Best Buy: Ratio Calculations

History

Best Buy Co., Inc. is an American Multinational Consumer electronics retailer. The organization is headquartered in Richfield, Minnesota. This corporation was founded in August 1966 in St. Paul Minnesota by Richard M. Schulze. As of February 209, it is located over 997 different locations. The major line of business of the organization is Consumer electronics and appliances. Internationally Best Buy operates in Mexico as well as Canada and was operating in China as well until 2011. Best Buy has significant consumer attraction and popularity due to its leading state in the consumer appliances and electronics. It was named the Forbes' Company of the year in 2004.

Financial Analysis:

Best Buy has been performing better each year with securing the rank of 72nd on the fortune 500 list of companies. An overall financial analysis of the organization shows undoubted financial growth over the years and immense potential of investment by investors looking to invest in the industry as its financial are way much attractive than those of the industry.

The SEC-10-K filings of the organization were utilized to perform a thorough ratio analysis of the financials of the organization. For the purpose of the Ratio Analysis ratios pertaining to profitability, Liquidity, Debt, and activity as well were calculated and evaluated to make a in depth analysis of the financials.

Ratio Calculation Appendices:

Appendix A indicates the Ratio analysis as states above. The equations/formulas used in the calculation are also mentioned as they were used. It is to be noted that the data points that were utilized to reach the ratios for evaluation, were all extracted as is from the Consolidated balance sheets and Income statements of the organization for the year ended 2017, 2018, 2019. Average values were used in denominators while calculation some of the rations like ROA, ROE and turnover over ratios. Appendix A also shows the results of the discussed financial ratios in regards to the years ended 2018 and 2019 annual income statement and balance sheet.

Appendix B Shows a vertical analysis of the income statements of the organization for the same years with the value of sales being used as a base.

Appendix C Exhibits the Horizontal analysis of the balance sheet of the organization for the year ended 2018 and 2019 by using the ending balances of the year 2017 as the base year.

Finally, the Appendix D shows the Value of the ratios as an industry standard in comparison with the values of ratios for Best Buy for the year 2018, 2019 as we have calculated.

Looking at the Ratios as calculated for Best Buy Co., Inc. the strength of the company can be

measured as most of the ratios either just remained constant, reduced negligibly or increased prominently.

Liquidity Ratios:

Liquidity ratios are the ratios which determine the ability of the organization to pay off its current debts within the next year using its current assets. For liquidity rations, we calculated current ratio. As indicated by the formula, the current ratio compares current liabilities for the year with current assets. We see that there is a decrease in current ration from 2018 to 2019 that is it was 1.26 to 1.18 in the later year. This is indicative of the fact that the organization more debt in 2019 than it could in 2018. It is also less than the industry average of 1.36. Indicating that the company is performing better than the industry that it operates in.

The working capital amount also determines a company's liquidity and financial health by comparing current assets and current liabilities. Constitutes the free cash flow available to the organization to invest back in the business. The working capital is also seen to be decreased from 2017 to 2018 and from 2018 to 2019.

The value of inventory turnover ratio for the year 2018 8.37 and for 2019 was 8.08 which shows a decrease in the ratio whereas looking at the industry value or standard for this ratio we observe 4.17 which indicates that even though the inventory turnover ratio has decreased for the company as compared to last year, it is still much higher than the industry standard and hence a strong performance indicator exhibiting effective inventory management within the organization.

In general Best buy Co., Inc has potentially better ability to pay off its current debts when compared to industry.

Solvency Ratios:

Solvency Ratios on the other hand determine how able the organization is to pay off its long-term debts or liabilities. Investor do also consider this ratio a great measure of the organization's performance while making investment decisions.

For that purpose, the Debt to Assets ratio is one of the most utilized and trusted ratios to calculate as a solvency ratio. As indicated from the formula in Appendix A, this ratio compares total liabilities with total assets.

Just like current ratio the higher value of the Debt to Assets ratio indicates unlikeliness of the organization's ability to pay off its debt. The results of the Debt to Assets ratios for 2018 and 2019 show that there is an increase in the ratio indicating that the company's liabilities may have increased more than the assets. With regards to stability, the investors may have some concerns and reservations with this.

Although the liabilities did increase more than the assets, it is not essentially a bad indicator for the investors. As indicated from the horizontal analysis, there was more increase in the liabilities as compared to 2017 than the assets for the years ended 2018 and 2019 however this may mean that the organization took long term debts to improve the business and invest more as

capital.

Profitability Ratios:

Profitability ratios are utilized to measure the operating success of a company for a given period of time. Unlike the ratios of liquidity and solvency as we have discussed earlier, the main data points for these ratios are extracted majorly from the income statement rather than the balance sheet.

With vertical analysis of the income statements it can be shown that cost of goods sold increased in relation to net sales. COGS were 76.6% of the sales in 2018 where as 76.8% of the sales in 2019. However, the increase is significantly small. Although it is also significant to note that it has no potential effect on the operating income in relation to sales which stays 4.4% in both the years and hence a positive trend.

The profit margin ratio is seen to have been increased immensely from 2018 to 2019. It grew from 2.37% in 2018 to 3.41% in 2019. This is a significant improvement. As compared to the industry standard of 4.08% it is less however it has shown improvement from last year hence that is a positive indicator.

The ROA has also significantly increased from 2018 when it was 7.43% where as in 2019 it was 11. 28% which is way more than its industry standard that is 8.04%. This is indicative of the organization’s stability over all. The industry standard being lower than the ratio value of ROA for Best Buy indicates that the organization is successfully making more profits in its assets as compared to its industry. This also reflects in the Assets turnover ratio which has also increased from 3.13 in 2018 to 3.30 in 2019 and it also higher than the industry standard of 0.87. Overall, Best Buy has positive profitability trends nonetheless.

Conclusion:

In general, after having thoroughly analyzed the the recent financial statements for Best Buy Co., Inc., the Ratio analysis, the horizontal and vertical analysis and industry comparison we can conclude that the business is nonetheless growing showing significantly positive trends in solvency and profitability as well as liquidity. The organization has been able to at least maintain the financial ratios, if not increase them throughout the years. It also has better values than the industry standards, that too by huge margins, which indicates that investing in the business is a great opportunity,