

# BEST BUY CO INC

## FORM 10-Q (Quarterly Report)

Filed 01/05/96 for the Period Ending 11/25/95

Address	7601 PENN AVE SOUTH RICHFIELD, MN 55423
Telephone	6122911000
CIK	0000764478
Symbol	BBY
SIC Code	5731 - Radio, Television, and Consumer Electronics Stores
Industry	Retail (Technology)
Sector	Services
Fiscal Year	02/03

# BEST BUY CO INC

## FORM 10-Q (Quarterly Report)

Filed 1/5/1996 For Period Ending 11/25/1995

Address	7601 PENN AVE SOUTH RICHFIELD, Minnesota 55423
Telephone	612-291-1000
CIK	0000764478
Industry	Retail (Technology)
Sector	Services
Fiscal Year	03/01

**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 November 25, 1995

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 Charter)

Minnesota  
(State of Incorporation)

41-0907483  
(IRS Employer Identification Number)

7075 Flying Cloud Drive  
Eden Prairie, Minnesota  
(Address of principal executive offices)

55344  
(Zip Code)

Registrant's telephone number, including area code: 612/947-2000

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 X NO**

At November 25, 1995, there were 42,705,224 shares of common stock, \$.10 par value, outstanding.

**BEST BUY CO., INC.**

**FORM 10-Q FOR THE QUARTER ENDED NOVEMBER 25, 1995**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**BEST BUY CO., INC.**

**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

(\$ in 000, except per share amounts)

	NOVEMBER 25, 1995 (UNAUDITED)	FEBRUARY 25, 1995	NOVEMBER 26, 1994 (UNAUDITED)
	-----	-----	-----
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 107,041	\$ 144,700	\$ 20,478
Receivables	191,920	84,440	126,803
Recoverable costs from developed properties	129,302	86,222	94,331
Merchandise inventories	1,973,967	907,677	1,491,080
Deferred income taxes	21,728	15,022	16,026
Prepaid expenses	8,249	2,606	10,517
	-----	-----	-----
Total current assets	2,432,207	1,240,667	1,759,235
<b>PROPERTY AND EQUIPMENT, at cost:</b>			
Land and buildings	15,774	13,524	13,524
Property under capital leases	27,865	27,096	22,892
Leasehold improvements	120,904	93,889	88,880
Furniture, fixtures and equipment	253,912	191,084	186,624
	-----	-----	-----
	418,455	325,593	311,920
Less accumulated depreciation and amortization	120,668	88,116	88,032
	-----	-----	-----
Net property and equipment	297,787	237,477	223,888
<b>OTHER ASSETS:</b>			
Deferred income taxes	11,058	9,223	8,630
Other assets	17,163	19,758	16,853
	-----	-----	-----
Total other assets	28,221	28,981	25,483
	-----	-----	-----
<b>TOTAL ASSETS</b>	\$2,758,215 =====	\$1,507,125 =====	\$2,008,606 =====

See notes to consolidated financial statements.

**BEST BUY CO., INC.**

**CONSOLIDATED BALANCE SHEETS (CONTINUED)**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

(\$ in 000, except per share amounts)

	NOVEMBER 25, 1995 (UNAUDITED)	FEBRUARY 25, 1995	NOVEMBER 26, 1994 (UNAUDITED)
	-----	-----	-----
CURRENT LIABILITIES:			
Note payable, bank	\$ 310,000		\$ 192,000
Obligations under financing arrangements	174,402	\$ 81,755	53,651
Accounts payable	1,122,865	406,682	787,707
Accrued salaries and related expenses	34,747	23,785	26,290
Other accrued liabilities	145,653	65,757	61,013
Deferred service plan revenue and warranty reserve	32,240	24,942	22,394
Accrued income taxes	10,437	14,979	12,729
Current portion of long-term debt	23,109	13,718	12,298
	-----	-----	-----
Total current liabilities	1,853,453	631,618	1,168,082
Deferred Service Plan Revenue and Warranty Reserve, Long-Term	55,333	42,138	36,203
Long-Term Debt	208,767	227,247	227,096
Convertible Preferred Securities of Subsidiary	230,000	230,000	230,000
SHAREHOLDERS' EQUITY:			
Preferred stock, \$1.00 par value; authorized 400,000 shares; none issued			
Common stock, \$.10 par value; authorized 120,000,000 shares; issued and outstanding 42,705,000, 42,216,000, and 42,165,000 shares, respectively	4,271	4,221	4,217
Additional paid-in capital	235,284	228,982	228,197
Retained earnings	171,107	142,919	114,811
	-----	-----	-----
Total shareholders' equity	410,662	376,122	347,225
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,758,215	\$1,507,125	\$2,008,606
	=====	=====	=====

See notes to consolidated financial statements.

**BEST BUY CO., INC.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

(\$ in 000, except per share amounts)

(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOVEMBER 25, 1995	NOVEMBER 26, 1994	NOVEMBER 25, 1995	NOVEMBER 26, 1994
Revenues	\$1,929,277	\$1,349,871	\$4,641,884	\$3,132,446
Cost of goods sold	1,686,394	1,166,162	4,020,092	2,697,601
Gross profit	242,883	183,709	621,792	434,845
Selling, general and administrative expenses	200,295	145,696	543,638	367,487
Income from operations	42,588	38,013	78,154	67,358
Interest expense, net	13,186	9,011	31,528	18,786
Net earnings before income taxes	29,402	29,002	46,626	48,572
Income taxes	11,600	11,300	18,438	19,029
Net earnings	\$ 17,802	\$ 17,702	\$ 28,188	\$ 29,543
Net earnings per share	\$ .41	\$ .41	\$ .65	\$ .68
Weighted average common shares outstanding (000)	43,525	43,598	43,628	43,426

See notes to consolidated financial statements.

**BEST BUY CO., INC.**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**FOR THE NINE MONTHS ENDED NOVEMBER 25, 1995**

(\$ in 000)

(Unaudited)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
	-----	-----	-----
Balance, February 25, 1995	\$4,221	\$228,982	\$142,919
Stock options exercised	50	6,302	
Net earnings			28,188
Balance, November 25, 1995	----- \$4,271 =====	----- \$235,284 =====	----- \$171,107 =====

See notes to consolidated financial statements.



**BEST BUY CO., INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(\$ in 000)

(Unaudited)

	NINE MONTHS ENDED	
	NOVEMBER 25, 1995	NOVEMBER 26, 1994
	-----	-----
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$ 28,188	\$ 29,543
Charges to earnings not affecting cash:		
Depreciation and amortization	40,320	27,383
	-----	-----
	68,508	56,926
Changes in operating assets and liabilities:		
Receivables	(107,480)	(73,859)
Merchandise inventories	(1,066,290)	(853,130)
Prepaid income taxes and expenses	(14,184)	(14,251)
Accounts payable	716,183	493,647
Accrued salaries and related expenses	10,962	6,971
Other current liabilities	79,099	28,406
Deferred service plan revenue and warranty reserve	20,493	11,240
	-----	-----
Total cash used in operating activities	(292,709)	(344,050)
<b>INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(98,997)	(106,384)
Increase in recoverable costs from developed properties	(43,080)	(61,325)
(Decrease)increase in other assets	2,595	(8,772)
	-----	-----
Total cash used in investing activities	(139,482)	(176,481)
<b>FINANCING ACTIVITIES:</b>		
Common stock issued	2,608	2,126
Borrowings on revolving credit line, net	310,000	213,404
Repayments of long-term debt	(10,723)	(6,888)
Proceeds from issuance of preferred securities		230,000
Increase in obligations under financing arrangements	92,647	42,495
	-----	-----
Total cash provided by financing activities	394,532	481,137
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(37,659)	(39,394)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	144,700	59,872
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 107,041	\$ 20,478
	=====	=====
<p>Amounts in this statement are presented on a cash basis and therefore may differ from those shown in other sections of this quarterly report.</p>		
<p>Supplemental cash flow information:</p>		
<p>Cash paid during the period for:</p>		
Interest	\$ 34,153	\$ 18,652
Income taxes	\$ 27,578	\$ 18,651

See notes to consolidated financial statements.

# BEST BUY CO., INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION:

The consolidated balance sheets as of November 25, 1995, and November 26, 1994, the related consolidated statements of earnings for the three and nine months ended November 25, 1995, and November 26, 1994, the consolidated statements of cash flows for the nine months ended November 25, 1995 and November 26, 1994, and the consolidated statement of changes in shareholders' equity for the nine months ended November 25, 1995, are unaudited; in the opinion of management all adjustments necessary for a fair presentation of such financial statements have been included and were normal and recurring in nature. Interim results are not necessarily indicative of results for a full year. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's Annual Report to Shareholders for the fiscal year ended February 25, 1995.

### 2. RECLASSIFICATION:

Certain prior year amounts have been reclassified to conform to current year presentation.

### 3. NOTE PAYABLE, BANK:

On August 25, 1995, the Company expanded and extended its bank line of credit to allow for seasonal borrowings up to \$550 million with a maturity in June 1998.

### 4. INCOME TAXES:

Income taxes are provided on an interim basis based upon management's estimate of the annual effective tax rate.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**RESULTS OF OPERATIONS**

Net earnings for the third quarter of fiscal 1996 were \$17.8 million, or \$.41 per share, compared to net earnings of \$17.7 million, also \$.41 per share, reported in the third quarter last year. For the nine month period ended November 25, 1995, net earnings were \$28.2 million, or \$.65 per share compared to \$29.5 million, or \$.68 per share, for the comparable period last year. The impact of increased revenues on the Company's earnings for the quarter and nine month periods was reduced by continued pressure on profit margins due to promotional activity and the increasing contribution of the lower margin Home Office category in the Company's sales mix. Earnings were also impacted by higher interest expense in the periods as compared to last year.

Revenues in the third quarter increased 43% to \$1.929 billion and increased 48% for the nine month period to \$4.642 billion as compared to the same periods last year. The revenue increases are the result of the addition of 49 new stores in the past 12 months and comparable store sales increases of 11% in the third quarter and 8% for the nine month period. In the third quarter, the Company completed its fiscal 1996 expansion, opening 27 new stores and bringing the number of new stores opened in fiscal 1996 to 47. Expansion in fiscal 1996 included entry into the new major markets of Miami (seven stores) in May and Cincinnati (three stores) in October. The Company also expanded its presence in existing markets, adding twelve stores in Los Angeles and five stores in the Baltimore/Washington, D.C. market. In addition, the Company has remodeled or relocated 16 stores during the current fiscal year. At November 25, 1995, the Company operated 251 retail locations compared to 202 at the same time last year. Much of the comparable store sales increase was generated by increasing sales volumes of personal computers, as faster speed Pentium models have become more affordable. The retail market for personal computers has continued to be highly competitive and the Company believes it has maintained its market share by offering promotions on computers that have resulted in total comparable store sales increases above reported industry averages. Comparable store sales increases in other product categories have generally been flat due to a slowing level of consumer spending and the absence of significant new product introductions during the current fiscal year.

Retail store sales mix by major product category for the third quarter and nine month periods is as follows:

	THIRD QUARTER ENDED		NINE MONTH PERIOD ENDED	
	11/25/95	11/26/94	11/25/95	11/26/94
Home Office	46%	41%	42%	38%
Consumer Electronics:				
Video	18	19	18	20
Audio	11	13	12	13
Entertainment Software	14	14	15	14
Appliances	6	7	8	9
Other	5	6	5	6
	---	---	---	---
TOTAL	100%	100%	100%	100%
	===	===	===	===

Gross profit margin was 12.6% in the third quarter compared to 13.6% for the third quarter last year. Gross profit margin for the nine month period was 13.4% compared to 13.9% for the same period last year. The increasing contribution of personal computers in the Company's sales mix, as well as the generally competitive market for most of the products the Company sells, has continued to put pressure on profit margins. Personal computers have margins below those of other product categories and promotional activity related to personal computer sales has increased in the last few months causing further pressure on margins. Promotions offered by the Company and other computer retailers have included deferred financing plans, free peripheral equipment such as monitors or printers, and cash rebates.

Sales of extended service plans represented less than 1% of retail sales in all periods presented. Pretax profits from extended service plans, before allocation of any selling, general and administrative expenses, other than direct selling expenses, were \$4.1 million and \$12.6 million for the third quarter and nine month periods in fiscal 1996, respectively, compared to \$3.9 million and \$11.3 million, respectively, in the comparable periods of fiscal 1995.

Selling, general and administrative (SG&A) expenses improved to 10.4% of sales in the third quarter, compared to 10.8% for the third quarter last year, principally as a result of the higher sales volumes in the quarter. For the nine months ended November 25, 1995, SG&A expenses were 11.7%, unchanged from the prior year. Higher costs associated with the new, larger stores opened during the past year in more expensive markets such as Los Angeles, limited the leverage achieved during the first nine months. As volumes increased in the third quarter and additional stores were opened in existing markets the Company achieved increased leverage on its fixed operating costs.

Interest expense was \$13.2 million and \$31.5 million for the third quarter and year to date, respectively, compared to \$9.0 million and \$18.8 million for the same periods last year. The increase is related to interest on the \$230 million of convertible preferred securities

issued in the third quarter of last year and higher bank borrowings used to support increased sales volumes.

The Company's effective tax rate of 39.5% is up slightly compared to the prior year as the Targeted Jobs Tax Credit expired in December 1994. The loss of the benefit from this tax credit was partially offset by a lower expected state income tax rate.

## **FINANCIAL CONDITION**

Working capital at November 25, 1995, was \$579 million compared to \$609 million at February 25, 1995. Inventories increased \$483 million to \$1.974 billion compared to November of the prior year as a result of the new stores and larger remodeled or relocated stores and an additional brown goods distribution center in Findlay, Ohio. Increased inventory levels as compared to the prior fiscal year end also reflect seasonal increases in preparation for the holiday selling season. The increase in inventories was financed through higher vendor credit and financing arrangements as well as borrowings under the Company's revolving credit facility. Receivables increased \$107 million from the end of the prior fiscal year reflecting higher levels of credit card sales during the Thanksgiving weekend. Receivables from sales under deferred financing promotions are sold to third parties without recourse and the Company has no collection exposure on those receivables.

Recoverable costs from developed properties of \$129 million at November 25, 1995, reflects the costs of developing 13 retail stores and the Company's new distribution center in Findlay, Ohio. While the Company expects to sell and lease back most of these properties by the end of the fiscal year, market conditions may delay the sale of some properties into early fiscal 1997. The Company has sold nearly \$90 million of property during the current year, including transactions for eight stores generating \$50 million in proceeds in the third quarter.

For the nine months ended November 25, 1995, the Company has expended approximately \$230 million on property and equipment, inclusive of amounts classified as recoverable costs from developed properties. Net spending for the year is expected to be approximately \$115 million after receipt of proceeds from long-term real estate financing during the year.

Expansion plans for fiscal 1997 include the opening of 25 to 30 new stores and the relocation/remodeling of approximately 10 existing stores to expanded facilities. The reduced number of new store openings, compared to the prior four fiscal years, reflects slowing economic conditions and the Company's desire to fund future store growth internally. These openings will largely occur in existing markets and include entry into the new markets of Philadelphia and Tampa. This growth will be supported by the existing distribution facilities.

Management believes that the Company's working capital needs will be met through the availability of its revolving bank line of credit, expected vendor and third party inventory financing arrangements and cash flow from operations. Management also believes adequate long-term financing for property development will be available to support planned growth.

**BEST BUY CO., INC.**

Part II - Other Information

Item 6. EXHIBITS AND REPORTS ON FORM 8-K:

a. Exhibits:	METHOD OF FILING
	-----
11.1 Computation of Net Earnings per Common Share	Filed herewith
27.1 Financial Data Schedule	Filed herewith

b. Reports on Form 8-K

No reports on Form 8-K were filed during the period.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**BEST BUY CO., INC.**  
(Registrant)

Date: *January 5, 1996*

By: */S/ ALLEN U. LENZMEIER*

-----  
*Allen U. Lenzmeier, Executive Vice  
President & Chief Financial Officer  
(principal financial officer)*

By: */S/ ROBERT C. FOX*

-----  
*Robert C. Fox, Senior Vice President-  
Finance & Treasurer (principal accounting  
officer)*



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**BEST BUY CO., INC.**  
(Registrant)

Date: January 5, 1996

By: \_\_\_\_\_

Allen U. Lenzmeier, Executive Vice  
President & Chief Financial Officer  
(principal financial officer)

By:  
Robert C. Fox, Senior Vice President- Finance & Treasurer (principal accounting officer)

## BEST BUY CO., INC.

## COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Amounts in 000, except per share amounts)

	(unaudited)			
	THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOVEMBER 25, 1995	NOVEMBER 26, 1994	NOVEMBER 25, 1995	NOVEMBER 26, 1994
Earnings:				
Net earnings available to common shares	\$17,802 =====	\$17,702 =====	\$28,188 =====	\$29,543 =====
Shares:				
Weighted average common shares outstanding	42,692	42,124	42,569	41,951
Adjustments:				
Assumed issuance of shares purchased under stock option plans	833 -----	1,474 -----	1,059 -----	1,475 -----
Total common equivalent shares	43,525 =====	43,598 =====	43,628 =====	43,426 =====
Net earnings per common share	\$ .41 =====	\$ .41 =====	\$ .65 =====	\$ .68 =====

Note: The computation of earnings per common share assuming full dilution results in anti-dilution.

## ARTICLE 5

The schedule contains summary financial information extracted from the financial statements for the periods indicated and is qualified in its entirety by reference to such financial statements.

PERIOD TYPE	9 MOS
FISCAL YEAR END	MAR 02 1996
PERIOD END	NOV 25 1995
CASH	107,041
SECURITIES	0
RECEIVABLES	191,920
ALLOWANCES	0
INVENTORY	1,973,967
CURRENT ASSETS	2,432,207
PP&E	418,455
DEPRECIATION	120,668
TOTAL ASSETS	2,758,215
CURRENT LIABILITIES	1,853,453
BONDS	208,767
COMMON	0
PREFERRED MANDATORY	0
PREFERRED	4,271
OTHER SE	406,391
TOTAL LIABILITY AND EQUITY	2,758,215
SALES	4,641,884
TOTAL REVENUES	4,641,884
CGS	4,020,092
TOTAL COSTS	4,020,092
OTHER EXPENSES	543,638
LOSS PROVISION	0
INTEREST EXPENSE	31,528
INCOME PRETAX	46,626
INCOME TAX	18,438
INCOME CONTINUING	28,188
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	28,188
EPS PRIMARY	.65
EPS DILUTED	.65

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**End of Filing**

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