# Best Buy

*AI Tailwinds, Margin Expansion, and a Mispriced Cash Engine*

**PT: $82.15**

**Upside: 18.1%**

**Recommendation: BUY**

**Dan Sonad**
Founder, Analyst
DanVal Capital
615-290-3842
daniel.sonad@vanderbilt.edu

**Thesis Summary:** I recommend a **Buy** on Best Buy (BBY) based on 3 factors:

1. **Mispriced upside from the AI PC upgrade wave:** the Street is underpricing BBY's non-price moat in advisory, demo & breadth by being too anchored to a commoditized view of consumer electronics, and is overlooking the structurally lower price elasticity from Windows 10 end-of-support (EOS) and rising AI workload adoption
2. **Underpriced margin upside from retail media ramp-up:** BBY's large, concentrated base of high-intent, high-spend electronics customers will command premium ad pricing from 3rd party vendors on its nascent Marketplace platform
3. **Heavily mitigated equity downside:** 9.3% forecasted yield from dividends & buybacks combined between FY '27 & 28

**Company Overview:** Best Buy (BBY) is North America's largest consumer electronics merchandiser, with a highly durable moat founded on scale, effective omnichannel execution, OEM-funded product catalog showrooms, and a national services arm across the product lifecycle. It is a cash generative, high payout business with relatively low reinvestment requirements. The company had FY '25 revenues, EBITDA and FCF of $41.5 billion, $2.6 billion, and $1.4 billion respectively, and a market cap of around $16 billion. Dividends and buybacks alone generated an 8.8% average annual yield on the equity (3.7% from dividends + 5.1% from buybacks) over the past 5 years, with over 95% of its free cash flow returned to shareholders. The company has a robust balance sheet with little net debt.

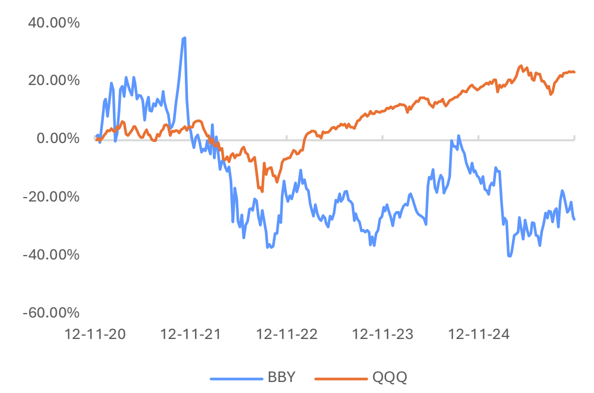
**Catalysts:** I see four underappreciated catalysts that position Best Buy to outperform in the next 12-24 months:

1. *AI PC & Windows 11 Upgrade Adoption at Inflection*: AI PC adoption is set to inflect from early adopters into the two-thirds of the market that rel on guided demos and expert advice—BBY's core lane as the only scaled, tech-specialist third-party channel—due to discovery friction from paradigm-shifting technology
2. *Win11 Adoption Inflection*: 3–6 month pre-Win 10 EOS replacement rates ran well above the prior 12–24M and should pull forward roughly $30B of AI & non-AI PC wallet into the next 12-24 months within a $47–50B U.S. PC market, echoing the Win7 cycle
3. *Ramp-Up of 3rd Party Vendor Enlistments*: Marketplace is ramping well above Street expectations (1,000+ sellers, ~11x SKUs, early non-endemic advertisers like PayPal, Klarna, & Capital One Shopping within the first 5 months)
4. *Ongoing store rationalization & structurally diminishing retail capex:* along with low working capital requirements, a recently modernized & vendor-supported supply chain, and OEM-funded in-store setups, will continue to augment capital return capacity

**Valuation:** Modelling bull, base, & bear case scenarios for BBY's upgrade wallet share from the AI PC super cycle, and ad business ramp-up & pricing power, I estimate an intrinsic value of between $51.54 and $106.44 per share, with a base case of $82.15. This implies an upside from -26.0% to 52.9%, with a base case of 18.1% which is skewed towards the bull case.

The stock is trading within 9% of its implied floor valuation of ~$63.23 using an LBO framework that assumes an 18–22% IRR (typical for mature, low-growth, defensible big-box retailers) and consensus FCF & EBITDA assumptions. BBY's defensible position, strong free cash flow, and low leverage make it a robust sponsor target.

**5 Year Price Performance**




**Enterprise Value Bridge**

| (in $MM except per share amounts) | |
|---|---|
| Current Share Price | $69.61 |
| Diluted Shares Outstanding (MM) | 212.1 |
| **Equity Value** | **$14,764** |
| Less: Cash & Cash Equivalents | ($923) |
| Plus: Total Debt | $1,155 |
| **Enterprise Value** | **$14,996** |

**Key Financials**

| *Fiscal Year* | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Revenue--Estimate** | **$43,452** | **$41,528** | **$41,559** | **$43,945** | **$42,195** |
| *YoY %* | *-6.1%* | *-4.4%* | *0.1%* | *5.7%* | *-4.0%* |
| **Revenue--Consensus** | **$43,452** | **$41,528** | **$41,868** | **$42,408** | **$43,223** |
| *YoY %* | *-6.1%* | *-4.4%* | *0.8%* | *1.3%* | *1.9%* |
| **EBIT--Estimate** | **$1,574** | **$1,262** | **$1,761** | **$2,795** | **$2,662** |
| *YoY %* | *-12.3%* | *-19.8%* | *39.5%* | *58.7%* | *-4.7%* |
| *EBIT Margin* | *3.6%* | *3.0%* | *4.2%* | *6.4%* | *6.3%* |
| **EBIT--Consensus** | **$1,574** | **$1,262** | **$1,777** | **$1,848** | **$1,969** |
| *YoY %* | *-12.3%* | *-19.8%* | *40.8%* | *4.0%* | *6.5%* |
| *EBIT Margin* | *3.6%* | *3.0%* | *4.3%* | *4.2%* | *4.7%* |
| **EPS--Estimate** | **$5.68** | **$4.28** | **$6.22** | **$8.84** | **$8.75** |
| *YoY %* | *-9.7%* | *-24.6%* | *45.4%* | *42.1%* | *-1.0%* |
| *Net Margin* | *2.9%* | *2.2%* | *3.2%* | *4.2%* | *4.2%* |
| **EPS--Consensus** | **$5.68** | **$4.28** | **$6.32** | **$6.74** | **$7.41** |
| *YoY %* | *-9.7%* | *-24.6%* | *47.7%* | *6.6%* | *9.9%* |
| *Net Margin* | *2.9%* | *2.2%* | *3.2%* | *3.3%* | *3.5%* |

**Trading Comparables**

| | | Consensus Forecasts | | | NTM Multiples | | |
|---|---|---|---|---|---|---|---|
| Name | Ticker | NTM Sales Growth | 2Y Sales CAGR | Operating Margin | TEV / EBIT | TEV / EBITDA | P/E |
| Target | TGT | 1.7% | 2.3% | 4.6% | 11.8x | 7.1x | 12.8x |
| Macy's | M | -3.5% | -3.0% | 4.2% | 9.9x | 4.9x | 10.4x |
| Currys | CURY-GB | 2.7% | 2.6% | 2.7% | 8.3x | 4.0x | 14.6x |
| Academy Sports | ASO | 6.1% | 6.5% | 8.7% | 6.9x | 5.5x | 8.8x |
| Dick's Sporting Goods | DKS | 29.2% | 15.5% | 8.0% | 11.3x | 8.8x | 14.3x |
| Bath & Body Works | BBWI | -2.0% | -0.2% | 13.2% | 8.3x | 6.5x | 8.0x |
| **Best Buy** | **BBY** | **1.3%** | **1.6%** | **4.4%** | **8.3x** | **5.4x** | **10.7x** |
| Minimum | | -3.5% | -3.0% | 2.7% | 6.9x | 4.0x | 8.0x |
| 25th Percentile | | -1.1% | 0.4% | 4.3% | 8.3x | 5.0x | 9.2x |
| **Median** | | **2.2%** | **2.5%** | **6.3%** | **9.1x** | **6.0x** | **11.6x** |
| **Mean** | | **5.7%** | **4.0%** | **6.9%** | **9.4x** | **6.1x** | **11.5x** |
| 75th Percentile | | 5.2% | 5.5% | 8.5% | 11.0x | 7.0x | 14.0x |
| Maximum | | 29.2% | 15.5% | 13.2% | 11.8x | 8.8x | 14.6x |

## Company & Industry Context:

*Company Description*

Best Buy is the world's largest consumer electronics retailer. It offers:

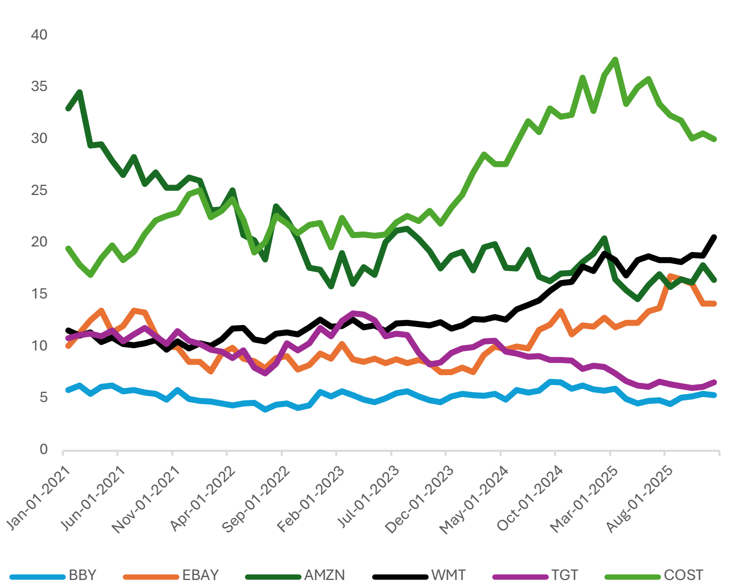
1. Computing & Mobile Phones: desktops, laptops, phones, & wearables
2. Consumer Electronics: digital imaging, health & fitness, home theatre (soundbars, TVs etc.), portable audio, & smart home
3. Appliances: Complete range of household appliances
4. Entertainment: drones, gaming, VR, toys and software
5. Services: high-margin in-house delivery, installations, set-up, repair, & other services that support the full technology lifecycle, in addition to membership & health-related services
6. Others: Baby, food processors, outdoor living & other (see Appendix A)

The company has had no revenue growth in the past 10 years due to the declining share of electronics sales in the retail channel and a maturing market. Membership has not been game-changing, as since 2018, less than 4% of the company's online base has enrolled in a paid-tier (roughly 8 million members) due to its limited value proposition. The firm has been unable to drive broad membership uptake as its product assortment is concentrated in long-life hardware with few recurring items.

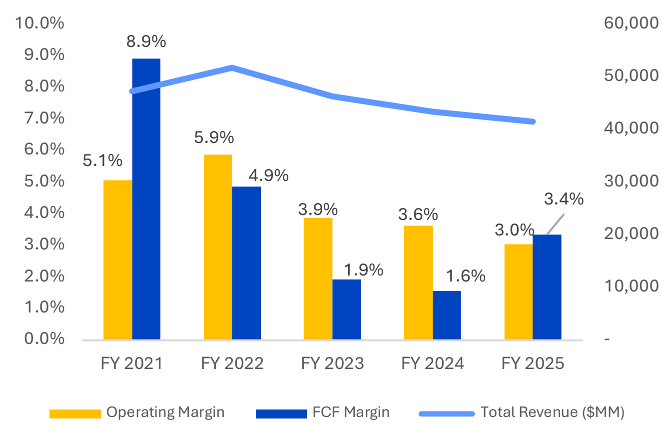
Best Buy primarily functions as a merchandiser, purchasing products in bulk from OEMs and retailing them through its integrated in-store and online channels. It operates over 1,000 stores across the U.S. and Canada, encompassing more than 37 million square feet of retail space.

BBY underperformed its peers & its relative discount increased sizeably this year to reflect. At 8.3x NTM EV / EBIT, it currently trades at the 25th percentile of its peer group at a 13% discount to the median, reflecting an NTM EPS growth & operating margin just above the bottom quartile, and the outsized impact of both a near-term macro downturn and tariff-demand elasticity on its highly cyclical, price-sensitive revenue. The stock has been flat over the past 3 years due to post-COVID demand normalization.

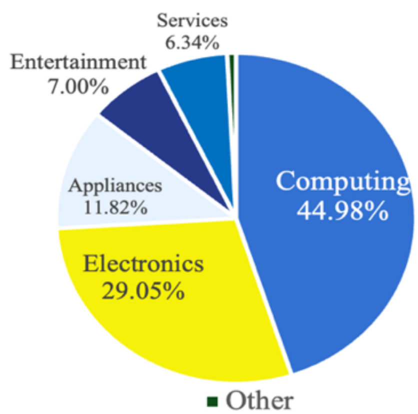
**Historical EV/EBITDA Multiple vs Retail Peer Group**



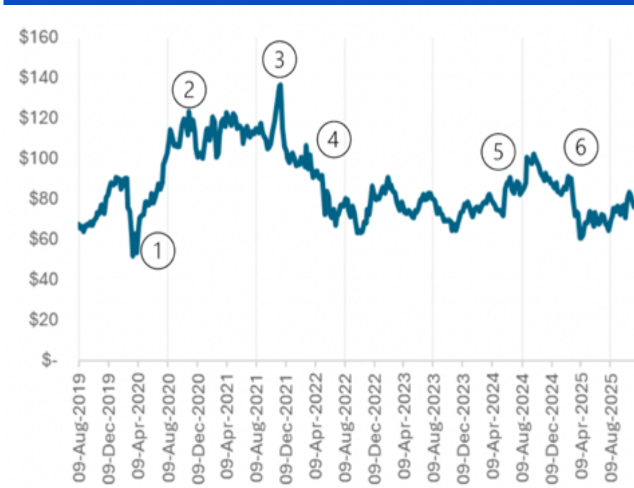

**5 Year Revenue, FCF & EBITDA**




**FY '25 Revenue Breakdown**




**Annotated Chart**



1. Covid Demand Surge drives stock price
2. Strong results and pandemic sales momentum
3. All-time high after holiday demand
4. BBY cuts FY outlook as electronic demand collapse
5. Stabilization in demand and improved service mix
6. Price plunges after tariff warnings will weigh on profits

*Market Overview*

Despite a roughly 2-3% annual share erosion in the past 5 years, retail still dominates over 60% of tech sales as many customers still rely on expert advice and inspecting products in-person when they are uncertain about what to purchase. E-commerce's strongest use case, which is enabling customers to search for specific products or SKUs, is eliminated when shoppers lack sufficient product knowledge and awareness to form a search

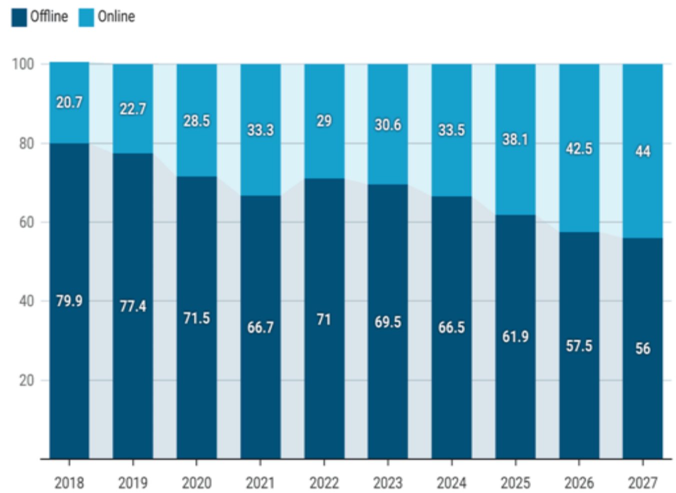
Best Buy has built a defensible moat in retail tech sales because it is the only retailer that leverages pure-play electronics and a dense omnichannel store network, with multi-vendor OEM showrooms and a national services & installation arm. The company dominates offline tech sales at 33% market share (2/3rds of its FY'25 revenue mix). This affords it the significant category bargaining power to gain exclusive SKUs (and an assortment depth that retail generalists can't match) and aggressively price-match with e-commerce sites to avoid "showrooming" (i.e. demoing in-store to purchase online at a lower price)

To protect margins, increase basket size, and better mix than traditional big-box layouts, BBY skews its assortment toward mid-to-high-end products and allocates significant floor space to OEM-branded demo "shop-in-shops," enabling it to maintain typical retail operating margins, despite facing much more intense competition from e-commerce on price & breadth. OEMs fund the fixtures, dedicated staffing, and immersive merchandising, giving BBY a conversion and attachment uplift at no incremental cost. The company hosts more than 1,400 Samsung Experience Shops, alongside Microsoft and longstanding Apple shop-in-shops, among dozens of others.

The high capital barriers, the industry's abysmal margins and the breadth of services and installation capability that BBY offers through Geek Squad—a 20,000 person service workforce—renders the company's business model & scale extremely difficult to replicate for consumer electronics. Competing direct 3rd party retailers were eliminated post-GFC. There is not, nor is there room for, a second, scaled consumer electronics brick-and-mortar retailer.

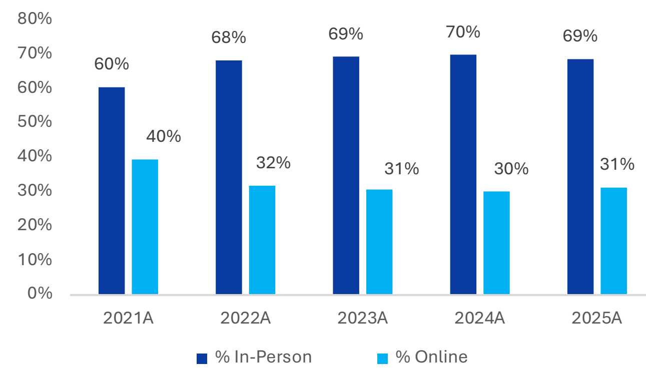
OEMs gain substantial retail space at a lower cost than directly building & operating individual stores, while enriching BBY's customer experience as it's paired with a broad, side-by-side assortment across brands and categories, enabling comparison shopping and complementary add-ons for more complex setups (e.g., gaming rigs, networking, and home-theater systems).

**Electronics Sales by Distribution Channel**

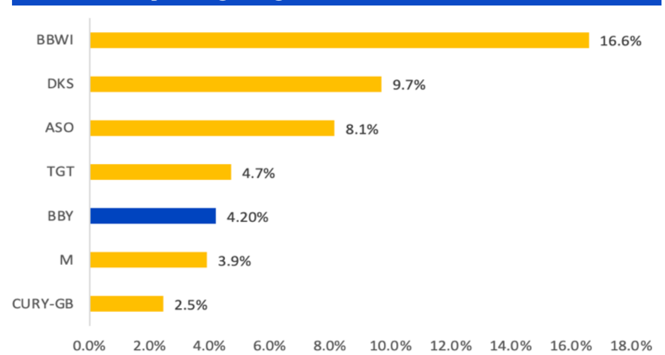



**Source: Market.us**

**Online vs In-Store Sales Mix**




**Operating Margins vs other Retailers--TTM**




However, it fails to dominate in e-commerce—historically a second channel for the company to drive foot-traffic to its stores—holding just 7% of the market for online consumer electronics sales (see Appendix B for calculation methodology). Online sales have been stagnant over the past 5 years (post a 10% structural boost to revenue mix since COVID). It can't defeat online players' marketplace breadth and cost advantage, as low overhead enables e-commerce platforms to carry lower margin, low ticket SKUs.

*Marketplace & Ads*

Marketplace (3P) & ads are the company's two secular growth engines. After an early, underpowered US marketplace attempt a decade ago, the company spent years refining the model in Canada, where it grew GMV sevenfold since 2016 and proved that it can vet sellers, substantially expand assortment, and protect the customer experience without taking inventory risk or cannibalizing the core business. That playbook underpins the new US Marketplace, which launched in 2025, particularly in long-tail accessories and adjacent categories, while keeping returns, policies, and brand control inside the Best Buy umbrella.

*Business Drivers: Cyclicality, Logistical Operations & Vendor Relations*

BBY is a heavily event-driven business vs traditional retail, driven by both seasonality (i.e. "drive times"—back-to-school, Black Friday, Christmas etc.), and tech product launch & upgrade cycles (e.g. Switch, Windows 10 EoL, AI PCs)

The firm's supply chain boasts the same fulfilment speed & efficiency for both next & same-day delivery as that of Amazon while requiring marginal capex to be maintained & expanded for three key reasons:

1. *It receives high vendor support*—vendors fulfill a material portion of their own shipments as part of the Supplier Direct Fulfilment program, allowing BBY to expand product assortment without expanding distribution footprint
2. *It's very recent, and in-place largely as part of the recent overhaul under Renew Blue*
3. *It leverages its stores as mini-fulfillment centers*—the geographic proximity of the firm's massive store footprint to major American population centers is a substantial inherent advantage.

However, the company's supply chain faces concentration risks in China (where, by the CEO's admission, 30-35% of the company's merchandise originates, down from 55% at the end of FQ4 '25 in late March), and in a select number of OEMs. BBY's working capital needs are low due to its robust bargaining power with its suppliers, as it boasts a cash conversion cycle of just 11 days.

## Thesis:

***1.*** *The market is underpricing BBY's upside to the AI PC upgrade cycle*

a. The Street's base case underwrites only modest category recovery, driven by replacement cycle demand & weighed down by consumer price sensitivity, and undervalues BBY's non-price moat

b. The street is overstating consumer price elasticity & current quarter promotional activity. Price elasticity will be lower than the Street implies as Win10 EOS pulls forward non-discretionary upgrade demand over the next 12–24 months by eroding driver and application compatibility and raising security risk:

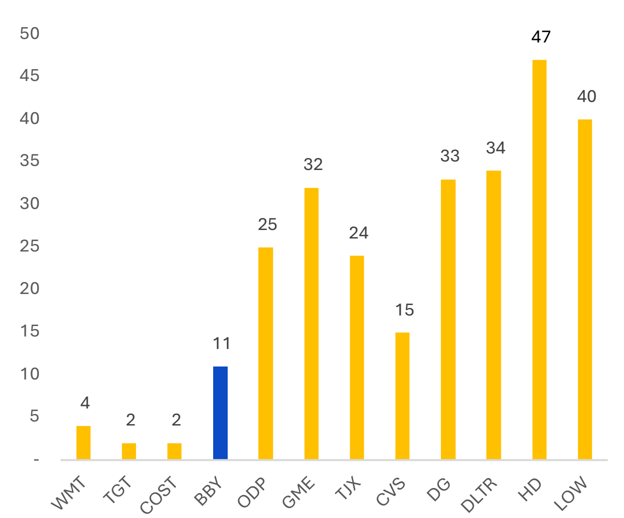
i. Consumers upgraded to Win11 compatible PCs at a faster pace than to Win10. Roughly 21% of the Win10 install base (as implied by its market share falling from 54.2% to 41.7%) upgraded to Win11 vs 20% for Win7 upgrades to Win10 over the 6 months leading up to their respective EOS' in January 2020 and October 2025 respectively

ii. Hardware replacements (which are being carried out at higher ASPs for the first time in 7 years) is the main driver, rather than software installs, as 70+% Windows 10 PCs encounter RAM-related failures when attempting to upgrade to Win11, per Lansweeper (whereas all Win7 compatible PCs could run Win10)

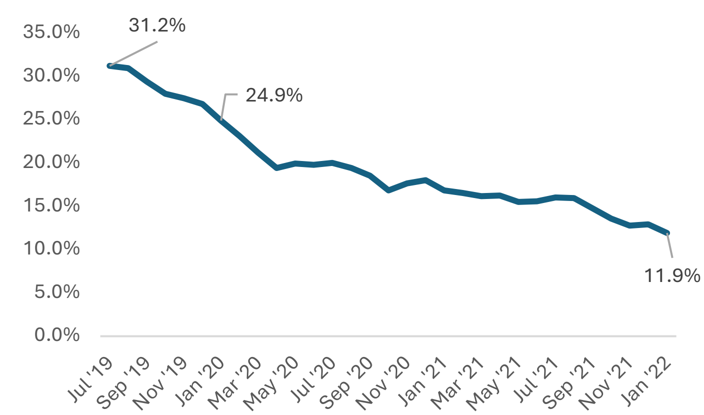
c. The Street is also undervaluing BBY's non-price moat in assuming that price-led competition by big-box generalists like Target, Walmart, Costco & e-commerce caps incremental wallet capture

i. It beats e-commerce because discovery friction will rise as AI PCs go mass-market. The core online use case of searching for

**Cash Conversion Cycle**

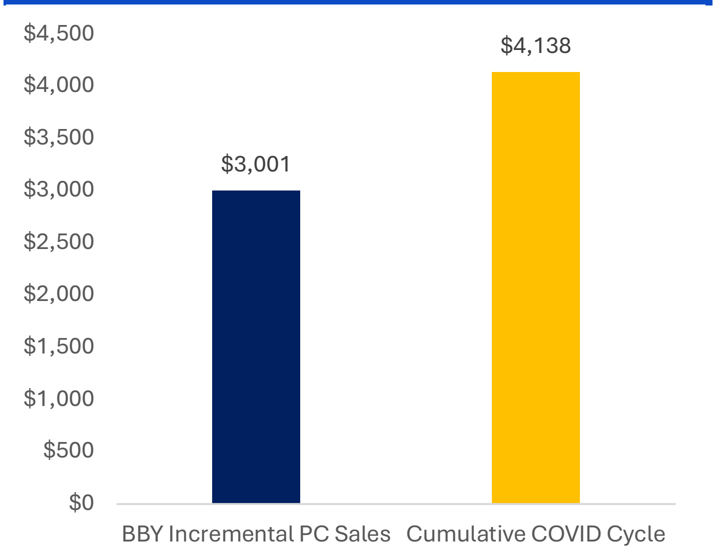



**Windows 7 Market Share—6 Months Pre-EOS to 2 Years Post**




**Source: Statista**

**Wallet Share During the COVID Upgrade Cycle ($MM)**




**Source: Statista for market demand uplift data (post-BBY store reopening)**

Incremental uplift to BBY is calculated as the difference between post-reopening sales across computing, electronics, and entertainment (to capture bundling and cross/up-sell effects) and the four-year pre-COVID average in PC sales, to estimate lift over the structural baseline.

specific specs & SKUs breaks down when there's a steep education curve, and expert advice & live demos become the default path to purchase

ii. It beats big-box generalists with deeper SKU & category breadth plus trained advisors and demos, and it beats OEM-direct by letting shoppers compare competing brands and complementary categories for larger setups side-by-side in one trip.

d. BBY captured 72.5% of the PC upgrade wallet during the COVID upgrade cycle (vs 39.5% market share in "normal" markets) between July 2020 (post-store reopening) and late CY2021

i. The company materially outperformed in sales growth post-reopening, delivering mid-pack PC sales growth versus its OEM suppliers during the 2020–2021 upgrade cycle—despite missing an estimated 1/3rd of the cycle's unit growth concentrated in the spring post-lockdown period, when stores were capacity-constrained and appointment-only

ii. It rises near the top when excluding Dell (enterprise-demand tailwind) and Asus (product innovation-led gains)

iii. In addition to direct PC wallet capture, BBY amplifies incremental sales dollars through bundling and attach by using the PC purchase as an anchor to drive cross-sell into higher-margin accessories, software, warranties, and Geek Squad services

e. This advantage is already visible in vendor programs, as Microsoft has made BBY the exclusive carrier for 40% of its Copilot+ assortment. It also carries the widest lineup of SKUs (40+ models) across the 5 biggest OEMs (DELL, HPQ, Lenovo & Asus), and has over 30,000 specially trained Copilot+ Blue Shirt and Geek Squad experts nationwide

i. OEMs are incentivized to maintain partnerships because BBY's scale and advisory layer efficiently drive demo-led conversion

2. *The Market is Underpricing the Upside to the Ad Business from Best Buy Marketplace*

a. The Street values Best Buy Ads like a standard retail media bolt-on, not as an engine that captures outsized ad budgets

b. Advertising on Marketplace has a substantial value proposition to vendors due to access to a concentrated base of high-intent, high-ASP customers over generalist (e.g. Amazon) and lower-ticket e-commerce platforms (e.g. NewEgg)

i. The ARPU from a BBY customer is 66% higher than the industry average—at roughly $137 vs $82 in FY '25

3. *A highly attractive 9.3% annual yield de-risks the opportunity*

a. BBY is continuing to shut down 1-3% of its stores annually, as it has consistently for the last 6 years

b. Retail business-related capex is less than 15% of free cash flows

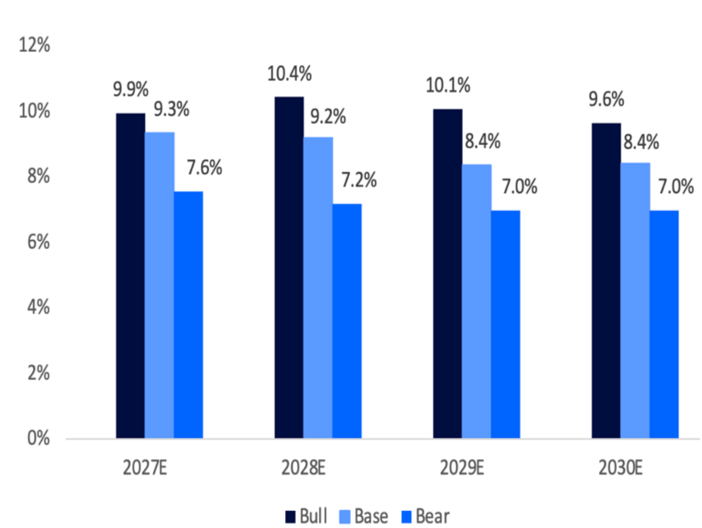
c. Average total yield from dividends & buybacks between FY '27 & '28 ranges from an attractive 7.4% in the bear case, to 10.2% in the bull case, with base case skewed upwards at 9.3%

**Catalysts:**

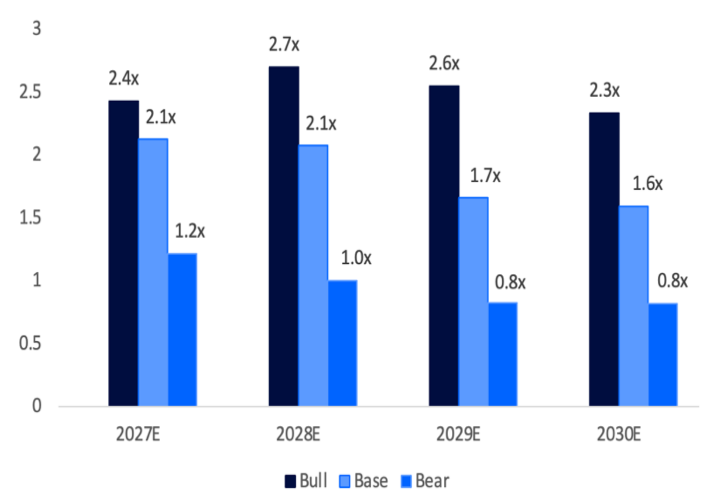
1. Inflecting AI PC Adoption

a. At 31% of overall shipments in 2025, AI PC sales are currently skewed toward tech-inclined early adopters who disproportionately purchase through OEM-direct channels or e-commerce

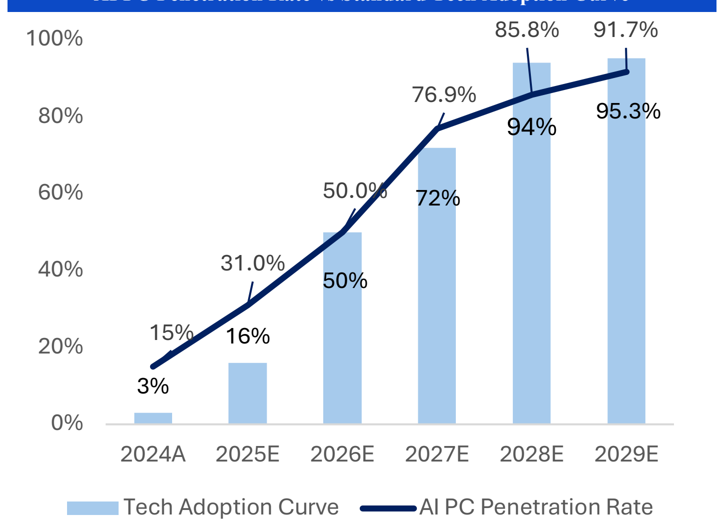
**Combined Dividend & Repurchase Yield Across Scenarios**




**Unlevered Free Cash Flow Dividend Coverage Ratio**

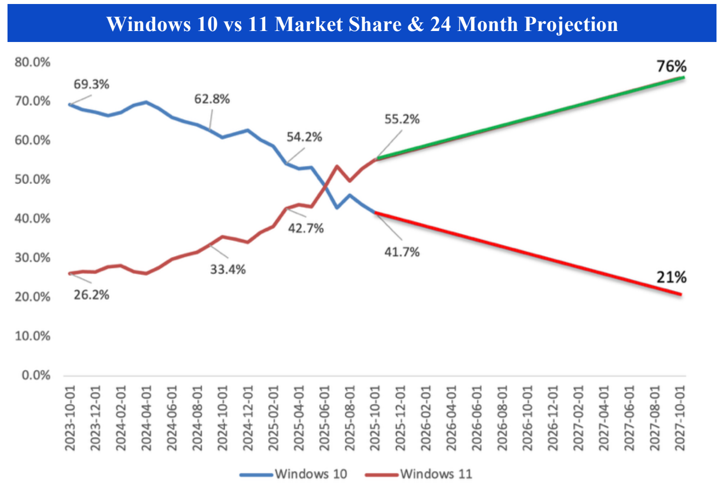



**AI PC Penetration Rate vs Standard Tech Adoption Curve**



b. As penetration moves into the majority & laggards (roughly two-thirds of the market), BBY's wallet share as the only scaled, tech-specialist third-party channel will inflect as these buyers lean on guided demos and expert advice

c. Roughly 75% penetration within 2 years and almost complete adoption by between 2028 and 2030 is implied by both a typical S-curve for consumer electronics & research firms Gartner and Canalys




**Source: Statista for historical figures, projection based on Win7 Cadence**

**2.** Inflecting Win 11 Upgrades

a. The Win10 upgrade cadence is accelerating—monthly replacement rates over the 3- and 6-month windows into mid-October EOS were substantially higher than the prior 12- and 24-month periods (when Win10 share peaked around ~72% of Windows devices) at a monthly rate of 3% vs 1.3%

b. Windows 10 EOS should pull forward roughly $30B of both AI & non-A) replacement wallet into the next 24 months—via accelerated cadence and richer mix (not additive market demand) within a U.S. PC market running at $47–50B of annual sales—based on the Win7 cycle, where 50% of devices still on the legacy OS at EOS were replaced or upgraded within two years

**3.** Marketplace vendor ramp

a. Marketplace is scaling quickly—now at roughly 1,000 sellers and 11x more SKUs—supporting incremental "My Ads" sign-ups and GMV growth.

b. Management also highlighted robust early non-endemic advertiser participation (e.g., PayPal, Klarna & Capital One Shopping).

**4.** Store rationalization & lower legacy capex

a. Ongoing store wind-down and declining capex needs in the legacy business create incremental capacity for shareholder returns.

## Risks & Mitigating Factors:

1. High supply chain concentration in China amplifies tariff uncertainty
   i. BBY only imports 2-3% of its own merchandise, mitigating the direct hit from tariffs
   ii. The market is also overstating tariff-driven demand elasticity in PCs, as it will be dulled by a structural shift toward higher-baseline-performance machines for AI workloads, a large pandemic-era install base approaching obsolescence, and Win10 EOS
2. Weak TV and appliance sales due to lack of innovation & dulled housing starts respectively
   i. Mitigated by robust near-to-medium-term momentum in other parts of the company's diversified category portfolio across mobile, entertainment, and non-PC electronics—manifesting itself in:
   - Ongoing multi-year mobile upgrade cycle that has recently driven carrier investment in BBY in-store mobile showrooms
   - GTA VI & PS6 concurrent releases in late 2026 & through 2027, further amplified by cross & upsells
   - Robust momentum in wearables & AR, where the company is uniquely positioned to capturing an outsized portion due to the need for live demos & expert guidance
3. Macro downturn weighing considerably on discretionary consumer electronics spending, delaying & protracting the upgrade cycle while boosting near-term promotional activity
   i. Win10 upgrades are tracking above trend & AI PC adoption is inflecting healthily in-line with a classic electronics S-curve, while the Street is modelling only flat-to-modest category recovery in the base case
4. Sensitivity of shareholder yield to free cash flow
   i. The dividend, which represents 60–67% of the total yield over the forecast horizon, remains well protected even in the bear case, with a coverage ratio of 1.0x–2.7x over the next two years
   ii. The buyback, is the component that flexes with FCF, but even in the bear case, it still supports a 7–10% total annual shareholder yield over the next 2 years.

## Valuation:

*DCF Valuation*

## DCF Summary

| BestBuy Inc. | FQ4 '26E | 2027E | 2028E | 2029E | 2030E | 2031E |
|---|---|---|---|---|---|---|
| | | | Forecast Period | | | |
| *Model Scenario* | *Base* | | | | | |
| **Revenue** | $13,682 | $43,945 | $42,195 | $38,181 | $37,485 | $36,990 |
| *YoY Growth* | *-1.91%* | *5.74%* | *-3.98%* | *-9.51%* | *-1.82%* | *-1.32%* |
| **Gross Profit** | $2,942 | $10,012 | $9,829 | $9,225 | $9,196 | $9,228 |
| % Margin | *21.5%* | *22.8%* | *23.3%* | *24.2%* | *24.5%* | *24.9%* |
| **EBITDA** | $1,413 | $3,408 | $3,145 | $2,526 | $2,581 | $2,722 |
| *% Margin* | *10.3%* | *7.8%* | *7.5%* | *6.6%* | *6.9%* | *7.4%* |
| Depreciation & Amortization | (743) | (613) | (483) | (398) | (390) | (451) |
| **EBIT** | $671 | $2,795 | $2,662 | $2,128 | $2,191 | $2,272 |
| Taxes | (169) | (918) | (859) | (687) | (707) | (733) |
| **NOPLAT** | $502 | $1,877 | $1,803 | $1,442 | $1,484 | $1,539 |
| (+) Depreciation & Amortization | 743 | 613 | 483 | 398 | 390 | 451 |
| (-) Capital Expenditures | (680) | (706) | (683) | (634) | (624) | (616) |
| (-) Change in Net Working Capital | 22 | 539 | 27 | 59 | 12 | 9 |
| **Free Cashflow** | $587 | $2,323 | $1,630 | $1,264 | $1,262 | $1,382 |
| **PV of Free Cashflow** | $580 | $2,019 | $1,291 | $911 | $828 | $826 |

## DCF Output

### Intrinsic Value

| | |
|---|---|
| WACC | 9.80% |
| Exit EBITDA Multiple | 6.9x |
| Terminal Value | 17,884 |
| **Present Value of Terminal Value** | **$11,741** |
| PV of Free Cashflow | 5,629 |
| **Enterprise Value** | **$17,370** |
| Net Debt | (434) |
| **Equity Value** | **$17,804** |
| Diluted Shares Outstanding | 216.6 |
| **Implied Share Price** | **$82.20** |
| **Share Price as of Dec. 19, 2025** | **$69.61** |
| **Upside (Downside)** | **18.08%** |

## Sensitivity Analysis

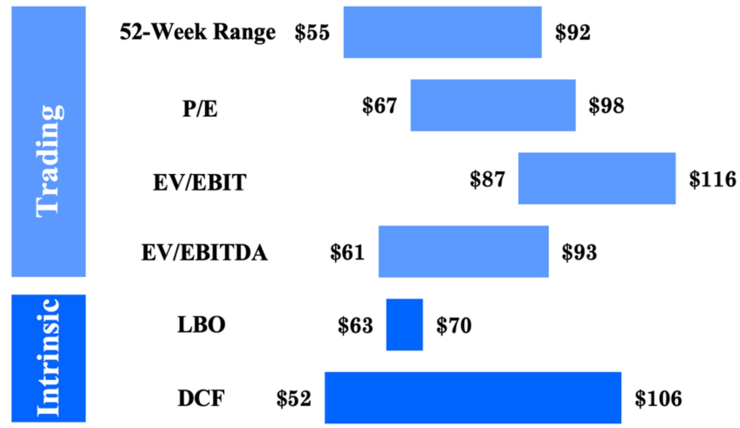
WACC

| Exit Multiple | 8.81% | 9.11% | 9.41% | 10.91% | 12.41% |
|---|---|---|---|---|---|
| 4.00x | $61.16 | $60.58 | $60.02 | $57.30 | $54.77 |
| 5.00x | $69.31 | $68.63 | $67.97 | $64.78 | $61.81 |
| 7.00x | $85.60 | $84.73 | $83.87 | $79.74 | $75.88 |
| 8.00x | $93.75 | $92.78 | $91.82 | $87.21 | $82.92 |
| 8.50x | $97.83 | $96.80 | $95.79 | $90.95 | $86.44 |

| | 8.81% | 9.11% | 9.41% | 10.91% | 12.41% |
|---|---|---|---|---|---|
| 4.00x | -12.1% | -13.0% | -13.8% | -17.7% | -21.3% |
| 5.00x | -0.4% | -1.4% | -2.4% | -6.9% | -11.2% |
| 7.00x | 23.0% | 21.7% | 20.5% | 14.5% | 9.0% |
| 8.00x | 34.7% | 33.3% | 31.9% | 25.3% | 19.1% |
| 8.50x | 40.5% | 39.1% | 37.6% | 30.7% | 24.2% |

**12-Month Share Price Projection**


**Enterprise Value to Equity Value Bridge**




**Comps range: low-end uses the peer minimum multiple; high-end uses the peer mean multiple**

See Appendix C-E for the full breakdown of assumptions & three-statement model drivers

*Trading Analysis*

BBY trades between a 7% to 12% discount versus a broad retail peer set (none of which direct competitors) across NTM EV/EBITDA, EV/EBIT, and P/E. The most adequate multiple is EV/EBIT due to BBY's relatively lower leverage and lower D&A burden relative to operating income. On that multiple, BBY trades at roughly a 13% discount to the peer median and sits around the 25th percentile, which is consistent with Street's expectations for 12–24 month sales growth and NTM operating margin that are only modestly above the low-quartile of peers. The discount has widened by roughly 3 to 5% versus the prior three-year average due to outsized near-term pressure from tariff-driven price elasticity and cyclical headwinds.

On a relative basis—assuming no rerating and upside driven solely by above-consensus cyclical EBIT—BBY is between 27% overvalued and 43% undervalued across scenarios. The base case implies a roughly 25% undervaluation, with the distribution skewed to the upside.

I do not underwrite a sustained rerating, as I do not hold an out-of-consensus view on BBY's structural quality and my upside is catalyst-driven. To capture cyclical upside without capitalizing it as structural, I value BBY on my FY'27–FY'28 EBIT (materially above consensus through FY'28) but assume it normalizes rapidly thereafter to reflect demand pull-forward—consistent with BBY's operating leverage-driven mid-double-digit operating income expansion and subsequent mid-double-digit contraction during the COVID upgrade cycle. The appropriate EV/EBIT multiple warrants a market-implied 17% discount to its current EV/EBIT multiple to reflect the transitory nature of the uplift, grounded in the COVID-era downrating when the NTM EV/EBIT compressed from 12.7x to 10.5x even as the stock rose roughly 36% in mid-2020 and then remained range-bound for roughly a year (see Appendix F). I exclude the outlying October 2021 observation—when price and multiples expanded roughly 20% in tandem—because it was driven by sector-wide retail strength and holiday optimism, in lieu of BBY-specific fundamentals.

**Enterprise Value to Equity Value Bridge**

| | | Market Data ($MM) | | | NTM Financial Metrics ($MM) | | | Median Consensus Forecast | | | NTM Multiples | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Ticker | Market Capitalization | Net Debt | Enterprise Value (TEV) | EBITDA | EBIT | Net Income | NTM Sales Growth | 2Y Sales CAGR | NTM Operating Margin | TEV / EBIT | TEV / EBITDA | P/E |
| Target | TGT | 45,008 | 12,677 | 57,685 | 8,100 | 4,906 | 3,509 | 1.7% | 2.3% | 4.6% | 11.8x | 7.1x | 12.8x |
| Macy's | M | 6,211 | 2,432 | 8,643 | 1,778 | 871 | 596 | -3.5% | -3.0% | 4.2% | 9.9x | 4.9x | 10.4x |
| Currys | CURY-GB | 2,085 | 0 | 2,085 | 524 | 252 | 143 | 2.7% | 2.6% | 2.7% | 8.3x | 4.0x | 14.6x |
| Academy Sports | ASO | 3,663 | 195 | 3,858 | 707 | 563 | 414 | 6.1% | 6.5% | 8.7% | 6.9x | 5.5x | 8.8x |
| Dick's Sporting Goods | DKS | 18,900 | 1,084 | 19,984 | 2,268 | 1,769 | 1,318 | 29.2% | 15.5% | 8.0% | 11.3x | 8.8x | 14.3x |
| Bath & Body Works | BBWI | 4,045 | 3,654 | 7,699 | 1,184 | 928 | 503 | -2.0% | -0.2% | 13.2% | 8.3x | 6.5x | 8.0x |
| **Best Buy** | **BBY** | **15,078** | **242** | **15,320** | **2,823** | **1,848** | **1,406** | **1.3%** | **1.6%** | **4.4%** | **8.3x** | **5.4x** | **10.7x** |
| **Minimum** | | | | | | | | -3.5% | -3.0% | 2.7% | 6.9x | 4.0x | 8.0x |
| **25th Percentile** | | | | | | | | -1.1% | 0.4% | 4.3% | 8.3x | 5.0x | 9.2x |
| **Median** | | | | | | | | **2.2%** | **2.5%** | **6.3%** | **9.1x** | **6.0x** | **11.6x** |
| **Mean** | | | | | | | | **5.7%** | **4.0%** | **6.9%** | **9.4x** | **6.1x** | **11.5x** |
| **75th Percentile** | | | | | | | | 5.2% | 5.5% | 8.5% | 11.0x | 7.0x | 14.0x |
| **Maximum** | | | | | | | | 29.2% | 15.5% | 13.2% | 11.8x | 8.8x | 14.6x |

| Relative Valuation Analysis | |
|---|---|
| **EBIT Estimate** | |
| Bull | $3,181 |
| Base | $2,795 |
| Bear | $1,643 |
| **Cyclically Adjusted EV/EBIT Multiple** | **6.9x** |
| **Implied Share Price** | |
| **Bull** | $99.53 |
| **Base** | $87.32 |
| **Bear** | $50.86 |
| **Implied Upside (Downside)** | |
| **Bull** | 43.0% |
| **Base** | 25.4% |
| **Bear** | -26.9% |

*LBO Valuation*

LBO valuation implies a ~9.2% downside floor, using consensus estimates. This is only to provide a downside check given BBY's robust moat and cash-generative, low-debt profile that makes it a plausible sponsor takeout candidate.

| | Entry LTM EV/EBITDA | Implied EV | Implied Equity Value | Share Price | Downside |
|---|---|---|---|---|---|
| **22% IRR** | 6.2x | $13,193.60 | $12,951.60 | $59.80 | -14.10% |
| **18% IRR** | 6.9x | $14,683.20 | $14,441.20 | $66.67 | -4.22% |
| **Average** | 6.6x | $13,938.40 | $13,696.40 | $63.23 | -9.16% |

See Appendix G for the full breakdown of LBO Assumptions

# Appendix

**A:**

| Brand / IP | Description |
|---|---|
| Insignia | TVs, appliances, CE |
| Best Buy Essentials | Entry-level tech accessories |
| Rocketfish | Cables, mounts, surge, connectivity |
| Best Buy Health | Corporate umbrella for health/care-at-home offerings |
| Lively | Consumer brand for senior phones, wearables, safety subs |
| Jitterbug | Senior-friendly phones that bundle into Lively services |
| Current Health | Remote patient monitoring platform |
| Magnolia | High-end A/V, custom install |
| Pacific Kitchen and Home / Pacific Sales | Premium/lux kitchen & bath appliances and fixtures |
| TechLiquidators | B2B liquidation auctions for returns/overstocks/obsolete stock |
| Yardbird | Premium outdoor furniture |

**B:**

Calculated as BBY's share of total US e-commerce sales / consumer electronics share of US e-commerce sales

**C:**

*Revenue Build*

**Revenue Build Summary**

| Computing | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E |
|---|---|---|---|---|---|---|
| Structural US PC Sales | 47,281 | 47,281 | 47,281 | 47,281 | 47,281 | 47,281 |
| AI PC Penetration Rate | 31.0% | 50.0% | 76.9% | 85.8% | 91.7% | 95.3% |
| AI PC Premium | 37.1% | 24.7% | 12.4% | 0.0% | 0.0% | 0.0% |
| Secular Growth | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Structural Market Share | 39.2% | 38.7% | 38.2% | 37.7% | 37.2% | 36.7% |
| Upgrade Wallet Share | 18.1% | 72.5% | 72.5% | 72.5% | 72.5% | 72.5% |
| **Consumer Electronics** | | | | | | |
| Secular Growth | -1.1% | -1.1% | -1.1% | -1.1% | -1.1% | -1.1% |
| Cyclical Growth | 4.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Retail Channel Share Eorsion | -5.6% | -5.6% | -5.6% | -5.6% | -5.6% | -5.6% |
| **Appliances** | | | | | | |
| Industry Growth | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| **Entertainment** | | | | | | |
| Secular Growth | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% |
| Cyclical Growth | 0.0% | 3.3% | 3.3% | 0.0% | 0.0% | 0.0% |
| Retail Channel Share Eorsion | -4.2% | -4.2% | -4.2% | -4.2% | -4.2% | -4.2% |
| **Services** | | | | | | |
| % of Total Revenue | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% |
| **Marketplace** | | | | | | |
| Total US Electronics E-Commerce GMV | 200,729 | 210,294 | 220,314 | 230,812 | 241,809 | 253,331 |
| E-Commerce Growth Rate | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% |
| Penetration Rate | 7.1% | 8.2% | 9.3% | 10.0% | 10.0% | 10.0% |
| Take Rate | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| **Marketplace Ads** | | | | | | |
| GMV Ad Monetization Rate | 2.05% | 3.4% | 4.8% | 6.1% | 6.1% | 6.1% |
| BBY Pricing Premium | 0.0% | 11.0% | 22.0% | 33.0% | 44.0% | 55.0% |
| **Other** | | | | | | |
| Growth Rate | 7.6% | 7.6% | 7.6% | 7.6% | 7.6% | 7.6% |

Computing:

| Input | Estimate & Rationale |
|---|---|

| | |
|---|---|
| Normal level of PC sales | ~$47 billion<br>• Average sales are based on the last six years of normal (non-launch/upgrade) periods and held flat—offsetting higher PC ASPs against zero unit growth as population-driven demand growth slows to negligible levels over the next six years. |
| AI PC Penetration Rate Forecast | Bull: 80% penetration by CY ’27. Assumes adoption inflects above a standard S-curve (assuming CY ‘26 as the midpoint—in-line with third-party research by Gartner & Canalys & a classic adoption curve) as AI workload penetration & Windows 10 EOS pull forward upgrades. Adoption slope k is set to 0.70 to reflect this vs. 0.61 pre-midpoint<br><br>Base: 77% penetration by CY ‘27. k is set to 0.60, just below pre-midpoint, consistent with a normal S-curve where the incremental slope begins to roll over after the midpoint (still set to CY ’26).<br><br>Bear: Use a lower k = 0.5 such that 100% AI PC adoption takes 10 years (analogous to SSD adoption from ~2012 to the early 2020s), implying 73% penetration by CY ‘27. This captures near-term macro noise and/or a weaker value proposition that slows uptake among the late majority (2/3rds of the market). |
| AI PC Price Premium | Starts at roughly 37.1% in FY ’26, derived from (i) the midpoint of HP’s stated AI-PC price-premium range and (ii) the implied premium between a mid-spec Copilot+ PC (~$1,050, within a ~$950–$2,400 range) and the average PC SKU this year (~$659).<br>• Modeled to compress linearly to the assumed parity year.<br>• Base case price parity assumes 4 years (comparable to SSDs)—implying mid-to-late 2028 from mid-2024 launch of AI PCs; +/- 1 year for bull/bear case respectively |
| Annual Upgrade Wallet | AI PC shipment penetration rate forecast * normal annual sales * forecasted ASP premium; modeled as an ASP/mix story, not a unit one, as the PC market is already saturated |
| Structural market share (market share during normal years) | 39.8%--average of the last 6 “normal years” which fluctuated tightly between 39 & 40%<br>• Assumes 0.3% annual structural market share loss--skewing base case to the downside given flat structural market share over the past 7 years due to online sales channel gains offsetting retail losses<br>• Incremented up/down based on bull/bear case |
| Upgrade wallet share | Based on BBY’s wallet share during the COVID market cycle<br>• Previous cycles not taken as the company’s current model was not fully implemented until 2017 and no major cycles occurred from ’17-’20. In the bear case, no incremental wallet grab is assumed (upgrade wallet share = normal market share) |

<u>Marketplace:</u>

| Input | Estimate & Rationale |
|---|---|
| Total US Electronics E-Commerce GMV—current CY ‘25 | ~$200.7 billion<br>• CY ’24 market size (per Statista) incremented at forecasted 5-year CAGR |
| 5-year CAGR (’26-’30) | 4.8%<br>• Average of Grandview, Moridor, & Statista<br>• +/- 0.5% for bull/bear case respectively |

| | |
|---|---|
| Current Online Penetration Rate | 6.8%<br>• Taken as current online revenue / total market size |
| Steady State Online Penetration Rate | 10.0%<br>• BBY baseline share (merchandiser-model online revenue / U.S. mid-to-high-end tech SKU market at around 2/3rds of total sales)<br>• Conservatively excludes long-tail SKU additions from existing OEMs<br>• +/- 1% for bull/bear case respectively |
| Ramp-Up Period | 4 years<br>• Based on ramp-up period of the current online platform under Renew Blue (from '13 – '17)<br>• -/+ 1 year for bull/bear case respectively |
| Take Rate | 8%<br>• Same rate charged by both Amazon & Newegg on sales of electronics |

Ads:

| Input | Estimate & Rationale |
|---|---|
| Ad Revenue Yield on GMV | 6.3%<br>• Based on the average of Walmart, Etsy, Amazon's retail media networks<br>• +/- 0.2% for bull/bear case respectively |
| BBY Ad Pricing Premium | 66%<br>• Based on the average difference between BBY's ARPU vs the sector average<br>• -10% for bear case |
| Steady State Operating Margin | ~72%<br>• Based on the averages of Amazon, the high-end of the average range for mid-sized retail networks to reflect BBY's scale, and Walmart<br>• +/- 3% for bull/bear case respectively |
| Years to Target Pricing Premium | 6<br>• Based on maturation timelines of Amazon's and Walmart's advertising businesses (approximately 6–7 years and ~4 years, respectively)<br>• 6-year ramp assumed to stay conservative<br>• +/- 1 year for bull/bear respectively |

Electronics, Entertainment & Appliances: Electronics & Entertainment growth is decomposed into secular & cyclical components, on top of growth headwind from channel erosion:

| Growth Component | Entertainment | Electronics | Appliances |
|---|---|---|---|
| Secular Growth | 1.7%<br>• Extrapolate '18-'24 market CAGR reflecting saturation & falling ASPs | (1.1)%<br>• Extrapolating the CY '18-'24 decline in US market revenue reflecting saturation & falling ASPs | 4.0% forecasted industry 5-year CAGR from third-party research (Grandview, Research & Markets, and Statista)<br>• Modeled as COVID pull-forward unwinding with declines shrinking and growth converging to the category's long-term rate over six years |
| Cyclical Growth | 3.3% in FY'27–28 | 4.3% modeled for FQ4 '26—reflecting this year's mobile | No cyclical uplift over the forecast period (no major |

| | | | |
|---|---|---|---|
| | • Benchmarked to the GTA V / PS4 cycle between 2013 (excluding the WFH-distorted PS5)—calculated as delta between industry sales CAGR in 2013–2015 and the CAGR in the prior 2008–2012 period | upgrade cycle's uplift to structural growth<br>No cyclical uplift over the rest of the forecast period (no major non-PC product catalysts expected) | product catalysts and limited incremental support from the housing market) |
| Headwind from Retail Channel Erosion | (4.2)%<br>• Reflecting an extrapolated sales growth headwind from projected channel erosion between CY'24 and CY'27, carried through the forecast period. | (5.6)%<br>• reflecting an extrapolated sales growth headwind from projected channel erosion between CY'24 and CY'27, carried through the forecast period. | None. Appliances are the only clear secular grower due to the success of the BOPIS model which BBY has effectively executed |

<u>Services</u>: Modeled as a fixed ~6.8% of merchandise revenue, consistent with the past seven quarters where the monetization rate has plateaued.

**D:**

*Margins*

<u>COGS</u>: Set to consensus to reflect Street expectations for tariff-related pressure. This is downside-skewed, as it also embeds what I view as an overstatement of consumer elasticity risk.

<u>Operating Expenses:</u> Beyond depreciation, SG&A is the only material OpEx line. I split SG&A into fixed and variable to capture operating leverage by using a regression of SG&A on revenue. The intercept is treated as fixed overhead and converted to a per-store run-rate ($4.8MM annual fixed SG&A per store), while the slope is variable SG&A (3.0% of revenue on average in FY'22–FY'25, excluding FY'24's 4% restructuring outlier). The model tracks reported SG&A within a ~3–4% error band over the last three fiscal years (excluding FY'21–FY'23). Stock-based compensation is taken at 2.5% of fixed SG&A—in-line with FY '22 – '25.

<u>Effective Tax Rate:</u> Set to the median consensus rate from FQ4 '26 through FY '28, then held constant at the FY '27 & FY '28 rate through 2031.

*Debt, Interest & Working Capital*

Debt is modeled as permanent (predominantly long-term, with no material paydowns over the past decade), with interest expense rolled forward at the current effective rate. Receivables, payables, and inventory days are held at the FY '21–'24 average to reflect a rebound in consumer demand.

*Capital Expenditures*

| Bucket | Forward Driver |
|---|---|
| E-Commerce & IT Investments | Taken as a percentage of online revenues—at 3.6%, in-line with 3.3-3.8% historically. Online revenues were taken forward at the post-COVID average of 30.7% (no trend in the past 4 years) |
| Supply Chain | Taken as a percentage of merchandise revenues—at 0.1%, in-line with 0.06 – 0.15% historically) |
| Store-Related | Store count (incremented down by 1% per year)—carried at a historical $0.2M / store |

*Depreciation & Amortization*

I estimated useful lives for each Capex bucket by starting with an initial guessed set of average-life assumptions for e-commerce, stores, and supply chain, then applying candidate lives to each bucket's historical Capex stream and iterating (over the wide disclosed ranges for each category) to identify the set that best aligns modeled depreciation with FY '25 reported depreciation. The resulting useful-life assumptions produce depreciation within 3% of FY '25 actual and are as follows:

| Bucket | Average Useful Life (Years) |
|---|---|
| E-Commerce & IT Investments | 4.5 |
| Supply Chain | 7.5 |
| Store-Related | 3.5 |

Amortization expense has been immaterial over the last 3 fiscal years & is carried forward at 0.

*Dividends, Repurchases & Share Count*

Dividends are assumed to have no growth annually, vs under 1% annually during 2023–25 post-COVID trends. Share repurchases are modeled at a steady 38% of FCF, in line with the past six quarters of normalized payout behavior. Share count follows consensus implied levels through 2032, reflecting SBC-related issuance offsets.

*Discounted Cashflow Analysis*

The assumptions underlying the levered DCF model are as follows:

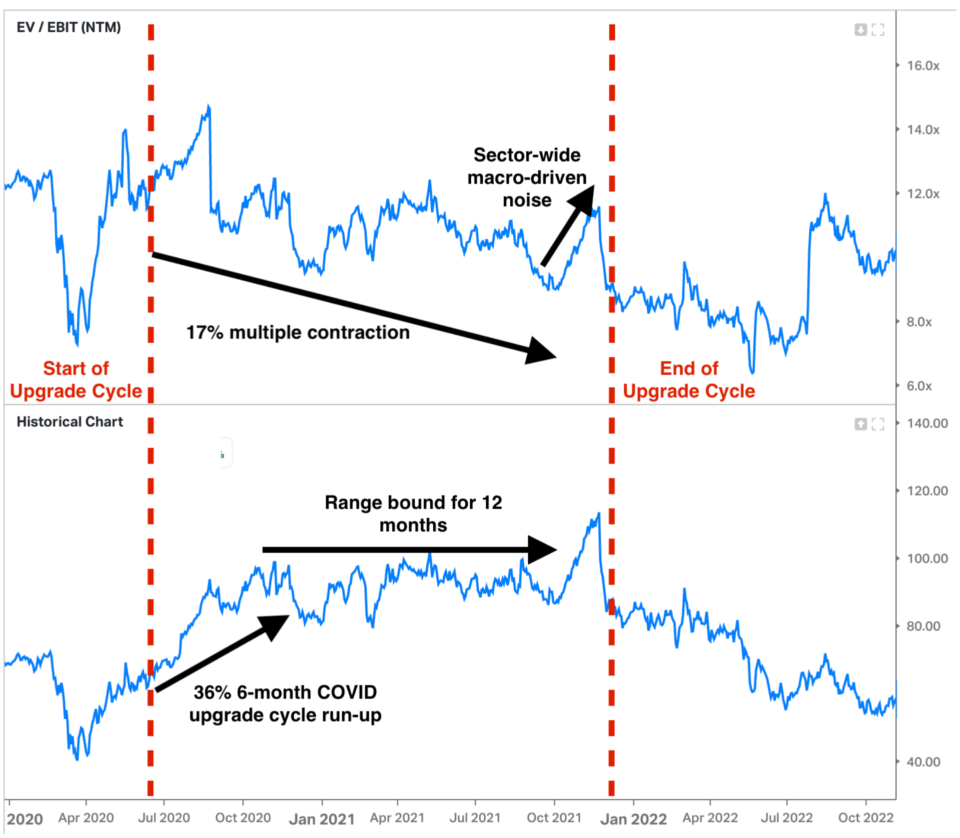
| Assumption | Estimate & Rationale |
|---|---|
| WACC | 9.8%<br>• Cost of debt set to the company's incremental borrowing rate, estimated as the risk-free rate plus a BBB-rated credit spread implied by the effective yield on a BBB corporate bond yield index<br>• Cost of equity is calculated using CAPM: the U.S. 10-year yield plus the company's re-levered peer-median beta (unlevered across the comp set and relevered to the company's low-leverage capital structure) multiplied by the market risk premium (per Aswath Damodaran). |
| Mid-Year Convention (Y/N) | Yes |
| Terminal Value | Used the exit multiple method as a rough "sanity check" on whether the terminal value implied by the DCF is broadly market-justified<br>Backed into a consensus-implied terminal EV/EBITDA multiple of 6.9x (in line with the company's average EV/NTM EBITDA over the past year) by solving for terminal EV from the median consensus target price, netting out the present value of the next fiscal quarter and FY '27–'28 consensus FCF discounted at WACC, carrying the residual forward to FY '28 at WACC, and dividing by FY '28 EBITDA. |

**E:**

*3-statement model:*

| Best Buy Inc. | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E |
|---|---|---|---|---|---|---|
| *Balance Sheet Check* | *OK* | *OK* | *OK* | *OK* | *OK* | *OK* |
| **Drivers** | | | | | | |
| **COGS & Operating Expenses** | | | | | | |
| Cost of Goods Sold (% of Revenue) | 77.4% | 77.5% | 77.5% | 77.5% | 77.5% | 77.5% |
| Fixed SG&A Per Store ($MM) | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 |
| Variable SG&A % of Revenue | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Ads Segment Operating Margin | - | 11.9% | 23.9% | 35.8% | 47.8% | 59.7% |
| Stock-Based Compensation % of Fixed SG&A | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| **Depreciation, Capex & Amortization** | | | | | | |
| Software Useful Life (Years) | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |
| Stores Useful Life (Years) | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Supply Chain Useful Life (Years) | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| Online Rev % of Total | 30.7% | 30.7% | 30.7% | 30.7% | 30.7% | 30.7% |
| Software Capex % of Online Revenue | 3.6% | 3.6% | 3.6% | 3.6% | 3.6% | 3.6% |
| Store Capex / Store ($MM) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Store Count Growth Y/Y | -3.0% | -0.9% | -0.9% | -0.9% | -0.9% | -0.9% |
| Supply Chain Capex % of Merchandise Revenues | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Amortization Expense ($MM) | 12.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Working Capital** | | | | | | |
| Accounts Receivable (Days) | 9 | 9 | 9 | 9 | 9 | 9 |
| Inventory (Days) | 41 | 58 | 58 | 58 | 58 | 58 |
| Accounts Payable (Days) | 55 | 57 | 57 | 57 | 57 | 57 |
| **Debt, Interest & Taxes** | | | | | | |
| Debt Issuance (Repayment) ($MM) | (9) | - | - | - | - | - |
| Interest (% of Debt) | 4.12% | 4.12% | 4.12% | 4.12% | 4.12% | 4.12% |
| Tax Rate (% of Earnings Before Tax) | 25.2% | 32.8% | 32.3% | 32.3% | 32.3% | 32.3% |
| Deferred Revenue % of Services (Annualized) | 36.0% | 36.0% | 36.0% | 36.0% | 36.0% | 36.0% |
| **Repurchase, Share Coun & Dividend** | | | | | | |
| Buybacks (% of FCF) | 35% | 35% | 35% | 35% | 35% | 35% |
| Weighted Average Diluted Share Count | 212.0 | 208.8 | 202.4 | 197.9 | 193.5 | 189.2 |
| *Y/Y Change* | *-2.1%* | *-1.5%* | *-3.0%* | *-2.2%* | *-2.2%* | *-2.2%* |
| *Dividend Growth Rate* | *-0.9%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| **Days in Period** | 365 | 365 | 365 | 365 | 365 | 365 |

**F:**




**G:**

*LBO Valuation*

I solve for the entry EV/EBITDA that delivers 18–22% sponsor IRRs across scenarios that bracket consensus, while holding the exit multiple flat at 6.9x (in line with the sell-side implied terminal) so returns aren't multiple-driven.

Consensus FCF & EBITDA estimates are used until FY '28 (the latest year for which consensus projections could be found). Thereafter, base case assumptions (which reflect no variant views post FY '28) are substituted.

The structure assumes ~90% debt / 10% equity, supported by stable cash flows, modest capex, and deep loan/private-credit markets; for context, Walgreens (0.3% FCF margin vs BBY's 3.6% and net debt ~3x market cap vs BBY's net debt equal to 1.3% of market cap) supported ~83% leverage in its buyout in August of 2025. Term loans are priced at 10.0%, equal to BBY's current borrowing cost plus a 550 bps LBO spread (consistent with average large-cap spreads for BBB risk and a mid-pack ~6.7x debt/EBITDA leverage level). The base-case floor is the average of the 18% and 22% IRR equity values under base-case FCF assumptions.

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