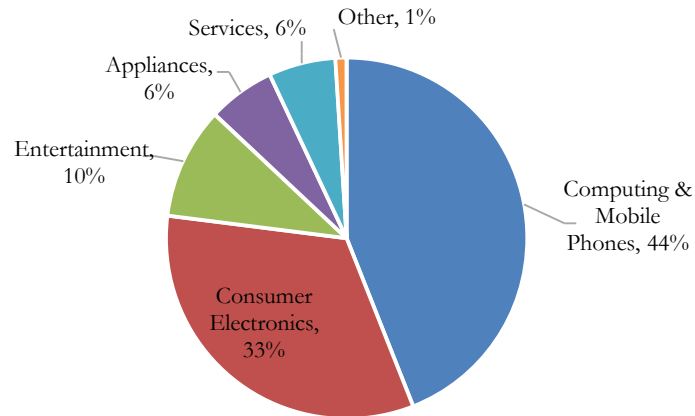


BEST BUY INDUSTRY STANDING

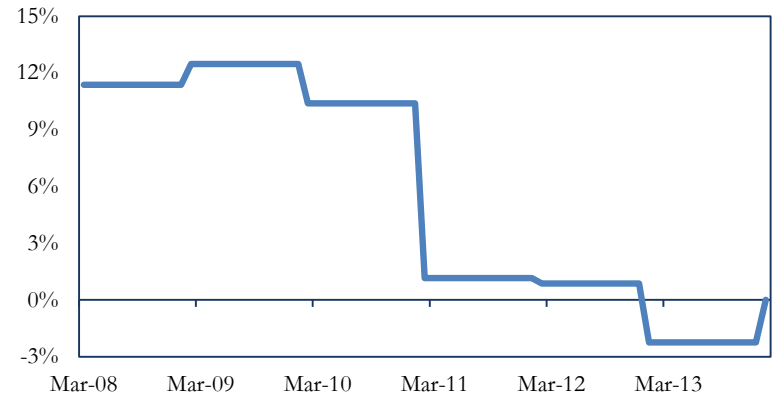
Computing & Consumer electronics make up over $\frac{3}{4}$ of total industry sales.

Best Buy has seen its sales growth decline over the past five years, underperforming against the S&P.

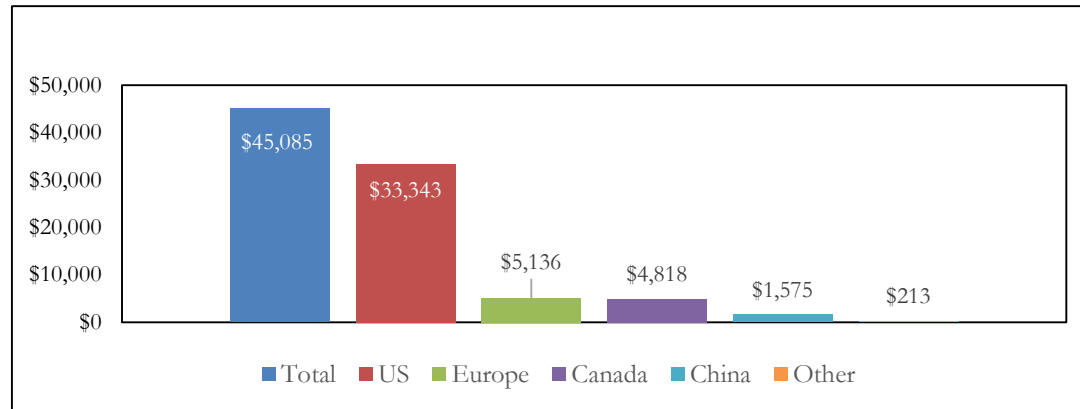
Best Buy Sales Distribution



BBY YoY% Sales Growth



GEOGRAPHIC BREAKDOWN





ANALYST PERSPECTIVE

Analyst agree on a “Buy” for Best Buys Stock even against a stock price downturn.

Analyst project the Earnings Per Share to increase 160%.*

*Current EPS: -1.19

BANK	OUTLOOK	PRICE TARGET	2014 Earnings Per Share	Estimated 2014 EV/EBITDA
J.P.Morgan	OVERWEIGHT	\$34	\$2.08	5.6x
CREDIT SUISSE	OUTPERFORM	\$40	\$1.79	5.0x
Deutsche Bank	BUY	\$36	\$1.86	4.5x
Jefferies	BUY	\$38	\$2.23	4.8x
OVERALL	BUY	\$37	\$1.99	5.0x

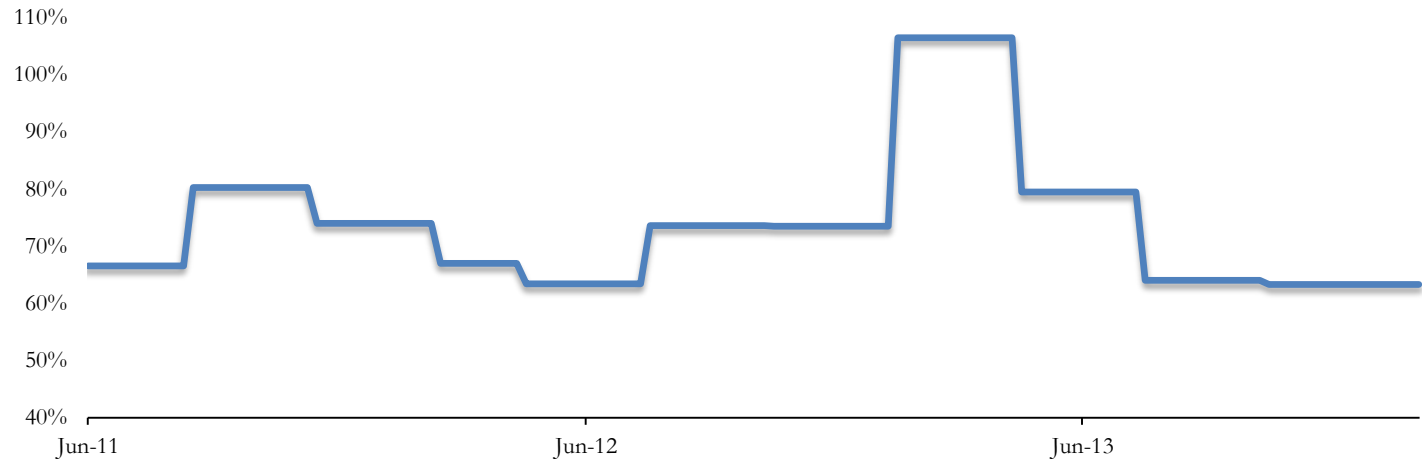


BBY EBITDA

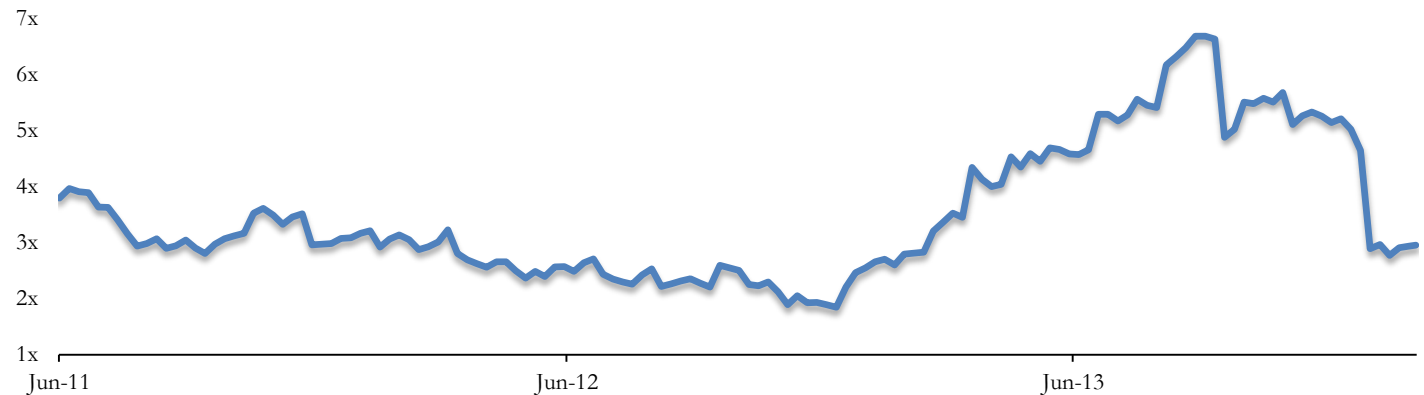
Relative to the past, BBY has a capable DEBT-to-EBITDA ratio indicating ability to handle debt easily.

BBY EV/EBITDA multiple stands at a substantial amount historically. Analyst predict the EBITDA multiple to grow in the upcoming years.

BBY DEBT % EBITDA

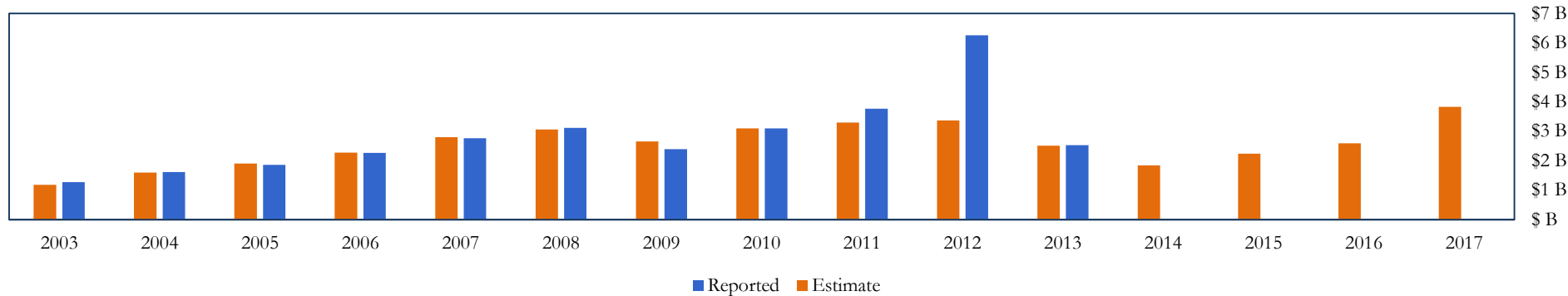


BBY EV/EBITDA

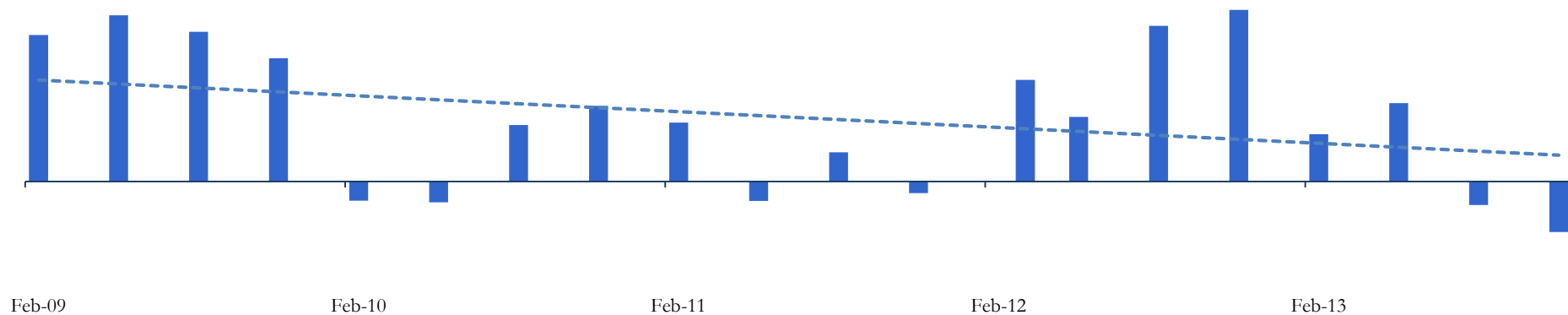




Reported & Estimated Earnings



Net Debt By Quarter



Net debt has been on a downward trend. Currently, BBY has enough cash to cover all debt.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

Company: Best Buy Co Inc

Ticker: BBY US Equity

Period: Current (2014 Q3)

Filing Status: Most Recent

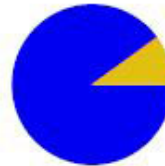
Cost of Capital

	Weight	Cost	Weight x Cost
Equity	89.90%	11.60%	10.50%
Debt	10.10%	1.70%	0.20%
Preferred Equity	0.00%	0.00%	0.00%

WACC

10.60%

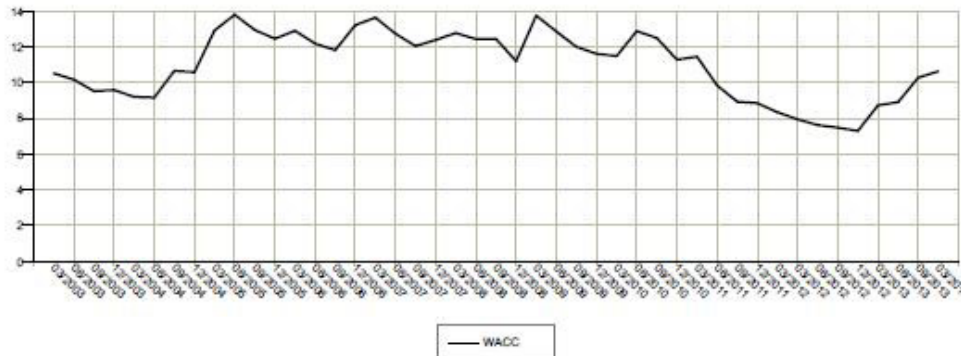
Capital Structure Graph



Capital Structure

	Millions of USD	
Market Capitalization	14,835.10	89.90%
Short Term Debt	45.00	0.30%
Long Term Debt	1,624.00	9.80%
Preferred Equity	0.00	0.00%
Total	16,504.10	100.00%

Historical Graph

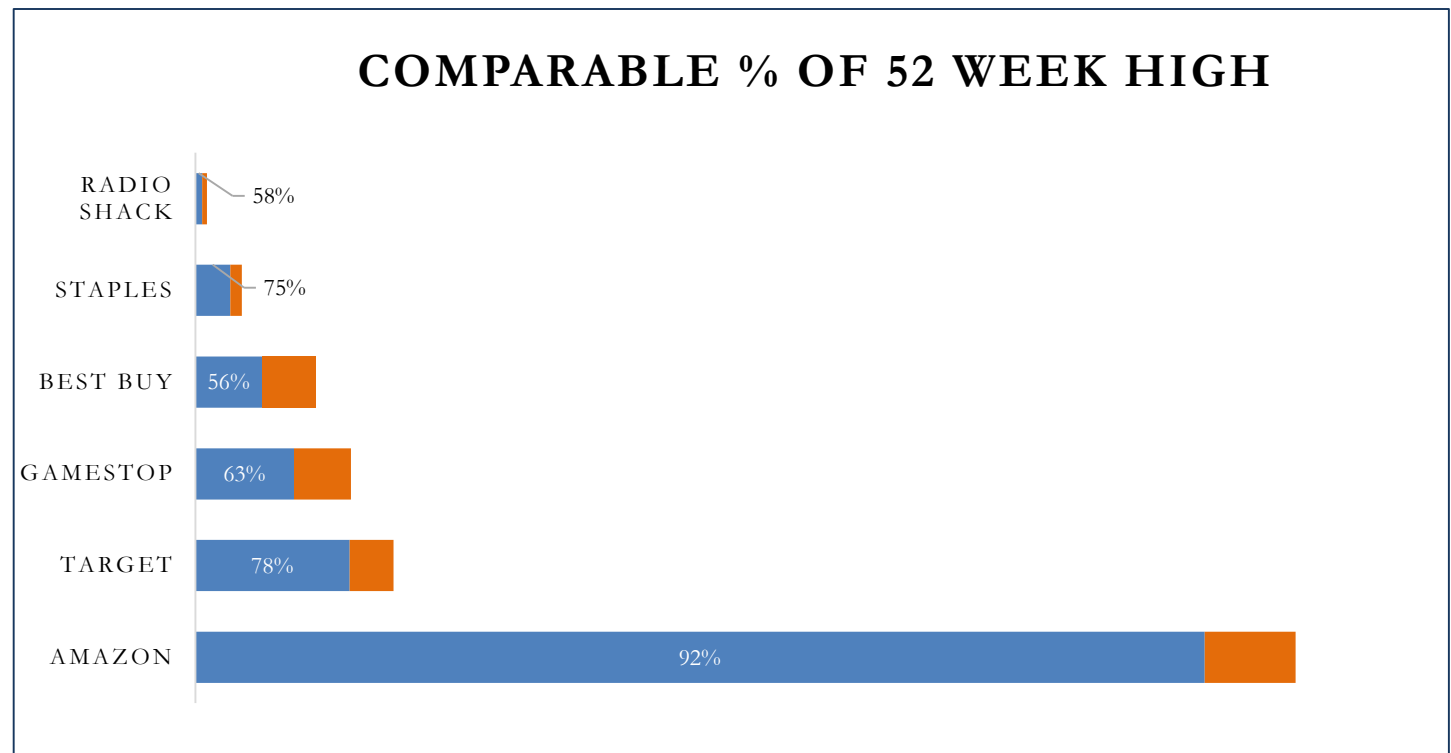


Economic Value Added

	Millions of USD
Net Operating Profit	1,596.00
Cash Operating Taxes	885.60
NOPAT	710.40
Total Investment Capital	5,504.00
Capital Charge	585.28
Economic Value Added	125.12
ROIC	12.91%
EVA Spread	2.27%



52 WEEK STOCK PRICE ANALYSIS





COMPARABLE COMPANIES

Company Name	Fiscal Period	Price	Market Value	Enterprise Value	EBITDA FY1	Enterprise Value			Price to Earnings (Basic) FY1	EPS 5 Yr Growth	EBITDA Margin FY1	EBITDA	
						SALES FY1	EBITDA FY1	EBIT FY1				Net Debt EBITDA	Interest Expense
Best Buy Co., Inc.	11/02/2013	24.88	8,608.7	7,794.7	1,868.1	0.19x	4.28x	7.09x	13.53x	-148.77	4.4%	-0.33x	23.19x
Maximum		537.37	479,328.1	455,578.1	58,919.7	1.85x	22.63x	52.30x	183.32x	642.52	32.5%	2.59x	450.61x
Minimum		2.53	253.4	296.9	-480.1	0.10x	3.69x	6.61x	10.63x	-812.63	-3.3%	-8.36x	-1.96x
Average		114.73	94,962.0	100,715.1	10,921.1	0.80x	9.52x	15.86x	35.29x	-17.62	8.9%	-0.28x	70.36x
Median		56.56	42,448.9	49,785.2	5,055.7	0.61x	8.06x	12.63x	20.30x	19.10	7.7%	0.24x	15.21x
Amazon.com, Inc.	12/31/2013	347.38	159,539.5	154,009.5	6,606.4	1.66x	22.63x	52.30x	183.32x	-60.53	7.4%	-1.34x	29.16x
Apple Inc.	12/28/2013	537.37	479,328.1	455,578.1	58,919.7	1.85x	5.71x	6.61x	12.57x	642.52	32.5%	-0.43x	252.98x
Wal-Mart Stores, Inc.	10/31/2013	74.85	242,197.5	301,904.5	36,886.3	0.61x	7.93x	10.42x	14.67x	50.24	7.7%	1.44x	16.05x
Lowe's Companies, Inc.	11/01/2013	46.54	48,672.9	57,597.9	5,720.9	1.08x	10.12x	13.88x	21.46x	24.26	10.7%	1.56x	12.35x
Sears Holdings Corporation	11/02/2013	40.98	4,362.4	8,903.4	-480.0	0.20x	--	--	--	-812.63	-1.3%	-8.36x	-1.96x
RadioShack Corporation	09/30/2013	2.53	253.4	402.9	-120.6	0.19x	--	--	--	-253.41	-3.3%	-2.02x	-1.32x
Target Corporation	11/02/2013	57.31	36,225.0	50,306.0	6,224.6	0.69x	8.06x	12.63x	18.04x	13.94	8.6%	2.09x	8.91x
hhgregg, Inc.	12/31/2013	9.65	284.6	296.9	63.3	0.10x	3.69x	11.81x	27.92x	-47.57	2.7%	0.17x	450.61x
Conn's, Inc.	10/31/2013	55.80	2,008.5	2,427.5	192.9	--	--	--	20.15x	105.22	16.2%	2.59x	11.27x
Home Depot, Inc.	11/03/2013	76.45	107,659.0	118,815.0	10,862.3	1.52x	11.05x	13.12x	20.44x	106.63	13.7%	1.04x	15.44x
Staples, Inc.	11/02/2013	12.98	8,484.7	9,075.6	1,787.6	0.39x	5.03x	6.86x	10.63x	-38.52	7.7%	0.31x	14.97x
Costco Wholesale Corporation	11/24/2013	114.91	50,528.5	49,264.5	4,390.5	0.45x	11.46x	15.10x	23.70x	58.45	3.9%	-0.36x	35.81x



PRECEDENT TRANSACTIONS

Target Company Name	Acquirer Company Name	Announcement Date	Transaction Value (MM)	Enterprise Value (MM)	Revenue - Target (LTM) (MM)	EV/EBITDA
Best Buy Europe Distributions Ltd.	Carphone Warehouse Group Plc	30-Apr-2013	\$783.68	\$1,567.35	\$5,112.85	-
Computer Software Holdings Ltd.	Advanced Computer Software Group Plc	08-Mar-2013	\$165.53	\$165.53	-	-
810 AC LLC	DSW, Inc.	01-Nov-2012	\$72.00	\$72.00	-	-
Buy As You View Ltd.	Rutland Partners LLP; Buy AS You View Ltd.	30-Oct-2012	\$53.04	\$53.04	-	-
Rosy Sun Investments Ltd.	HL Technology Group Ltd.	28-Oct-2012	\$83.87	\$83.87	-	-
Nosimo ZAO	re: Store Retail Group	03-Oct-2012	\$50.00	\$50.00	-	-
El Gallo mas Gallo de Alajuela SA	Regal Forest Holding Co. Ltd.	21-Sep-2012	\$200.00	\$200.00	-	-
Specialist Distribution Group (SDG) Ltd.	Tech Data Corp.	05-Sep-2012	\$352.99	\$352.99	\$1,747.35	-
PC Factory Ltda.	Roccas Retail	20-Feb-2012	\$60.00	\$60.00	-	-
Sigma Trade ZAO	Euroset-Retail LLC	06-Dec-2011	\$70.00	\$70.00	-	-
Eldorado LLC	PPF AS	22-Aug-2011	\$250.00	\$500.10	\$3,371.07	-
Bau da Felicidade Ltda. /121 Stores/	Magazine Luiza SA	13-Jun-2011	\$52.00	\$52.00	-	-
Tretti AB	CDON Group AB	28-Apr-2011	\$50.56	\$50.56	\$73.94	11.01
BelCompany BV	Vodafone Libertel NV	22-Mar-2011	\$170.21	\$170.21	-	-
Affinity Pte Ltd.	Spice i2i Ltd.	25-Jan-2011	\$100.00	\$100.00	-	-
EL Tec A/S (Denmark)	BAE Systems Plc	22-Dec-2010	\$211.52	\$211.52	\$61.17	-
Teleplan International NV	Gilde Buy-Out Management Holding BV	28-Nov-2010	\$222.08	\$222.08	\$367.73	5.48
Sirius Canada, Inc.	Canadian Satellite Radio Holdings, Inc.	24-Nov-2010	\$509.28	\$509.28	-	-
itX Group Ltd.	Avnet Australia No. 2 Pty Ltd.	13-Aug-2010	\$58.82	\$58.82	\$142.89	5.66
Matsuhaya Corp. KK	NEC Mobiling, Ltd.	26-Feb-2010	\$55.14	\$55.14	\$118.40	-
Taian Taishan Xiangsheng Technology Development Co.	Shandong Jiuyang Group Co. Ltd.	04-Jan-2010	\$197.74	\$197.74	-	-

Discounted Cash Flow Analysis for Best Buy

	Fiscal Year							CAGR
	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2013-2017
Sales/Revenue	\$49,747.0	\$50,705.0	\$42,708.8	\$43,563.0	\$44,869.9	\$46,216.0	\$47,602.5	2.7%
Revenue Growth		1.9%	-15.8%	2.0%	3.0%	3.0%	3.0%	
Less: COGS (excluding D&A)	36,229.0	37,035.0	33,163.4	32,672.2	33,652.4	34,662.0	35,701.8	
COGS as a % of Sales/Revenue	72.8%	73.0%	77.7%	75.0%	75.0%	75.0%	75.0%	
Less: SG&A Expenses	10,029.0	10,242.0	7,687.6	8,712.6	8,974.0	9,243.2	9,520.5	
SG&A as a % of Sales/Revenue	20.2%	20.2%	18.0%	20.0%	20.0%	20.0%	20.0%	
EBITDA	3,489.0	3,428.0	1,857.8	2,178.1	2,243.5	2,310.8	2,380.1	6.4%
Less: D&A	(968.0)	(1,078.0)	(667.5)	(750.00)	(750.00)	(750.00)	(750.00)	
D&A as a % of Capital Expenditures	130.1%	140.7%	89.0%	100.0%	100.0%	100.0%	100.0%	
EBIT	\$2,521.0	\$2,350.0	\$1,190.3	\$1,428.1	\$1,493.5	\$1,560.8	\$1,630.1	8.2%
Less: Provision for Taxes	(779.0)	(709.0)	(389.2)	(467.0)	(488.4)	(510.4)	(533.1)	
Tax-Effectuated EBIT	\$1,742.0	\$1,641.0	\$801.1	\$961.1	\$1,005.1	\$1,050.4	\$1,097.1	8.2%
Plus: D&A	968.0	1,078.0	667.5	750.0	750.0	750.0	750.0	
Less: Capital Expenditures	(744.0)	(766.0)	(750.0)	(750.0)	(750.0)	(750.0)	(750.0)	
Less: Increase in Net Working Capital	(222.0)	368.0	(100.0)	(200.0)	(200.0)	(200.0)	(200.0)	
Unlevered Free Cash Flow	\$1,744.0	\$2,321.0	\$618.6	\$761.1	\$805.1	\$850.4	\$897.1	9.7%

Total Enterprise Value

Terminal EBITDA Multiple

		9.0x	10.0x	11.0x
Discount	11.0%	\$15,568.7	\$16,981.2	\$18,393.7
Rate	10.0%	16,235.0	17,712.9	19,190.7
(WACC)	9.0%	16,937.6	18,484.5	20,031.4

Tax Rate	32.7%
Net Debt (mm)	(\$0.5)
Shares (mm)	338.600



VALUATION & ANALYSIS



Implied Valuation: \$16,990
Implied EV / EBITDA: 7.8x

52 Week High / Low Analysis:
Implied EV/EBITDA of 3.0x - 8.0x

\$6,534



\$17,424

Discounted Cash Flows Analysis:
Implied EV/EBITDA of 4.6x - 6.6x

\$10,019



\$14,375

Comparable Companies Analysis:
Implied EV/EBITDA of 11.6x - 13.6x

\$13,722



\$18,078

Precedent Transactions Analysis:
Implied EV/EBITDA of 6.3x - 8.3x

\$25,265



\$29,622

\$5,000

\$10,000

\$15,000

\$20,000

\$25,000

\$30,000

\$35,000



Buyback	15%
# of Shares	50.7
Value of SH	\$ 1,260.40
Debt Issuance	\$ 1,260.40
Est. Interest Expense @ 5%	\$ 63.02

New Capital Structure

Equity	\$ 7,142.28
Net Debt	\$ 1,259.90
TEV	\$ 8,402.18

Interest Expense	171.0201
EBITDA	2,178.00

Interest/EBITDA	7.9%
Net Debt/EBITDA	57.8%

Buyback

# of Shares	50.7
Value of SH	\$ 1,260.40

Value of SH

Debt Issuance

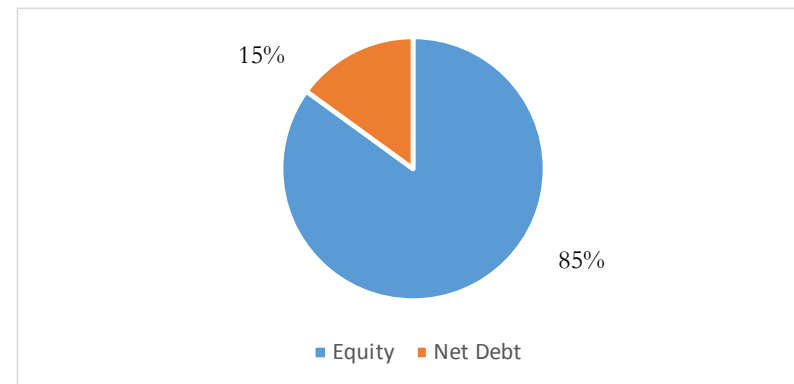
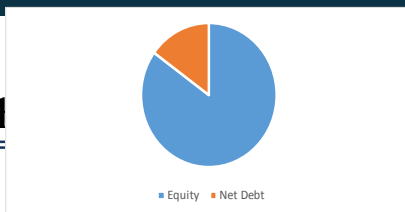
Est. Interest Expense @ 5%

New Capital Structure

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Interest/EBITDA	7.9%
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*In Million

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