

December 4th, 2025

**Team: 14** 

**Students:** Casey Chen, Katherine Liang, Andrew Norman

Long: Best Buy (NYSE: BBY)

**Current Price:** \$76 (11/21/2025) | **1Y Price Target:** \$102 (33% Upside)



### **Best Buy Overview**

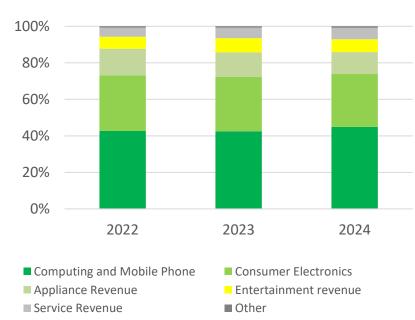
#### **Company Overview**

- Offers technology products and solutions in the United States, Canada, and internationally.
- Provides delivery, installation, memberships, repair, set-up, technical support, health-related, and warranty-related services.

#### **Trading and FY24 Financial Data**

Current Price	\$76.45	Revenue (\$M)	41,528
Market Cap (\$M)	16,062	Gross Margin	23%
EV (\$M)	16,272	EBITDA (\$M)	2,760
52W Low / High	\$54.99 - \$95.49	EBITDA Margin	7%

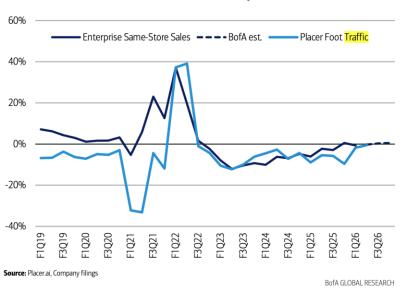
#### Exhibit. BBY's revenue mix



#### **Best Buy is Positioned for Success**

- Best Buy is at the start of a **multi-year earnings inflection** driven by (1) the AI PC upgrade cycle, (2) scaling marketplace and retail media businesses, and (3) a powerful gaming rebound.
- It is uniquely positioned to capture outsized share of AI PCs through its premium assortment, in-store demos, and expert guidance—driving stronger mix and margin.
- Marketplace and Best Buy Ads add high-margin, asset-light growth that consensus underestimates.
- Together, these catalysts support accelerating EPS and a meaningful re-rating opportunity.

#### **Exhibit. BBY's Transaction Recovery**





### **Investment Thesis Overview**

#### **Investment Thesis**

#### Why is There an Opportunity?

Windows 10 End-of-Life and AI PC Refresh Drive Multi-Year Growth

A larger and older Windows 10 installed base, combined with the shift toward Al-capable PCs, creates a multi-year upgrade. Best Buy is uniquely positioned to capture outsized share due to its assortment, guided selling, in-store demos, and Geek Squad.

2 3P Marketplace and Retail Media (Best Buy Ads)
Create Structural Margin Expansion

Marketplace and Best Buy Ads materially expand BBY's profit pool with minimal incremental cost. The integration of 3P assortment with in-store pickup, returns, and targeting data further improves conversion and vendor ad spend.

Gaming Catalysts Create Multi-Quarter Traffic & Attach Tailwinds

Nintendo Switch 2 launches a classic 3–5-year hardware cycle, supported by a deep software pipeline ° These launches drive recurring in-store traffic and high-margin accessory attach, areas where Best Buy disproportionately wins due to demo stations, exclusive bundles, and strong vendor partnerships.

#### **These Opportunities Underpin Our Divergence From Consensus**

		Our Estimates		Consensus Estimates		
	2024A	2027E	Change	2027E	Change	
Revenue (\$M)	41,528	44,695	2.5% CAGR	43,396	1.4% CAGR	
Gross Margin	22.6%	23.6%	1.0%	22.7%	0.1%	
EBITDA (\$M)	2,760	3,632	9.6% CAGR	2832	0.9% CAGR	
EPS	\$4.28	\$8.85	27.4% CAGR	\$7.42	20.5% CAGR	

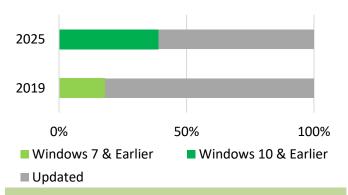


# Thesis 1: Windows 10 End-of-Life and AI PC Refresh Drive Multi-Year Growth

# A larger, older installed base creates a stronger and longer replacement cycle

Windows 10 penetration (~70 million U.S. devices) is nearly 2× the Windows 7 base at its 2019 sunset, and the average device age is 6–8 years versus ~5 years previously. Many legacy systems are too underpowered to meet Windows 11 or Copilot+requirements.

#### **Exhibit. Windows 10 Penetration**



Demand unfolds over a longer, multi-year replacement cycle

The EOL and cycle AIPC yields a more staggered upgrade base—households, students, and remote workers for refreshing devices at different times FY25: Early adopters & initial forced upgrades FY26: Peak forced upgrades + start of lifecycle replacements
FY27: Peak lifecycle replacements + mainstream

Al adoption

## The AI PC transition sustains momentum beyond the EOL deadline, lifting hardware requirement

AI PC cycle provides the structural tailwind. Every replacement device will effectively be an AI-capable PC, offering meaningful performance and functionality upgrades—on-device AI assistants, real-time transcription, and longer battery life—that make upgrades attractive beyond necessity.

OEMs are staggering AI PC launches through FY26–FY28, each wave reactivating marketing and purchase intent.

#### **Exhibit. AI PC Cycle driver**

On-device AI compute (NPU)	Enables real-time tasks without cloud → clearly visible speed upgrade
Battery life gains (20–60%)	Longer battery life is one of the top 3 reasons consumers upgrade laptops
New AI features	live transcription, smart recall, vision models - functionality-driven refresh, not just security-driven
Hardware	

Many Win10 devices cannot run Win11

AI PC transition shifts mix toward premium devices

requirements

AI PCs introduce higher floor for performance. \$300–\$400 category cannot support AI workload.

Much stronger OEM push on mid-range + premium: Intel, AMD, Qualcomm all prioritize \$700–\$1,500 SKUs. Best Buy (BBY) is uniquely positioned to benefit from the Cycle

BBY historically outperforms the PC industry during innovation cycles. BBY combined product breadth, vendor partnerships, and service infrastructure. Customers need in-person guidance and trusted service an integral part of the purchase decision, shifts buying behavior toward specialized, full-service channels. 4



# Thesis 1: Windows 10 End-of-Life and AI PC Refresh Drive Multi-Year Growth

The Street worries that demand is negatively affected by the Macro trend. But we believe that demand suspends on a longer cycle.

#### Cohort A — Forced Upgraders

- Win11 incompatible hardware
- Typically, 6–9 years old
- Must upgrade due to Win10 EOL
- Purely forced behavior not affected by macro environment

#### Cohort B — Lifecycle Upgraders

- Devices purchased during 2020–2021 pandemic spike
- Clear 4–5 yr replacement window

2025

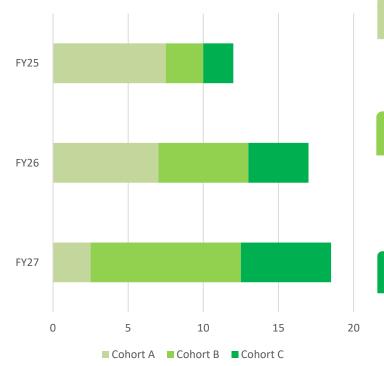
2026

 Timing driven by component wear, age, and usage – purchase timeline affected by macro economy

#### Cohort C — Functionality Upgraders

- Students, WFH, productivity cycles
- Replace PCs on 5–7 yr cadence
- Upgrade due to needs, not failure
- Performance + features + Windows EOL warnings – might wait for AI updates and AI support

#### **Exhibit. AI PC Cycle Timeline**



- Early Forced Upgraders: devices too old / incompatible
- Early Functionality Upgraders: students, WFH users

Win 10 EOL awareness increases; Some consumers upgrade proactively; AI PCs launch but penetration still low; Traffic and average ticket rise, but major volume still ahead

- Forced Upgraders: devices incompatible with Copilot+
- Lifecycle Upgraders: pandemic PCs begin aging out
- Functionality Upgraders: expanding AI workflow

Windows 10 officially out of support; Many devices become functionally obsolete; AI PCs go mainstream with more NPU models at mid/premium price

- Lifecycle Upgraders: pandemic PCs reach 6–7 years old
- Functionality Upgraders: users adopt AI productivity tools
- Residual Forced

The 2020–2021 PC fully enters replacement window; Al use-cases become mainstream; Mid-to-premium mix strengthens further

2027



## Thesis 1: The AI PC Cycle leads to a more premium product mix

#### Al Features Are Tangible — Consumers Feel the Upgrade

#### Click to Do (preview)

Take quick actions with text or images.



#### Generative Fill

Recall (preview)

what you've seen before.

Quickly find and jump back into

Make your photos feel untouched yet upgraded with new details.



- instant response
- Power-efficient (runs on NPU)
- Enables Recall, local
- Works with poor internet

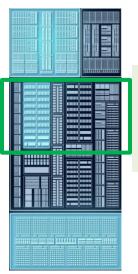
#### **Cloud AI**

- Slower
- Lower privacy
- Higher battery usage
- Dependent on bandwidth quality

#### On-Device Al

- Higher security
- LLMs, AI photo tools

#### Al Features are supported by premium hardware



Modern, energy-efficient CPU architecture

On-device NPU ≥ 40 TOPS AI models (Recall, local LLMs) require fast parallel computation. CPU/GPU are

inefficient for these workloads.

16GB RAM minimum

Fast SSD storage

256 GB storage capacity

#### **Exhibit. AI PC Models** Dell - Inspiron 14 Plus

Improved Windows Search

More powerful searches performed

by semantic indexing.



HP - OmniBook X



AMD Ryzen AI 300 **Built-in 50 NPU TOPS** Up To 21 Hours Battery Life \$1,049

Surface Pro 11th



Qualcomm Hexagon NPU 14 hours battery 90% Faster Performance \$1.499

#### **OEM Product Roadmaps Favor Mid**to-Premium Through 2027

Entry AI models: \$899-\$999 Mainstream Al PCs: \$1,099-\$1,399 Premium AI PCs: \$1,499-\$2,199

- OEM Product Roadmaps Favor Midto-Premium Through 2027. 2025-2026 AI PC volume-weighted ASPs will trend higher, not lower.
- NPU supply is concentrated in premium processors first.
- Entry-level designs using low-cost NPUs arrive 2027–2028.

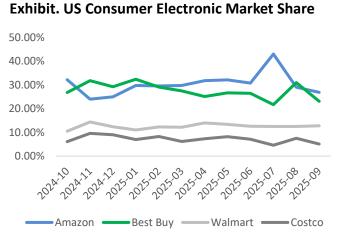
Qualcomm Hexagon NPU On-device Al Fast-paced \$999



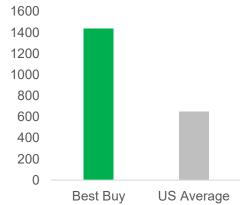
# Thesis 1: BBY is uniquely positioned to benefit from the AI PC Cycle

The Street worries about competition from Amazon, Costco and Walmart, but we see a higher penetration due to its AI PC Assortment Relevance, hands-on demo and expert service.

#### BBY still rank Top 2 in Consumer Electronic and has a premium skew in its computing category







AI PCs shift demand toward mid-topremium laptops, where Best Buy is strongest. BBY's computing category skews to higher ASPs than the overall U.S. market.

BBY has more premium product mix - introduced about 125 PC models enhanced with AI (~70% retail exclusivity).

#### AI PC leads to a more complex decision procedure

Why do I need an AI PC? What is "recall"?

What is NPU?
Why so I need NPU?
Which Processor do I need?

How should I set up? How to transfer the data?

What if I meet further question while using

	Best Buy	Amazon	Costco
AI PC Assortment Relevance	Strong (flagship Surface, XPS, ThinkPad in-store)	Broad but <b>not curated</b>	limited
Hands-On Demo & Guidance	Yes (major advantage) — AI demo tables and trained staff	None	None
Expert Guidance	✓ Yes — 30,000 trained staff	None	None
Attach & Setup Services	Strongest — Geek Squad, data transfer, warranties	Weak (3rd-party add-ons)	Minimal



# Thesis 1: BBY is uniquely positioned to benefit from the AI PC Cycle

#### **Exhibit BBY vs. Amazon product feature**

#### **Processor Model**

The CPU, or central processing unit, is essentially the faster your computer will run.



- Great portability
- Budget friendly
- · Basic internet tasks



- · Entry-level processor
- Good for everyday tasks
- · Basic music and videos



Medium This Product

- Mid-grade processor
   Great for most tasks
- Multitasks well



- · Designed for power users
- Excels at multitasking
- Multimedia creation

#### Natural Silver

512 GB

Windows 11 Pro

Fast Charge, HD Audio, Lifetime MS Office, Numeric Keypad

Integrated

Intel Iris Xe Graphics

SSD

3.52 Pounds

Solid State

Shared

14.17"L x 9.29"W x 0.73"Th

#### BBY shows a more straightforward explanation for AI PC feature

- Copilot+ page: help learning and finding the right Windows PC
- Copilot+ PC Experts: one-on-one tech guidance, answer any questions and help with product orders via video, voice or chat.
- Innovators: a new video podcast series inspiration behind the tech and how Copilot+ PCs are expected to change the way of using computers.

**BBY Makes AI PC Features Easy to Understand**: Best Buy simplifies these concepts into plain-English benefits ("better multitasking," "faster AI features," "improved security"), helping customers understand why a premium AI PC is worth the upgrade.

Amazon Only Shows Raw Specs: Amazon listings present long technical spec sheets with no context. Shoppers see CPU/GPU/NPU fields without understanding how they impact AI performance.

#### **Exhibit BBY product specification**



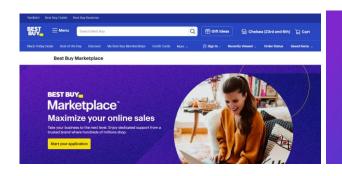
#### BBY offers unmatched expert support in store

- BBY created a comprehensive training program for our experts with certifications, with 30,000 experts certified in Copilot+ PCs.
- Worked with Microsoft to host in-person events in cities across the country to give our computing experts hands-on training with Copilot+ PCs.
- Entirely new AI skillset for more than 1,000 Geek Squad Agents. AI
  experts will perform demos and trainings in hundreds of stores,
  showcasing what AI can do.
- Dedicated positions to computing space in hundreds of stores, including an expert in all things computing.



# Thesis 2: 3P Marketplace and Retail Media (Best Buy Ads) Create Structural Margin Expansion

BBY is transforming from an electronics retailer into a higher-margin, platform-driven ecosystem.







#### Marketplace

- Launched in August 2025
- Expands assortment and traffic without inventory risk
- Allows 3P sellers to list products directly on BestBuy.com alongside BBY's own inventory
- Already hosted over 500 vendors and expanded online assortment 6x
- Earns commissions and fees with minimal capital employed

#### Retail Media (Best Buy Ads)

- Monetizes traffic and vendor partnerships
- Enables OEMs and brands (e.g., Microsoft, HP, Intel, and Samsung) to purchase sponsored placements, banner ads, and co-branded in-store displays
- Monetizes existing website traffic and store footfall with no incremental cost
- Can link digital impressions to in-store conversion data

#### **Store Takeover Strategy**

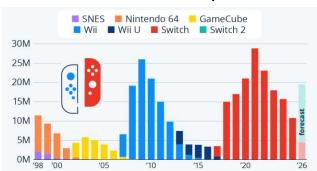
- Brands can dominate the physical and digital ad real estate of 1+ store(s)
- Appears inside and outside stores: window displays, entrances, checkout counters, TV-walls, PC-monitor displays, interactive screens, mobile displays
- Supports programmatic buying or integration via DSPs and enables 1P data
- Can connect 93% of transactional revenue to customer ID
- When Walmart scaled its marketplace and introduced ads, that strategy drove 50%+ of its ad revenue growth in the first few years.
- Store Takeover Strategy is expected to see **gross margin of 50-60%** (vs 10-30% otherwise).
- Marketplace and Best Buy Ads are expected to carry >70% EBIT flow-through, adding 50-70 bps to EBIT margin, be EBIT-neutral in 2026E, and pushing EBIT margin to 5%+ in 2027E.



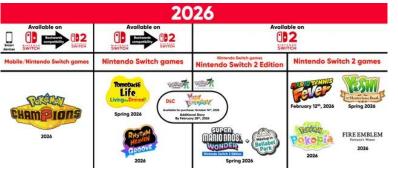
# Thesis 3: Gaming Catalysts Create Multi-Quarter Traffic & Attach Tailwinds

Nintendo Switch 2 is still early in the cycle, providing recurring gaming traffic and attach opportunity for Best Buy

#### **Exhibit. Nintendo Models Adoption Curve**



**Exhibit. Nintendo NS2 Game Release Plan** 



**Exhibit. NS2 Sales** 



- Switch 2 is at the start of a classic 3–5 years Nintendo cycle and FY26–27 represent the peak adoption window. Each year brings new game releases driving repeated store visits.
- Gaming releases are traffic engines—customers visit stores for pickup, demos, accessories, and bundles.

The NS2 drives a stacked, multi-quarter uplift, benefiting 2026E and 2027E the most

- More Store Traffic
- Incremental Revenue in Entertainment Segment
- Higher Margin Through Accessory Attach

#### Exhibit Best Buy In-store NS2 Demo and Special event





#### Best Buy captures outsized share of gaming traffic

Best Buy is one of the Top 3 U.S. retailers for gaming hardware, with a premier partnership with Nintendo

- Exclusive bundles
- Hands-on console demo stations
- Massive in-store Nintendo endcaps
- Accessory attach (controllers, headsets, screen protectors, cases)



### Valuation: Revenue Build

		2022A	2023A	2024A	2025E	2026E	2027E
Revenue		46,298	43,452	41,528	41,876	43,280	44,695
YoY			-6%	-4%	1%	3%	3%
\$ vs. Consensus					0%	2%	3%
Domestic Revenue, mm		42,794	40,097	38,238	38,556	39,922	41,283
YoY			-6%	-5%	1%	4%	3%
Domestic computing and mobile phones reve	enue, mm	18,191	16,930	17,103	17,450	18,320	19,060
YoY			-7%	1%	2.0%	5.0%	4.0%
Domestic consumer electronics revenue, mm	1	13,040	12,014	11,148	11,036	11,146	11,359
YoY			-8%	-7%	-1.0%	1.0%	1.9%
Domestic appliances revenue, mm		6,381	5,469	4,589	4,360	4,273	4,316
YoY			-14%	-16%	-5.0%	-2.0%	1.0%
Domestic entertainment revenue, mm		2,786	3,063	2,641	2,720	2,992	3,172
YoY			10%	-14%	3.0%	10.0%	6.0%
Domestic services revenue, mm		2,149	2,357	2,456	2,677	2,865	3,037
YoY			10%	4%	9.0%	7.0%	6.0%
Domestic other revenue, mm		247	264	301	313	326	339
YoY			7%	14%	4.0%	4.2%	4.0%
International Revenue, mm		3,504	3,355	3,290	3,320	3,358	3,412
YoY			-4%	-2%	1%	1%	2%

#### **Key Drivers:**

Thesis #1 - Domestic Computing & Mobile Growth drive by the AI PC replacement cycle. We assume steady growth driven by the multi-year AI PC replacement cycle, with Best Buy gaining share due to its superior premium assortment, demos, and guided selling.

**Thesis #1&2 - Domestic Services expand with multiple drivers.** Services continue to expand as Marketplace, Retail Media, and Geek Squad strengthen attach rates and generate recurring, high-flow-through revenue.

Thesis #3 - Domestic Entertainment benefits form the gaming catalyst. We expect this category to benefit from recurring gaming catalysts like Switch, which drive both in-store traffic and high-margin accessory attach across multiple quarters.

#### Other Assumptions:

- Domestic Consumer Electronics: stable, low-growth supported by normal replacement and modest lift from increased store traffic.
- Domestic Appliances: remain conservative, reflecting a soft housing backdrop and the absence of a meaningful near-term catalyst.
- International Segments: stable to modestly positive, reflecting a smaller footprint and lower visibility.



## **Valuation: Base Case Earnings Forecast**

		2022	2023	2024	2025E	2026E	2027E
Revenue	'	46,298	43,452	41,528	41,876	43,280	44,695
YoY			-6%	-4%	1%	3%	3%
\$ vs. Consensus					0%	2%	3%
Gross Profit		9,912	9,603	9,385	9,422	10,084	10,548
Margin %		21.4%	22.1%	22.6%	22.5%	23.3%	23.6%
Consensus					22.5%	22.5%	22.7%
\$ vs. Consensus					0%	3%	4%
SG&A		7,884	7,815	7,630	7,621	7,834	8,000
Margin %		17.0%	18.0%	18.4%	18.2%	18.1%	17.9%
EBITDA		3,084	2,856	2,760	2,809	3,298	3,632
Margin %		6.7%	6.6%	6.6%	6.7%	7.6%	8.1%
\$ vs. Consensus					8%	23%	28%
EBIT		1,942	1,727	1,734	1,771	2,211	2,498
Margin %		4.2%	4.0%	4.2%	4.2%	5.1%	5.6%
\$ vs. Consensus					1%	21%	26%
Net Income		1,419	1,241	927	1,353	1,667	1,870
Margin %		3.1%	2.9%	2.2%	3.2%	3.9%	4.2%
Shares Out					211	211	211
EPS					\$6.40	\$7.89	\$8.85
\$ vs. Consensus					2%	17%	18%

#### **Key Drivers:**

- **Gross margin expands modestly** as AI PCs shift mix towards premium SKUs and high-margin digital revenue from Marketplace and Retail Media scales.
- **SG&A leverage increases gradually** because digital revenue grows faster than labor or store expenses, creating operating efficiency without aggressive cost cuts.



### **Valuation: Bull Case**

	Bull					
<u> </u>	2025E	2026E	2027E			
Revenue	42,081	43,974	45,883			
YoY	1%	4%	4%			
Domestic Revenue, mm	38,761	40,616	42,471			
computing and mobile phones, mm	17,616	18,849	19,980			
YoY	3.0%	7.0%	6.0%			
consumer electronics, mm	11,036	11,146	11,359			
YoY	-1.0%	1.0%	1.9%			
appliances, mm	4,360	4,273	4,316			
YoY	-5.0%	-2.0%	1.0%			
entertainment, mm	2,747	3,117	3,398			
YoY	4.0%	13.5%	9.0%			
services, mm	2,689	2,904	3,079			
YoY	9.5%	8.0%	6.0%			
other revenue, mm	313	326	339			
YoY	4.0%	4.2%	4.0%			
International Revenue, mm	3,320	3,358	3,412			
YoY	0.9%	1.1%	1.6%			
Gross Profit	9,679	10,466	11,012			
Margin %	23.0%	23.8%	24.0%			
SG&A	7,659	7,959	8,213			
Margin %	18.2%	18.1%	17.9%			
Net Income	1,474	1,750	1,997			
Margin %	3.5%	4.0%	4.4%			
 EPS	\$6.97	\$8.28	\$9.45			
\$ vs. Consensus	11%	23%	26%			

#### **Bull Case Driver:**

- AI PC Cycle Is Stronger & Deeper.
   Broader adoption of true AI PCs drives premium uplift. BBY captures a higher share due to superior demo and instore support.
- Marketplace has a higher contribution in EBIT due to faster seller count expands.
- Nintendo Switch 2 outperforms expectations, creating higher traffic and attach revenue across accessories, warranties, and computing.



### **Valuation: Bear Case & Risks**

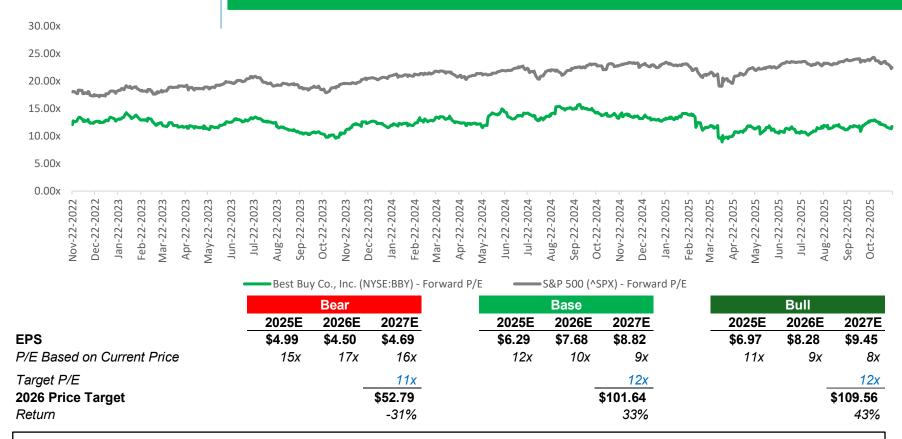
	Bear					
	2025E	2026E	2027E			
Revenue	40,904	41,300	41,753			
YoY	-2%	1%	1%			
Domestic Revenue, mm	37,594	37,981	38,413			
computing and mobile phones, mm	16,744	16,995	17,250			
YoY	-2.1%	1.5%	1.5%			
consumer electronics, mm	10,903	10,925	10,946			
YoY	-2.2%	0.2%	0.2%			
appliances, mm	4,350	4,281	4,302			
YoY	-5.2%	-1.6%	0.5%			
entertainment, mm	2,691	2,820	2,899			
YoY	1.9%	4.8%	2.8%			
services, mm	2,601	2,650	2,701			
YoY	5.9%	1.9%	1.9%			
other revenue, mm	305	310	315			
YoY	1.3%	1.6%	1.6%			
International Revenue, mm	3,310	3,320	3,340			
YoY	0.6%	0.3%	0.6%			
Gross Profit	8,999	9,086	9,186			
Margin %	22.0%	22.0%	22.0%			
SG&A	7,526	7,682	7,766			
Margin %	18.4%	18.6%	18.6%			
Net Income	1,056	952	991			
Margin %	2.6%	2.3%	2.4%			
EPS	\$4.99	\$4.50	\$4.69			
\$ vs. Consensus	-20%	-33%	-37%			

#### **Bear Case Risks:**

- Tariffs on Chinese-made PCs: Higher import costs raise retail prices upgrade cycle slow down, gross margin falls, and computing revenue softens.
- AI PC Supply Constraints: Limited NPU and premium component availability delays true AI PC adoption and leads to a weaker premium mix
- Weak Consumer Demand:
   Macroeconomic pressure reduces
   discretionary spending a slower
   overall growth and SG&A deleverages
- Switch 2 Underperforms: lower instore traffic and softer accessory attach
- Seller onboarding and ad spending lag expectations: bring in smaller highmargin contribution and gross margin capped at ~22.3%
- Competitive Price Pressure:
   Amazon/Walmart intensify promotions
   lead to price match, leading to margin pressure
- Marketplace & Retail Media Ramp
   Slower than expected



### **Valuation: Trading Comps & Price Target**



Over the past 3 years, BBY traded at an average of 0.59x the S&P 500 forward P/E, with a median of 0.62x. In 3Q25, the valuation gap narrowed, yet BBY still trades at a discounted 11.7x forward P/E, or 0.52x the S&P 500's forward multiple.

- Given improving earnings visibility and multi-year catalysts, we believe BBY can re-rate toward 12x (in line with medium historical relative multiple). Applying this to our 2027E EPS yields a price target of \$101.64, or 33% upside from current levels.
- Under our Bull Case, stronger AI PC penetration, accelerated marketplace/retail media scaling, and a more powerful gaming cycle support a valuation of \$109.56, or 43% upside.
- Under our Bear Case, where tariffs, supply constraints, and macro softness pressure revenue and margins, the stock would be worth \$52.79, implying -31% downside from current levels.



Q&A

