BEST BUY CO INC

FORM 10-Q
(Quarterly Report)

Filed 07/11/94 for the Period Ending 05/28/94

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 7/11/1994 For Period Ending 5/28/1994

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)

_X_ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 28, 1994

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	41-0907483
(State of Incorporation)	(IRS Employer Identification Number)
7075 Flying Cloud Drive Eden Prairie, Minnesota	55344
(Address of principal executive offices)	(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 May 28, 1994, there were 41,857,684 shares of common stock, $.10 par value, outstanding.

BEST BUY CO., INC.

FORM 10-Q FOR THE QUARTER ENDED MAY 28, 1994

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Part I - Financial Information

Item 1. Financial Statements

BEST BUY CO., INC.

BALANCE SHEETS

ASSETS

($ in 000, except per share amounts)

	May 28, 1994 (Unaudited)	February 26, 1994	May 29, 1993 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	$ 10,226	$ 59,872	$ 95,451
Receivables	67,331	52,944	40,172
Merchandise inventories	704,518	637,950	328,453
Deferred income taxes	14,880	13,088	9,346
Prepaid expenses	1,222	756	1,406
Total current assets	798,177	764,610	474,828
PROPERTY AND EQUIPMENT, at cost:			
Land and buildings	52,871	37,660	2,898
Property under capital leases	17,908	17,870	14,101
Leasehold improvements	64,330	55,279	35,174
Furniture, fixtures, and equipment	125,423	122,683	82,116
	260,532	233,492	134,289
Less accumulated depreciation and amortization	68,907	60,768	45,869
Total property and equipment	191,625	172,724	88,420
OTHER ASSETS:			
Deferred income taxes	6,163	7,078	6,230
Other assets	8,765	8,082	1,039
Total other assets	14,928	15,160	7,269
TOTAL ASSETS	$1,004,730	$952,494	$570,517

See notes to financial statements.

BEST BUY CO., INC.

BALANCE SHEETS (CONTINUED)

LIABILITIES AND SHAREHOLDERS' EQUITY

($ in 000, except per share amounts)

	May 28, 1994 (Unaudited)	February 26, 1994	May 29, 1993 (Unaudited)
CURRENT LIABILITIES:			
Note payable, bank	$ 32,500		
Obligations under financing arrangements	13,558	$ 11,156	$ 19,618
Accounts payable	312,664	294,060	160,150
Accrued salaries and related expenses	17,213	19,319	10,654
Other accrued liabilities	40,179	37,754	18,806
Deferred service plan revenue and warranty reserve	19,909	19,146	12,759
Accrued income taxes	3,717	11,694	1,025
Current portion of long-term debt	9,003	8,899	5,666
Total current liabilities	448,743	402,028	228,678
Deferred Service Plan Revenue and Warranty Reserve	29,667	28,211	26,781
LONG-TERM DEBT	208,711	210,811	49,081
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 41,854,000, 41,742,000, and 41,283,000 shares, respectively	4,185	2,087	1,376
Additional paid-in capital	223,915	224,089	219,527
Retained earnings	89,509	85,268	45,074
Total shareholders' equity	317,609	311,444	265,977
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,004,730	$952,494	$570,517

See notes to financial statements.

BEST BUY CO., INC.

STATEMENTS OF EARNINGS

($ in 000, except per share amounts)

(Unaudited)

	Three Months Ended	
	May 28, 1994	May 29, 1993
Revenues	$849,403	$441,919
Cost of goods sold	730,451	367,443
Gross profit	118,952	74,476
Selling, general and administrative expenses	107,266	70,802
Income from operations	11,686	3,674
Interest expense, net	4,676	1,229
Earnings before income taxes and cumulative effect of change in accounting principle	7,010	2,445
Income taxes	2,769	929
Earnings before cumulative effect of change in accounting principle	4,241	1,516
Cumulative effect of change in accounting for income taxes		(425)
Net earnings	$ 4,241	$ 1,091
Earnings per share:		
Earnings before cumulative effect of change in accounting principle	$ .10	$ .04
Cumulative effect of change in accounting for income taxes		(.01)
Net earnings per share	$ .10	$ .03
Weighted average common shares outstanding (000)	43,257	36,144

See notes to financial statements.

BEST BUY CO., INC.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MAY 28, 1994

($ in 000)

(unaudited)

	Common stock	Additional paid in capital	Retained earnings
Balance, February 26, 1994	$2,087	$224,089	$85,268
Stock options exercised	9	1,915	
Effect of two-for-one stock split	2,089	(2,089)	
Net Earnings, three months ended May 28, 1994			4,241
Balance, May 28, 1994	$4,185	$223,915	$89,509

See notes to financial statements.

BEST BUY CO., INC.

STATEMENTS OF CASH FLOWS

($ in 000)

(unaudited)

	Three Months Ended May 28, 1994	Three Months Ended May 29, 1993
OPERATIONS:		
Net earnings	$ 4,241	$ 1,091
Charges to earnings not affecting cash:		
Depreciation and amortization	8,139	4,476
Loss on disposal of property and equipment		206
Cumulative effect of change in accounting for income taxes		425
	12,380	6,198
Changes in operating assets and liabilities:		
Receivables	(14,387)	(2,204)
Merchandise inventories	(66,568)	(78,462)
Prepaid income taxes and expenses	(1,343)	(1,294)
Accounts payable	18,604	41,812
Accrued salaries and related expenses	(2,106)	(1,696)
Other current liabilities	(5,661)	(4,935)
Deferred service plan revenue and warranty reserve	2,219	576
Total cash used in operations	(56,862)	(40,005)
INVESTING ACTIVITIES:		
Additions to property and equipment	(31,572)	(11,165)
Proceeds from sale/leasebacks	4,700	44,505
(Increase)decrease in other assets	(683)	451
Total cash provided by (used in) investing activities	(27,555)	33,791
FINANCING ACTIVITIES:		
Common stock issued	1,924	82,603
Borrowings on revolving credit line	58,800	59,300
Payments on revolving credit line	(26,300)	(63,000)
Borrowings (payments) on long-term debt	(2,055)	877
Increase in obligations under financing arrangements	2,402	14,747
Total cash provided by financing activities	34,771	94,527
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,646)	88,313
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	59,872	7,138
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$10,226	$95,451

Amounts in this statement are presented on a cash basis and therefore may differ from those shown in other sections of this quarterly report.

Supplemental cash flow information:

Cash paid during the period for:		
Interest	$ 6,765	$ 743
Income taxes	$10,470	$ 6,495

See notes to financial statements.

BEST BUY CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

The balance sheets as of May 28, 1994, and May 29, 1993, the related statements of earnings and cash flows for the three months ended May 28, 1994, and May 29, 1993, and the statement of changes in shareholders' equity for the three months ended May 28, 1994, 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 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 26, 1994.

2. INCOME TAXES:

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

3. STOCK SPLIT:

The Company effected a two-for-one stock split in the form of a stock dividend in April 1994. All common share and per share data reflect this stock split. In September 1993 the Company effected a three-for-two stock split and per share information for fiscal 1994 has also been adjusted to reflect that split.

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

RESULTS OF OPERATIONS

Earnings for the three months ended May 28, 1994 were $4.2 million, or $.10 per share, compared to $1.5 million, or $.04 per share, for the three months ended May 29, 1993. Prior year amounts are before the cumulative effect of a change in accounting for income taxes. The increase in earnings is the result of a comparable store sales increase of 37% for the quarter, the addition of 37 stores opened during the past twelve months and increased leverage of selling, general and administrative expenses. Operating income in the first quarter of fiscal 1995 improved to 1.4% of sales compared to .8% in the first quarter of fiscal 1994. The change in accounting for income taxes reduced net earnings by $425,000, or $.01 per share, in the first quarter of fiscal 1994.

Revenues increased 92% over the same period last year to $849 million. The increase was due to the 37 new stores and the substantial comparable store sales increase experienced in the first quarter of the current year. The comparable store sales growth benefitted from sales of several new personal computer name brands the Company introduced in the second quarter of the prior fiscal year. Sales contributed by the home office and personal computer category increased from 29% of store sales in the first quarter of last year to 37% of sales in the first quarter of the current year. While the addition of the new brand names has contributed to the year over year growth in the sales of personal computers, the rate of growth in comparable store sales of that product line is expected to decline as these products have now been available for over one year. Additionally, as consumers await the next generation of personal computer technology, growth in this category could slow in the coming months. In June 1993, the Company introduced a new financing program which management believes has also contributed to increased sales since its introduction. In addition, the Company believes that its sales growth has been aided by an increase in the inventory levels it is maintaining in the stores, which provide a better in-stock position for the consumer to make a selection from. Comparable store sales also increased due to increasing sales of entertainment software (compact discs, pre-recorded audio and video tapes and computer software) as product assortment in this category has been significantly expanded in the past year. The entertainment software category contributed 14% of store sales in the first quarter, compared to 11% of sales for the same period last year.

Gross profit margin was 14.0% of sales compared to 16.9% in the first quarter of last year; however, it was unchanged from the margin achieved in the fourth quarter of last year. The change in gross profit margin from the first quarter of fiscal 1994 is primarily due to the competitive conditions encountered in new markets entered and increased competition in existing markets. Margin declines experienced in recent quarters have moderated as competitive conditions have begun to stabilize and the impact of the growth of lower margin personal computers in the Company's sales mix has become less significant.

Selling, general and administrative expenses (SG&A) for the first quarter were 12.6% of sales compared to 16.0% for the same period last year. Improvement in the SG&A ratio in the quarter exceeded the decline in gross profit margin. This improvement of 3.4% of sales is mainly a result of increased sales per store and higher leverage of the costs of operations. In addition, advertising expenditures have become more efficient due to a reduction in the size of some of the Company's weekly newspaper inserts and a higher concentration of stores within selected markets. The first quarter of last year also included expenses related to the conversion of some of the Company's traditional superstores to the current store format totaling approximately $550,000.

Extended service plan revenues represented .7% and 1.2% of revenues for the first quarter of 1995 and 1994, respectively. Profit earned on extended service plans contributed $3.7 million and $2.9 million to the Company's operating income in the first quarter of fiscal 1995 and 1994, respectively. This profit is before the allocation of any selling, general or administrative expenses, except for direct selling expenses.

Net interest expense increased to $4.7 million for the first quarter, up from $1.2 million in the first quarter of last year. This increase is the result of the interest expense on the $150 million of senior subordinated notes issued in October 1993.

Income taxes are provided for at the rate of 39.5% which is an increase over the 38.0% in the first quarter of fiscal 1994. The increase is primarily due to the increase in the statutory federal rate enacted in the second quarter of fiscal 1994 and a lower level of tax-exempt investment income this year.

FINANCIAL CONDITION

Total assets at the end of the first quarter were slightly more than $1 billion and working capital of $349 million was essentially unchanged from that at fiscal 1994 year end. Inventories increased ten percent during the quarter as a result of new store openings and seasonal increases in video products, car stereos, and air-conditioners. The increased inventory level was funded by borrowings under the Company's line of credit and vendor credit. Cash flows in the first quarter of fiscal 1994 reflect the proceeds of a

$44 million sale/leaseback transaction and $82 million from a common stock offering.

Two new stores were opened in the first quarter and the Company expects to open a total of approximately 50 stores during fiscal 1995. Management also plans to expand or relocate approximately 25 stores during the year to accommodate increasing product selection. A 200,000 square foot expansion of the Company's distribution center in Oklahoma was completed in May and construction has begun on a new 700,000 square foot distribution center in Virginia. The Company is also leasing a 300,000 square foot distribution facility in California and a 240,000 square foot entertainment software facility in Minnesota. Management expects that store development and other capital projects will aggregate approximately $220 million for the year, of which about 70% will be developed or financed through long term financing arrangements. At May 28, 1994, the Company had in excess of $45 million in development costs that are expected to be recouped through those financing arrangements in fiscal 1995.

The Company currently has a revolving credit facility that allows for seasonal borrowings of up to $125 million. Management is in the process of negotiating an increase of this credit facility to approximately $400 million to support the cash requirements for inventory financing during the holiday selling season.

Management believes that the increased credit facilities combined with the store development financing through long term lease arrangements and cash generated from operations will provide sufficient resources to meet the Company's financing needs for the current fiscal year.

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 Earnings per Common Share Filed herewith

b. Reports on Form 8-K:

A Form 8-K was filed on April 4, 1994 reporting a two-for-one stock split effective on April 28, 1994.

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: July 7, 1994 *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)

EXHIBIT 11.1

BEST BUY CO., INC.

COMPUTATION OF EARNINGS PER COMMON SHARE

($ in 000, except per share amounts)

(unaudited)

	Three Months Ended May 28, 1994	Three Months Ended May 29, 1993
Earnings:		
Earnings before cumulative effect of change in accounting principle	$4,241	$1,516
Cumulative effect of change in accounting for income taxes		(425)
Net earnings available to common shares	$4,241	$1,091
Shares (000):		
Weighted average common shares outstanding	41,783	35,169
Adjustments:		
Assumed issuance of shares purchased under stock option plans	1,474	975
Total common equivalent shares	43,257	36,144
Earnings per common share:		
Earnings before cumulative effect of change in accounting principle	$ .10	$ .04
Cumulative effect of change in accounting for income taxes		(.01)
Net earnings per common share	$ .10	$ .03

Note: The computation of earnings per common share assuming full dilution is substantially the same as set forth above.