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Private Equity Value for Best Buy (BBY, GME, WMT, AMZN)

After losing about a third of its value in the last year, Best Buy Co. (NYSE: BBY) may start to be thrown around as a private equity takeover name. A report from Bloomberg calls Best Buy a private equity target in the making and said it is “a retailer that throws off the most cash, there’s no bigger bargain than Best Buy.”

Why would a buyer look now? It is currently priced in its stock at only 3.6-times free cash flow and that is the cheapest valuation out of retail stocks valued at more than \$1 billion. Its current expected P/E ratio is also under 8 and if it makes the consensus target for the year ahead it trades at barely 6-times expected earnings.

There are many problems here, some of which are the same that have faced GameStop Corporation (NYSE: GME). While GameStop is a video game play, it too has been bantered around as a potential private equity takeover name in the past with equally cheap valuations.

The real thorn in Best Buy’s side is that many buyers now go to Wal-Mart Stores Inc. (NYSE: WMT) and the young crowd goes through Amazon.com Inc. (NASDAQ: AMZN) and a myriad of other online retailers. While Best Buy now offers online sales from it and other merchants, Amazon and others just got too big of a jump.

Bloomberg went on to note, “Best Buy can still enrich leveraged buyout firms after generating \$2.44 billion in free cash in the past year, **Telsey Advisory Group** and Morningstar Inc. said. The \$8.14 billion company could get at least \$37 a share in a takeover, according to Thornburg Investment Management, 59 percent more than its price yesterday.”

Before you rush to call this one a private equity buyout target hopeful that will definitely come to fruition, Best Buy may have to face even more pain before the company would agree to a buyout. After closing at \$23.23 on Wednesday its shares are not even indicated higher. Today’s reporting from elsewhere may be more posturing than real speculation. We would not even formally classify this as a rumor at this point.