

BEST BUY CO INC  
Form 10-Q  
June 08, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 5, 2018

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-9595

BEST BUY CO., INC.

(Exact name of registrant as specified in its charter)

Minnesota 41-0907483  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

7601 Penn Avenue South  
Richfield, Minnesota 55423  
(Address of principal executive offices) (Zip Code)

(612) 291-1000  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No x

The registrant had 279,391,918 shares of common stock outstanding as of June 5, 2018.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## Condensed Consolidated Balance Sheets

\$ in millions, except per share and share amounts (unaudited)

	May 5, 2018	February 3, 2018	April 29, 2017
Assets			
Current assets			
Cash and cash equivalents	\$1,848	\$ 1,101	\$1,651
Short-term investments	785	2,032	1,948
Receivables, net	860	1,049	1,011
Merchandise inventories	4,964	5,209	4,637
Other current assets	473	438	409
Total current assets	8,930	9,829	9,656
Property and equipment, net	2,385	2,421	2,287
Goodwill	425	425	425
Other assets	342	374	587
Total assets	\$12,082	\$ 13,049	\$ 12,955
Liabilities and equity			
Current liabilities			
Accounts payable	\$4,619	\$ 4,873	\$4,599
Unredeemed gift card liabilities	285	385	389
Deferred revenue	371	453	371
Accrued compensation and related expenses	296	561	274
Accrued liabilities	780	864	699
Accrued income taxes	154	137	93
Current portion of long-term debt	550	544	45
Total current liabilities	7,055	7,817	6,470
Long-term liabilities	815	809	684
Long-term debt	792	811	1,302
Equity			
Preferred stock, \$1.00 par value: Authorized — 400,000 shares; Issued and outstanding — none	—	—	—
Common stock, \$0.10 par value: Authorized — 1.0 billion shares; Issued and outstanding — 281,000,000, 283,000,000 and 306,000,000 shares, respectively	28	28	31
Retained earnings	3,082	3,270	4,202
Accumulated other comprehensive income	310	314	266
Total equity	3,420	3,612	4,499
Total liabilities and equity	\$12,082	\$ 13,049	\$ 12,955

NOTE: The Consolidated Balance Sheet as of February 3, 2018, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.



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## Condensed Consolidated Statements of Earnings

\$ and shares in millions, except per share amounts (unaudited)

	Three Months Ended	
	May 5, 2018	April 29, 2017
Revenue	\$9,109	\$ 8,528
Cost of goods sold	6,984	6,506
Gross profit	2,125	2,022
Selling, general and administrative expenses	1,830	1,722
Restructuring charges	30	—
Operating income	265	300
Other income (expense)		
Investment income and other	11	11
Interest expense	(19 )	(19 )
Earnings before income tax expense	257	292
Income tax expense	49	104
Net earnings	\$208	\$ 188
Basic earnings per share	\$0.74	\$0.61
Diluted earnings per share	\$0.72	\$0.60
Dividends declared per common share	\$0.45	\$0.34
Weighted-average common shares outstanding		
Basic	282.6	309.2
Diluted	288.3	315.0

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Comprehensive Income

\$ in millions (unaudited)

	Three Months Ended May 5, April 29, 2018 2017	
Net earnings	\$208	\$ 188
Foreign currency translation adjustments (4 ) (13 )	(4 )	(13 )
Comprehensive income	\$204	\$ 175

See Notes to Condensed Consolidated Financial Statements.

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## Condensed Consolidated Statements of Cash Flows

\$ in millions (unaudited)

	Three Months Ended	
	May 5, 2018	April 29, 2017
Operating activities		
Net earnings	\$208	\$188
Adjustments to reconcile net earnings to total cash provided by operating activities:		
Depreciation	176	161
Restructuring charges	30	—
Stock-based compensation	32	31
Deferred income taxes	9	12
Other, net	(2)	(1)
Changes in operating assets and liabilities:		
Receivables	189	333
Merchandise inventories	243	223
Other assets	(13)	(25)
Accounts payable	(214)	(382)
Other liabilities	(506)	(364)
Income taxes	52	67
Total cash provided by operating activities	204	243
Investing activities		
Additions to property and equipment	(181)	(153)
Purchases of investments	—	(1,134)
Sales of investments	1,245	863
Other, net	9	1
Total cash provided by (used in) investing activities	1,073	(423)
Financing activities		
Repurchase of common stock	(400)	(373)
Repayments of debt	(11)	(10)
Dividends paid	(128)	(105)
Issuance of common stock	24	75
Other, net	(1)	—
Total cash used in financing activities	(516)	(413)
Effect of exchange rate changes on cash	(12)	(6)
Increase (decrease) in cash, cash equivalents and restricted cash	749	(599)
Cash, cash equivalents and restricted cash at beginning of period	1,300	2,433
Cash, cash equivalents and restricted cash at end of period	\$2,049	\$1,834

See Notes to Condensed Consolidated Financial Statements.



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## Condensed Consolidated Statements of Changes in Shareholders' Equity

\$ and shares in millions, except per share amounts (unaudited)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at February 3, 2018	283	\$ 28	\$ —	\$ 3,270	\$ 314	\$3,612
Adoption of ASU 2014-09	—	—	—	73	—	73
Net earnings, three months ended May 5, 2018	—	—	—	208	—	208
Other comprehensive loss, net of tax:						
Foreign currency translation adjustments	—	—	—	—	(4 )	(4 )
Stock-based compensation	—	—	32	—	—	32
Restricted stock vested and stock options exercised	3	—	20	—	—	20
Issuance of common stock under employee stock purchase plan	—	—	4	—	—	4
Common stock dividends, \$0.45 per share	—	—	2	(128 )	—	(126 )
Repurchase of common stock	(5 )	—	(58 )	(341 )	—	(399 )
Balances at May 5, 2018	281	\$ 28	\$ —	\$ 3,082	\$ 310	\$3,420
Balances at January 28, 2017	311	\$ 31	\$ —	\$ 4,399	\$ 279	\$4,709
Adoption of ASU 2016-09	—	—	10	(12 )	—	(2 )
Net earnings, three months ended April 29, 2017	—	—	—	188	—	188
Other comprehensive loss, net of tax:						
Foreign currency translation adjustments	—	—	—	—	(13 )	(13 )
Stock-based compensation	—	—	31	—	—	31
Restricted stock vested and stock options exercised	3	—	72	—	—	72
Issuance of common stock under employee stock purchase plan	—	—	3	—	—	3
Common stock dividends, \$0.34 per share	—	—	—	(105 )	—	(105 )
Repurchase of common stock	(8 )	—	(116 )	(268 )	—	(384 )
Balances at April 29, 2017	306	\$ 31	\$ —	\$ 4,202	\$ 266	\$4,499

See Notes to Condensed Consolidated Financial Statements.

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### Notes to Condensed Consolidated Financial Statements (unaudited)

#### 1. Basis of Presentation

Unless the context otherwise requires, the use of the terms “Best Buy,” “we,” “us” and “our” in these Notes to Condensed Consolidated Financial Statements refers to Best Buy Co., Inc. and its consolidated subsidiaries.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary for a fair presentation as prescribed by accounting principles generally accepted in the United States (“GAAP”). All adjustments were comprised of normal recurring adjustments, except as noted in these Notes to Condensed Consolidated Financial Statements.

Historically, we have generated a large proportion of our revenue and earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico. Due to the seasonal nature of our business, interim results are not necessarily indicative of results for the entire fiscal year. The interim financial statements and the related notes included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018. The first three months of fiscal 2019 and fiscal 2018 included 13 weeks.

In order to align our fiscal reporting periods and comply with statutory filing requirements, we consolidate the financial results of our Mexico operations on a one-month lag. Our policy is to accelerate recording the effect of events occurring in the lag period that significantly affect our condensed consolidated financial statements. No such events were identified for the reported periods.

In preparing the accompanying condensed consolidated financial statements, we evaluated the period from May 6, 2018, through the date the financial statements were issued for material subsequent events requiring recognition or disclosure. No such events were identified for this period.

#### Unadopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases, and has since issued additional ASUs to further clarify or add options to the issued guidance. The new guidance was issued to increase transparency and comparability among companies by requiring most leases to be included on the balance sheet and by expanding disclosure requirements. Based on the effective dates, we expect to adopt the new guidance in the first quarter of fiscal 2020 using the recently-proposed prospective method and have begun implementing required upgrades to our existing lease systems. While we expect adoption to lead to a material increase in the assets and liabilities recorded on our consolidated balance sheet and an increase to our footnote disclosures related to leases, we are still evaluating the impact on our consolidated statement of earnings. We also expect that adoption of the new standard will require changes to our internal controls over financial reporting.

#### Adopted Accounting Pronouncements

In the first quarter of fiscal 2019, we prospectively adopted the following ASUs, all of which had an immaterial impact on our results of operations, cash flows and financial position.

▲ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory

▲ASU 2017-12, Derivatives and Hedging

▲ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In the first quarter of fiscal 2019, we also adopted ASU 2014-09, Revenue from Contracts with Customers. The new guidance establishes a single comprehensive model for entities to use in accounting for revenue and supersedes most revenue recognition guidance. It introduces a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards under previous guidance. We elected the modified retrospective method of adoption, which we applied to contracts not completed at the date of adoption. Under this method, we recorded an increase to opening retained earnings of \$73 million, net of tax, due to the cumulative impact of these changes. The impact was primarily related to the timing of revenue recognition related to our gift cards, the sale of certain software licenses and our loyalty programs. We did not make any adjustment to prior period financial statements. We expect the impact of adoption to be immaterial to our revenue, net earnings

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and cash flows on an ongoing basis. As part of the adoption, we also modified certain control procedures and processes, none of which had a material effect on our internal controls over financial reporting.

The following table reconciles the Condensed Consolidated Balance Sheet line items impacted by the adoption of this standard on February 4, 2018 (\$ in millions):

	February 3, 2018 As Reported	ASU 2014-09 Adjustment on February 4, 2018	February 4, 2018 Adjusted
<b>Assets</b>			
Other assets	\$ 374	\$ (19 )	\$ 355
<b>Liabilities</b>			
Unredeemed gift card liabilities	385	(69 )	316
Deferred revenue	453	(26 )	427
Accrued liabilities	864	(3 )	861
Accrued income taxes	137	6	143
<b>Equity</b>			
Retained earnings	3,270	73	3,343

The following tables set forth the impact of adopting this standard on our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Earnings as of and for the three months ended May 5, 2018 (\$ in millions, except per share amounts):

Impact of Changes to Condensed Consolidated Balance Sheets	May 5, 2018		
	As Reported	Adoption of ASU 2014-09	Effect of Change Higher/(Lower) <sup>(1)</sup>
<b>Assets</b>			
Other current assets	\$473	\$ 427	\$ 46
Other assets	304	323	(19 )
<b>Liabilities</b>			
Unredeemed gift card liabilities	285	355	(70 )
Deferred revenue	371	395	(24 )
Accrued liabilities	780	736	44
Accrued income taxes	154	148	6
<b>Equity</b>			
Retained earnings	3,082	3,011	71

(1) Effect of change includes the opening retained earnings adjustment as detailed within the table above.

Impact of Changes to Condensed Consolidated Statements of Earnings	Three months ended May 5, 2018		
	As Reported	Adoption of ASU 2014-09	Effect of Change Higher/(Lower)

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Revenue	\$9,109	\$ 9,100	\$ 9	
Cost of goods sold	6,984	6,973	11	
Gross profit	2,125	2,127	(2	)
Operating income	265	267	(2	)
Income tax expense	49	50	(1	)
Net earnings	208	209	(1	)
Basic earnings per share	\$0.74	\$ 0.74	\$ —	
Diluted earnings per share	\$0.72	\$ 0.73	\$ (0.01	)

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## Total Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the total shown within the Condensed Consolidated Statements of Cash Flows as of May 5, 2018, February 3, 2018, and April 29, 2017 (\$ in millions):

	May 5, February 3, April 29,		
	2018	2018	2017
Cash and cash equivalents	\$1,848	\$ 1,101	\$ 1,651
Restricted cash included in Other current assets	201	199	183
Total cash, cash equivalents and restricted cash	\$2,049	\$ 1,300	\$ 1,834

Amounts included in restricted cash are pledged as collateral or restricted to use for general liability insurance and workers' compensation insurance.

## Goodwill and Intangible Assets

All goodwill and intangible asset balances relate to our Domestic segment. As of May 5, 2018, February 3, 2018, and April 29, 2017, the carrying amount of goodwill was \$425 million, respectively, net of \$675 million of cumulative impairment losses, respectively. The carrying amount of indefinite-lived tradenames included within Other assets on our Condensed Consolidated Balance Sheets was \$18 million as of May 5, 2018, February 3, 2018, and April 29, 2017, respectively.

2.