

BEST BUY CO INC
Form 10-Q
December 01, 2017
Table of Contents

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 October 28, 2017

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 its charter)

Minnesota 41-0907483
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

7601 Penn Avenue South
Richfield, Minnesota 55423
(Address of principal executive offices) (Zip Code)

(612) 291-1000
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)
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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No x

The registrant had 292,326,497 shares of common stock outstanding as of November 28, 2017.

Table of Contents

BEST BUY CO., INC.
 FORM 10-Q FOR THE QUARTER ENDED OCTOBER 28, 2017
 TABLE OF CONTENTS

<u>Part I — Financial Information</u>	<u>3</u>
<u>Item</u>	
<u>1.</u>	
<u>Financial Statements</u>	<u>3</u>
a) <u>Condensed Consolidated Balance Sheets as of October 28, 2017, January 28, 2017, and October 29, 2016</u>	<u>3</u>
b) <u>Condensed Consolidated Statements of Earnings for the three and nine months ended October 28, 2017, and October 29, 2016</u>	<u>4</u>
c) <u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended October 28, 2017, and October 29, 2016</u>	<u>5</u>
d) <u>Condensed Consolidated Statements of Cash Flows for the nine months ended October 28, 2017, and October 29, 2016</u>	<u>6</u>
e) <u>Condensed Consolidated Statements of Change in Shareholders' Equity for the nine months ended October 28, 2017, and October 29, 2016</u>	<u>7</u>
f) <u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item</u>	
<u>2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Item</u>	
<u>3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item</u>	
<u>4.</u>	
<u>Controls and Procedures</u>	<u>39</u>
<u>Part II — Other Information</u>	<u>40</u>
<u>Item</u>	
<u>1.</u>	
<u>Legal Proceedings</u>	<u>40</u>
<u>Item</u>	
<u>2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>Item</u>	
<u>6.</u>	
<u>Exhibits</u>	<u>41</u>
<u>Signatures</u>	<u>42</u>

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

\$ in millions, except per share and share amounts (unaudited)

	October 28, 2017	January 28, 2017	October 29, 2016
Assets			
Current assets			
Cash and cash equivalents	\$ 1,103	\$ 2,240	\$ 1,341
Short-term investments	2,237	1,681	1,777
Receivables, net	971	1,347	1,174
Merchandise inventories	6,663	4,864	6,331
Other current assets	431	384	398
Total current assets	11,405	10,516	11,021
Property and equipment, net	2,352	2,293	2,298
Goodwill	425	425	425
Other assets	603	622	798
Total assets	\$ 14,785	\$ 13,856	\$ 14,542
Liabilities and equity			
Current liabilities			
Accounts payable	\$ 6,587	\$ 4,984	\$ 6,233
Unredeemed gift card liabilities	375	427	377
Deferred revenue	426	418	380
Accrued compensation and related expenses	331	358	308
Accrued liabilities	808	865	782
Accrued income taxes	80	26	43
Current portion of long-term debt	545	44	43
Total current liabilities	9,152	7,122	8,166
Long-term liabilities	697	704	791
Long-term debt	784	1,321	1,324
Equity			
Preferred stock, \$1.00 par value: Authorized — 400,000 shares; Issued and outstanding — none	—	—	—
Common stock, \$0.10 par value: Authorized — 1.0 billion shares; Issued and outstanding — 296,000,000, 311,000,000 and 313,000,000 shares, respectively	30	31	31
Retained earnings	3,818	4,399	3,953
Accumulated other comprehensive income	304	279	277
Total equity	4,152	4,709	4,261
Total liabilities and equity	\$ 14,785	\$ 13,856	\$ 14,542

NOTE: The Consolidated Balance Sheet as of January 28, 2017, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Earnings

\$ and shares in millions, except per share amounts (unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2017	October 29, 2016	October 29, 2017	October 29, 2016
Revenue	\$9,320	\$ 8,945	\$26,788	\$ 25,921
Cost of goods sold	7,040	6,742	20,333	19,511
Gross profit	2,280	2,203	6,455	6,410
Selling, general and administrative expenses	1,932	1,890	5,484	5,407
Restructuring charges	(2)	1	—	30
Operating income	350	312	971	973
Other income (expense)				
Gain on sale of investments	—	—	—	2
Investment income and other	12	8	30	22
Interest expense	(20)	(16)	(57)	(54)
Earnings from continuing operations before income tax expense	342	304	944	943
Income tax expense	104	112	309	343
Net earnings from continuing operations	238	192	635	600
Gain from discontinued operations (Note 2), net of tax expense of \$0, \$0, \$0 and \$7, respectively	1	2	1	21
Net earnings	\$239	\$ 194	\$636	\$ 621
Basic earnings per share				
Continuing operations	\$0.80	\$ 0.61	\$2.09	\$ 1.87
Discontinued operations	—	—	—	0.07
Basic earnings per share	\$0.80	\$ 0.61	\$2.09	\$ 1.94
Diluted earnings per share				
Continuing operations	\$0.78	\$ 0.60	\$2.05	\$ 1.85
Discontinued operations	—	0.01	—	0.07
Diluted earnings per share	\$0.78	\$ 0.61	\$2.05	\$ 1.92
Dividends declared per common share	\$0.34	\$ 0.28	\$1.02	\$ 1.29
Weighted-average common shares outstanding				
Basic	299.1	316.2	304.1	320.2
Diluted	305.4	320.0	310.6	323.6

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Comprehensive Income

\$ in millions (unaudited)

	Three Months		Nine Months	
	Ended		Ended	
	October 28,	October 29,	October 28,	October 29,
	2017	2016	2017	2016
Net earnings	\$239	\$ 194	\$636	\$ 621
Foreign currency translation adjustments	(17)	(19)	25	6
Comprehensive income	\$222	\$ 175	\$661	\$ 627

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Cash Flows

\$ in millions (unaudited)

	Nine Months Ended	
	October 18, 2017	October 29, 2016
Operating activities		
Net earnings	\$636	\$ 621
Adjustments to reconcile net earnings to total cash provided by operating activities:		
Depreciation	500	491
Restructuring charges	—	30
Stock-based compensation	97	82
Deferred income taxes	4	28
Other, net	(5)	(22)
Changes in operating assets and liabilities:		
Receivables	413	79
Merchandise inventories	(1,811)	(1,369)
Other assets	(36)	(18)
Accounts payable	1,530	1,801
Other liabilities	(187)	(192)
Income taxes	62	(124)
Total cash provided by operating activities	1,203	1,407
Investing activities		
Additions to property and equipment	(489)	(445)
Purchases of investments	(4,047)	(2,149)
Sales of investments	3,518	1,685
Proceeds from property disposition	2	56
Other, net	—	5
Total cash used in investing activities	(1,016)	(848)
Financing activities		
Repurchase of common stock	(1,138)	(472)
Repayments of debt	(31)	(384)
Dividends paid	(310)	(417)
Issuance of common stock	145	66
Other, net	(1)	8
Total cash used in financing activities	(1,335)	(1,199)
Effect of exchange rate changes on cash	15	13
Decrease in cash, cash equivalents and restricted cash	(1,133)	(627)
Cash, cash equivalents and restricted cash at beginning of period	2,433	2,161
Cash, cash equivalents and restricted cash at end of period	\$1,300	\$ 1,534

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Condensed Consolidated Statements of Change in Shareholders' Equity

\$ and shares in millions, except per share amounts (unaudited)

	Common Shares	Common Stock	Prepaid Share Repurchase	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances at January 28, 2017	311	\$ 31	\$ —	\$ —	\$ 4,399	\$ 279	\$ 4,709
Adoption of ASU 2016-09	—	—	—	10	(12)	—	(2)
Net earnings, nine months ended October 28, 2017	—	—	—	—	636	—	636
Other comprehensive income, net of tax:							
Foreign currency translation adjustments	—	—	—	—	—	25	25
Stock-based compensation	—	—	—	97	—	—	97
Restricted stock vested and stock options exercised	7	1	—	137	—	—	138
Issuance of common stock under employee stock purchase plan	—	—	—	7	—	—	7
Common stock dividends, \$1.02 per share	—	—	—	—	(311)	—	(311)
Repurchase of common stock	(22)	(2)	—	(251)	(894)	—	(1,147)
Balances at October 28, 2017	296	\$ 30	\$ —	\$ —	\$ 3,818	\$ 304	\$ 4,152
Balances at January 30, 2016	324	\$ 32	\$ (55)	\$ —	\$ 4,130	\$ 271	\$ 4,378
Net earnings, nine months ended October 29, 2016	—	—	—	—	621	—	621
Other comprehensive income, net of tax:							
Foreign currency translation adjustments	—	—	—	—	—	6	6
Stock-based compensation	—	—	—	82	—	—	82
Restricted stock vested and stock options exercised	5	1	—	59	—	—	60
Settlement of accelerated share repurchase	—	—	55	—	—	—	55
Issuance of common stock under employee stock purchase plan	—	—	—	7	—	—	7
Tax loss from stock options exercised, restricted stock vesting and employee stock purchase plan	—	—	—	(3)	—	—	(3)
Common stock dividends, \$1.29 per share	—	—	—	—	(417)	—	(417)
Repurchase of common stock	(16)	(2)	—	(145)	(381)	—	(528)
Balances at October 29, 2016	313	\$ 31	\$ —	\$ —	\$ 3,953	\$ 277	\$ 4,261

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Presentation

Unless the context otherwise requires, the use of the terms “Best Buy,” “we,” “us” and “our” in these Notes to Condensed Consolidated Financial Statements refers to Best Buy Co., Inc. and its consolidated subsidiaries.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary for a fair presentation as prescribed by accounting principles generally accepted in the United States (“GAAP”). All adjustments were comprised of normal recurring adjustments, except as noted in these Notes to Condensed Consolidated Financial Statements.

Historically, we have generated a higher proportion of our revenue and earnings in the fourth fiscal quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico. Due to the seasonal nature of our business, interim results are not necessarily indicative of results for the entire fiscal year. The interim financial statements and the related notes in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017. The first nine months of fiscal 2018 and fiscal 2017 included 39 weeks.

In order to align our fiscal reporting periods and comply with statutory filing requirements, we consolidate the financial results of our Mexico operations on a one-month lag. Our policy is to accelerate recording the effect of events occurring in the lag period that significantly affect our condensed consolidated financial statements. No such events were identified for the reported periods.

In preparing the accompanying condensed consolidated financial statements, we evaluated the period from October 29, 2017, through the date the financial statements were issued, for material subsequent events requiring recognition or disclosure. No such events were identified for this period.

Unadopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. The new guidance establishes a single comprehensive model for entities to use in accounting for revenue and supersedes most current revenue recognition guidance. It introduces a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards under current guidance. It also requires significantly expanded disclosures regarding revenues.

Based on our analysis thus far, we believe the impact of adopting the new guidance will be immaterial to our annual and interim financial statements. The primary impacts we have identified thus far are:

- Minor changes to the timing of recognition of revenues related to gift cards and loyalty programs;
- Changes to certain immaterial revenues that are currently reported on a gross basis, to be reported on a net basis (with no change in timing of recognition) with consequently no impacts to earnings; and
- The balance sheet presentation of our sales returns reserve, which will be shown as a separate asset and liability versus the current net presentation.

In addition, we expect adoption to lead to increased footnote disclosures, particularly with regard to revenue related balance sheet accounts and revenue by channel and category. We also expect the adoption and consequent changes to our procedures and methodologies to require adjustments to our internal controls over financial reporting.

As interpretations of the new rules continue to evolve, we will continue to monitor developments and expect to finalize our conclusions in the fourth quarter of fiscal 2018. We plan to adopt this standard in the first quarter of our fiscal 2019. Providing we ultimately conclude that the impacts of adoption are immaterial, we would expect to use the modified retrospective method. Under this method, we would recognize the cumulative effect of the changes in retained earnings at the date of adoption, but would not restate prior periods.

In February 2016, the FASB issued ASU 2016-02, Leases. The new guidance was issued to increase transparency and comparability among companies by requiring most leases to be included on the balance sheet and by expanding disclosure

Table of Contents

requirements. Based on the effective dates, we expect to adopt the new guidance in the first quarter of fiscal 2020 using the modified retrospective method. While we expect adoption to lead to a material increase in the assets and liabilities recorded on our balance sheet and an increase to our footnote disclosures related to leases, we are still evaluating the impact on our consolidated statement of earnings. We also expect that adoption of the new standard will require changes to our internal controls over financial reporting.

Adopted Accounting Pronouncements

In the first quarter of fiscal 2018, we adopted the following ASUs:

ASU 2015-11, Inventory: Simplifying the Measurement of Inventory. The adoption did not have a material impact on our results of operations, cash flows or financial position.

ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. Excess tax benefits and tax deficiencies are now recognized in our provision for income taxes as a discrete event rather than as a component of stockholders' equity. In addition, we elected to account for forfeitures as they occur. The cumulative effect of this policy change amounted to \$12 million, net of tax, and was recorded as a reduction to our retained earnings opening balance. Finally, we elected to present the Condensed Consolidated Statements of Cash Flows on a retrospective transition method, and prior periods have been adjusted to present excess tax benefits as cash flows from operating activities.

ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, and ASU 2016-18, Statement of Cash Flows: Restricted Cash. The retrospective adoption increased our beginning and ending cash balance within our statement of cash flows. The adoption had no other material impacts to our cash flow statement and had no impact on our results of operations or financial position.

The following table reconciles the Condensed Consolidated Statement of Cash Flows line items impacted by the adoption of these standards at October 29, 2016:

	October 29, 2016 Reported	ASU 2016-09 Adjustment	ASU 2016-15 Adjustment	ASU 2016-18 Adjustment	October 29, 2016 Adjusted
Operating activities					
Other, net	\$ (34)	\$ 12	\$ —	\$ —	\$ (22)
Changes in operating assets and liabilities:					
Receivables	80	—	(1)	—	79
Merchandise inventories	(1,370)	—	1	—	(1,369)
Total cash provided by operating activities	1,395	12	—	—	1,407
Investing activities					
Change in restricted assets	(8)	—	—	8	—
Total cash used in investing activities	(856)	—	—	8	(848)
Financing activities					
Other, net	20	(12)	—	—	8
Total cash used in financing activities	(1,187)	(12)	—	—	(1,199)
Decrease in cash, cash equivalents and restricted cash	(635)	—	—	8	(627)
Cash, cash equivalents and restricted cash at beginning of period	1,976	—	—	185	2,161

Cash, cash equivalents and restricted cash at end of period	\$ 1,341	\$ —	\$ —	\$ 193	\$ 1,534
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Table of Contents

Total Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheet to the total shown in the Condensed Consolidated Statement of Cash Flows:

	October 28, 2017	January 28, 2017	October 29, 2016
Cash and cash equivalents	\$ 1,103	\$ 2,240	\$ 1,341
Restricted cash included in Other current assets	197	193	193
Total cash, cash equivalents and restricted cash	\$ 1,300	\$ 2,433	\$ 1,534

Amounts included in restricted cash are pledged as collateral or restricted to use for general liability insurance and workers' compensation insurance.

2. Discontinued Operations

Discontinued operations are primarily comprised of Jiangsu Five Star Appliance Co., Limited ("Five Star") within our International segment. In February 2015, we completed the sale of Five Star. Following the sale, we continued to hold as available for sale one retail property in Shanghai, China. In May 2016, we completed the sale of the property and recognized a gain. The gain on sale of the property is included in Other, net within the operating activities section of the Condensed Consolidated Statements of Cash Flows.

The aggregate financial results of discontinued operations were as follows (\$ in millions):

	Three Months Ended October 28, 2017		Nine Months Ended October 29, 2016	
Gain from discontinued operations before income tax expense	\$ 1	\$ 2	\$ 1	\$ 28
Income tax expense	—	—	—	7
Net gain from discontinued operations	\$ 1	\$ 2	\$ 1	\$ 21

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, we use a three-tier valuation hierarchy based upon observable and non-observable inputs:

Level 1 — Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Significant other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Table of Contents

The following table sets forth our financial assets and liabilities that were accounted for at fair value on a recurring basis at October 28, 2017, January 28, 2017, and October 29, 2016, by level within the fair value hierarchy as determined by the valuation techniques we used to determine the fair value (\$ in millions):

	Fair Value Hierarchy	Fair Value at		
		October 28, 2017	January 28, 2017	October 29, 2016
ASSETS				
Cash and cash equivalents				
Money market funds	Level 1	\$ 84	\$ 290	\$ 97
Time deposits	Level 2	—	15	11
Short-term investments				
Commercial paper	Level 2	588	349	250
Time deposits	Level 2	1,649	1,332	1,527
Other current assets				
Money market funds	Level 1	8	7	3
Commercial paper	Level 2	60	60	60
Foreign currency derivative instruments	Level 2	5	2	5
Interest rate swap derivative instruments	Level 2	3	—	—
Time deposits	Level 2	100	100	100
Other assets				
Marketable securities that fund deferred compensation	Level 1	98	96	96
Interest rate swap derivative instruments	Level 2	—	13	13
LIABILITIES				
Accrued liabilities				
Foreign currency derivative instruments	Level 2	5	3	3
Long-term liabilities				
Interest rate swap derivative instruments	Level 2	3	—	—

There were no transfers between levels during the periods presented. During the third quarter of fiscal 2017, our remaining investments in auction rate securities ("ARS"), which were classified as Level 3, were called at par, which resulted in proceeds of \$2 million and no realized gain or loss. Other than as described, there were no changes in the beginning and ending balances of items measured at fair value on a recurring basis in the tables above that used significant unobservable inputs (Level 3) for the periods presented.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Money market funds. Our money market fund investments were measured at fair value as they trade in an active market using quoted market prices and, therefore, were classified as Level 1.

Time deposits. Our time deposits are balances held with banking institutions that cannot be withdrawn for specified terms without a penalty. Time deposits are held at face value plus accrued interest, which approximates fair value, and are classified as Level 2.

Commercial paper. Our investments in commercial paper were measured using inputs based upon quoted prices for similar instruments in active markets and, therefore, were classified as Level 2.

Foreign currency derivative instruments. Comprised primarily of foreign currency forward contracts and foreign currency swap contracts, our foreign currency derivative instruments were measured at fair value using readily observable market inputs, such as quotations on forward foreign exchange points and foreign interest rates. Our foreign currency derivative instruments were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market.

Interest rate swap derivative instruments. Our interest rate swap contracts were measured at fair value using readily observable inputs, such as the LIBOR interest rate. Our interest rate swap derivative instruments were classified as Level 2

Table of Contents

as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market.

Marketable securities that fund deferred compensation. The assets that fund our deferred compensation consist of investments in mutual funds. These investments were classified as Level 1 as the shares of these mutual funds trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible fixed assets, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value on our Condensed Consolidated Balance Sheets. For these assets, we do not periodically adjust carrying value to fair value, except in the event of impairment. When we determine that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is recorded within Selling, general and administrative expenses and Restructuring charges in our Condensed Consolidated Statements of Earnings for non-restructuring and restructuring charges, respectively.

The following table summarizes the fair value remeasurements for property and equipment impairments recorded during the three and nine months ended October 28, 2017, and October 29, 2016 (\$ in millions):

	Impairments				Remaining Net Carrying Value ⁽¹⁾	
	Three Months Ended		Nine Months Ended			
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Property and equipment (non-restructuring)	\$ 2	\$ 8	\$ 8	\$ 16	\$ —	\$ —
Property and equipment (restructuring) ⁽²⁾	—	1	—	8	—	—
Total	\$ 2	\$ 9	\$ 8	\$ 24	\$ —	\$ —

Remaining net carrying value approximates fair value. Because assets subject to long-lived asset impairment are not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at October 28, 2017, and October 29, 2016.

(1) See Note 5, Restructuring Charges, for additional information.

All of the fair value remeasurements included in the table above were based on significant unobservable inputs (Level 3). Fixed asset fair values were derived using a discounted cash flow ("DCF") model to estimate the present value of net cash flows that the asset or asset group was expected to generate. The key inputs to the DCF model generally included our forecasts of net cash generated from revenue, expenses and other significant cash outflows, such as capital expenditures, as well as an appropriate discount rate. In the case of assets for which the impairment was the result of restructuring activities, no future cash flows have been assumed as the assets will cease to be used and expected sale values are nominal.

Fair Value of Financial Instruments

Our financial instruments, other than those presented in the disclosures above, include cash, receivables, other investments, accounts payable, other payables and long-term debt. The fair values of cash, receivables, accounts payable and other payables approximated carrying values because of the short-term nature of these instruments. If these instruments were measured at fair value in the financial statements, they would be classified as Level 1 in the fair value hierarchy. Fair values for other investments held at cost are not readily available, but we estimate that the

carrying values for these investments approximate fair value. See Note 6, Debt, for information about the fair value of our long-term debt.

4. Goodwill and Intangible Assets

The following table provides the carrying values of goodwill and indefinite-lived tradenames for the Domestic segment (\$ in millions):

	October 28, 2017	January 28, 2017	October 29, 2016
Goodwill	\$ 425	\$ 425	\$ 425
Intangible assets included in Other assets	18	18	18

Table of Contents

The following table provides the gross carrying amount of goodwill and cumulative goodwill impairment (\$ in millions):

	October 28, 2017	January 28, 2017	October 29, 2016
	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount
Goodwill	\$1,100	\$ 675	\$1,100 \$ 675

5. Restructuring Charges

Charges incurred in the three and nine months ended October 28, 2017, and October 29, 2016, for our restructuring activities were as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Renew Blue Phase 2	\$ —	\$ 1	\$ —	\$ 26
Canadian brand consolidation	(2)	(2)	(3)	(1)
Renew Blue ⁽¹⁾	—	1	3	4
Other restructuring activities ⁽²⁾	—	1	—	1
Total restructuring charges	\$ (2)	\$ 1	\$ —	\$ 30

Represents activity related to our remaining vacant space liability, primarily in our International segment, for our Renew Blue restructuring program, which began in the fourth quarter of fiscal 2013. We may continue to incur (1) immaterial adjustments to the liability for changes in sublease assumptions or potential lease buyouts. In addition, lease payments for vacated stores will continue until leases expire or are terminated. The remaining vacant space liability was \$11 million at October 28, 2017.

Represents activity related to our remaining vacant space liability for U.S. large-format store closures in fiscal 2013. We may continue to incur immaterial adjustments to the liability for changes in sublease assumptions or (2) potential lease buyouts. In addition, lease payments for vacated stores will continue until leases expire or are terminated. The remaining vacant space liability was \$7 million at October 28, 2017.

Renew Blue Phase 2

In the first quarter of fiscal 2017, we took several strategic actions to eliminate and simplify certain components of our operations and restructure certain field and corporate teams as part of our Renew Blue Phase 2 plan. No charges were incurred in the three and nine months ended October 28, 2017. We incurred charges of \$1 million and \$26 million related to Phase 2 of the plan during the three and nine months ended October 29, 2016, respectively. The charges incurred consisted of employee termination benefits and property and equipment impairments. All restructuring charges related to this plan are from continuing operations and are presented in Restructuring charges in our Condensed Consolidated Statements of Earnings.

The composition of the restructuring charges we incurred for Renew Blue Phase 2 during the three and nine months ended October 28, 2017, and October 29, 2016, as well as, the cumulative amount incurred through October 28, 2017, was as follows (\$ in millions):

	Domestic		Cumulative
	Three Months Ended	Nine Months Ended	Amount
	October 28, 2017	October 29, 2016	October 28, 2017

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Property and equipment impairments	\$—	1	\$ —	8	\$ 8
Termination benefits	—		—	18	18
Total restructuring charges	\$—	1	\$ —	26	\$ 26

13

Table of Contents

As of October 28, 2017, and January 28, 2017, there was no restructuring accrual balance. The restructuring accrual activity related to termination benefits was as follows for the nine months ended October 29, 2016 (\$ in millions):

	Termination Benefits
Balances at January 30, 2016	\$ —
Charges	19
Cash payments	(16)
Adjustments ⁽¹⁾	(2)
Balances at October 29, 2016	\$ 1

(1) Adjustments to termination benefits represent changes in retention assumptions.

Canadian Brand Consolidation

In the first quarter of fiscal 2016, we consolidated the Future Shop and Best Buy stores and websites in Canada under the Best Buy brand. This resulted in the permanent closure of 66 Future Shop stores and the conversion of the remaining 65 Future Shop stores to the Best Buy brand. All restructuring charges related to this plan are from continuing operations and are presented in Restructuring charges in our Condensed Consolidated Statements of Earnings.

The composition of total restructuring charges we incurred for the Canadian brand consolidation in the three and nine months ended October 28, 2017, and October 29, 2016, as well as, the cumulative amount incurred through October 28, 2017, was as follows (\$ in millions):

	International				Cumulative
	Three Months		Nine Months		Amount
	Ended	Ended	Ended	Ended	
	October 28,	October 29,	October 28,	October 29,	October 28,
	2017	2016	2017	2016	2017
Inventory write-downs	\$—	\$ —	\$—	\$ —	\$ 3
Property and equipment impairments	—	—	—	—	30
Tradename impairment	—	—	—	—	40
Termination benefits	—	—	—	—	25
Facility closure and other costs	(2)	(2)	(3)	(1)	102
Total restructuring charges	\$(2)	\$(2)	\$(3)	\$(1)	\$ 200

The following tables summarize our restructuring accrual activity during the nine months ended October 28, 2017, and October 29, 2016, related to termination benefits and facility closure and other costs associated with the Canadian brand consolidation (\$ in millions):

	Termination Benefits	Facility Closure and Other Costs	Total
Balances at January 28, 2017	\$ —	\$ 34	\$34
Cash payments	—	(14)	(14)
Adjustments ⁽¹⁾	—	(3)	(3)
Changes in foreign currency exchange rates	—	1	1
Balances at October 28, 2017	\$ —	\$ 18	\$18
Balances at January 30, 2016	\$ 2	\$ 64	\$66
Charges	—	1	1
Cash payments	(2)	(29)	(31)

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Adjustments ⁽¹⁾	—	(2)	(2)
Changes in foreign currency exchange rates	—	3		3	
Balances at October 29, 2016	\$ —	\$ 37		\$37	

(1) Adjustments to facility closure and other costs represent changes in sublease assumptions.

14

Table of Contents

6. Debt

Long-term debt consisted of the following (\$ in millions):

	October 28, 2017	January 28, 2017	October 29, 2016
2018 Notes	\$ 500	\$ 500	\$ 500
2021 Notes	650	650	650
Interest rate swap valuation adjustments	—	13	13
Subtotal	1,150	1,163	1,163
Debt discounts and issuance costs	(3)	(5)	(5)
Financing lease obligations	158	177	180
Capital lease obligations	24	30	29
Total long-term debt	1,329	1,365	1,367
Less: current portion	545	44	43
Total long-term debt, less current portion	\$ 784	\$ 1,321	\$ 1,324

Our 2018 Notes, due August 1, 2018, are classified within our Current portion of long-term debt as of October 28, 2017. The fair value of total long-term debt, excluding debt discounts and issuance costs and financing and capital lease obligations, approximated \$1,219 million, \$1,240 million and \$1,260 million at October 28, 2017, January 28, 2017, and October 29, 2016, respectively, based primarily on the market prices quoted from external sources, compared with carrying values of \$1,150 million, \$1,163 million and \$1,163 million, respectively. If long-term debt was measured at fair value in the financial statements, it would be classified primarily as Level 2 in the fair value hierarchy.

See Note 5, Debt, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for additional information regarding the terms of our debt facilities, debt instruments and other obligations.

7. Derivative Instruments

We manage our economic and transaction exposure to certain risks through the use of foreign currency and interest rate swap derivative instruments. Our objective in holding derivatives is to reduce the volatility of net earnings, cash flows and net asset value associated with changes in foreign currency exchange rates and interest rates. We do not hold derivative instruments for trading or speculative purposes. We have no derivatives that have credit risk-related contingent features, and we mitigate our credit risk by engaging with major financial institutions as our counterparties.

We record all derivative instruments on our Condensed Consolidated Balance Sheets at fair value and evaluate hedge effectiveness prospectively and retrospectively when electing to apply hedge accounting. We formally document all hedging relations at inception for derivative hedges and the underlying hedged items, as well as the risk management objectives and strategies for undertaking the hedge transaction. In addition, we have derivatives which are not designated as hedging instruments.

Net Investment Hedges

We use foreign exchange forward contracts to hedge against the effect of Canadian dollar exchange rate fluctuations on a portion of our net investment in our Canadian operations. The contracts have terms up to 12 months. For a net investment hedge, we recognize changes in the fair value of the derivative as a component of foreign currency

translation within other comprehensive income to offset a portion of the change in translated value of the net investment being hedged, until the investment is sold or liquidated. We limit recognition in net earnings of amounts previously recorded in other comprehensive income to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. We report the ineffective portion of the gain or loss, if any, in net earnings.

Interest Rate Swaps

We use "receive fixed-rate, pay variable-rate" interest rate swaps to mitigate the effect of interest rate fluctuations on our 2018 Notes and our 2021 Notes. Our interest rate swap contracts are considered perfect hedges because the critical terms and notional amounts match those of our fixed-rate debt being hedged and are, therefore, accounted as fair value hedges using the

Table of Contents

shortcut method. Under the shortcut method, we recognize the change in the fair value of the derivatives with an offsetting change to the carrying value of the debt. Accordingly, there is no impact on our Condensed Consolidated Statements of Earnings from the fair value of the derivatives.

Derivatives Not Designated as Hedging Instruments

We use foreign currency forward contracts to manage the impact of fluctuations in foreign currency exchange rates relative to recognized receivable and payable balances denominated in non-functional currencies and on certain forecast inventory purchases denominated in non-functional currencies. The contracts generally have terms of up to 12 months. These derivative instruments are not designated as hedging relationships, and, therefore, we record gains and losses on these contracts directly to net earnings.

Summary of Derivative Balances

The following table presents the gross fair values for outstanding derivative instruments and the corresponding classification at October 28, 2017, January 28, 2017, and October 29, 2016 (\$ in millions):

	October 28, 2017		January 28, 2017		October 29, 2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives designated as net investment hedges ⁽¹⁾	\$ 3	\$ 5	\$ 2	\$ 2	\$ 4	\$ 3
Derivatives designated as interest rate swaps ⁽²⁾	3	3	13	—	13	—
No hedge designation (foreign exchange forward contracts) ⁽¹⁾	2	—	—	1	1	—
Total	\$ 8	\$ 8	\$ 15	\$ 3	\$ 18	\$ 3

(1) The fair value is recorded in Other current assets or Accrued liabilities.

As of October 28, 2017, the fair value of the interest rate swaps related to our 2018 Notes is recorded in Other current assets or Accrued liabilities, while the interest rate swaps related to our 2021 Notes is recorded in Other assets or Long-term liabilities. For all previous periods, the fair value is recorded in Other assets or Long-term liabilities.

The following table presents the effects of derivative instruments by contract type on other comprehensive income ("OCI") and on our Condensed Consolidated Statements of Earnings for the three and nine months ended October 28, 2017, and October 29, 2016 (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Derivatives designated as net investment hedges				
Pre-tax gain (loss) recognized in OCI	\$8	\$ 6	\$(3)	\$(10)
Derivatives designated as interest rate swaps				
Gain (loss) recognized within Interest expense				
Interest rate swap gain	\$16	\$ 14	\$13	\$ 12
Long-term debt loss	(16)	(14)	(13)	(12)
Net impact	\$—	\$ —	\$—	\$ —
No hedge designation (foreign exchange forward contracts)				
Gain (loss) recognized within Selling, general and administrative expenses	\$2	\$ 1	\$(1)	\$(2)

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The following table presents the notional amounts of our derivative instruments at October 28, 2017, January 28, 2017, and October 29, 2016 (\$ in millions):

	October 28, 2017	January 28, 2017	October 29, 2016
Derivatives designated as net investment hedges	\$ 240	\$ 205	\$ 203
Derivatives designated as interest rate swaps	1,150	750	750
No hedge designation (foreign exchange forward contracts)	64	43	59
Total	\$ 1,454	\$ 998	\$ 1,012

Table of Contents

8. Earnings per Share

We compute our basic earnings per share based on the weighted-average number of common shares outstanding and our diluted earnings per share based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had potentially dilutive common shares been issued. Potentially dilutive securities include stock options, nonvested share awards and shares issuable under our employee stock purchase plan. Nonvested market-based share awards and nonvested performance-based share awards are included in the average diluted shares outstanding for each period, if established market or performance criteria have been met at the end of the respective periods.

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per share from continuing operations for the three and nine months ended October 28, 2017, and October 29, 2016 (\$ and shares in millions, except per share amounts):

	Three Months Ended October 28, 2017		Nine Months Ended October 29, 2016	
Numerator				
Net earnings from continuing operations	\$238	\$ 192	\$635	\$ 600
Denominator				
Weighted-average common shares outstanding	299.1	316.2	304.1	320.2
Dilutive effect of stock compensation plan awards	6.3	3.8	6.5	3.4
Weighted-average common shares outstanding, assuming dilution	305.4	320.0	310.6	323.6
Net earnings per share from continuing operations				
Basic	\$0.80	\$ 0.61	\$2.09	\$ 1.87
Diluted	\$0.78	\$ 0.60	\$2.05	\$ 1.85

The computation of weighted-average common shares outstanding, assuming dilution, excluded options to purchase zero shares and 6.3 million shares of common stock for the three months ended October 28, 2017, and October 29, 2016, respectively, and options to purchase zero shares and 6.9 million shares of common stock for the nine months ended October 28, 2017, and October 29, 2016, respectively. These amounts were excluded as the options' exercise prices were greater than the average market price of our common stock for the periods presented, and, therefore, the effect would be anti-dilutive (i.e., including such options would result in higher earnings per share).

Table of Contents

9. Comprehensive Income

The following tables provide a reconciliation of the components of accumulated other comprehensive income, net of tax, attributable to Best Buy Co., Inc. for the three and nine months ended October 28, 2017, and October 29, 2016 (\$ in millions):

	Foreign Currency Translation
Balances at July 29, 2017	\$ 321
Foreign currency translation adjustments	(17)
Balances at October 28, 2017	\$ 304
Balances at January 28, 2017	\$ 279
Foreign currency translation adjustments	25
Balances at October 28, 2017	\$ 304
Balances at July 30, 2016	\$ 296
Foreign currency translation adjustments	(19)
Balances at October 29, 2016	\$ 277
Balances at January 30, 2016	\$ 271
Foreign currency translation adjustments	6
Balances at October 29, 2016	\$ 277

The gains and losses on our net investment hedges, which are included in foreign currency translation adjustments, were not material for the periods presented. There is generally no tax impact related to foreign currency translation adjustments, as the earnings are considered permanently reinvested.

10. Repurchase of Common Stock

Our Board of Directors authorized a \$5.0 billion share repurchase program in February 2017. The program, which became effective on February 27, 2017, terminated and replaced a \$5.0 billion share repurchase program authorized by our Board of Directors in June 2011. There is no expiration governing the period over which we can make our share repurchases under the February 2017 \$5.0 billion share repurchase program.

The following table presents information regarding the shares we repurchased during the three and nine months ended October 28, 2017, and October 29, 2016 (\$ and shares in millions, except per share amounts):

	Three Months Ended October 28, 2017		Nine Months Ended October 29, 2016	
Total cost of shares repurchased				
Open market ⁽¹⁾	\$ 366	\$ 206	\$ 1,147	\$ 483
Settlement of January 2016 ASR ⁽²⁾	—	—	—	45
Total	\$ 366	\$ 206	\$ 1,147	\$ 528
Average price per share				
Open market	\$ 57.14	\$ 37.67	\$ 52.35	\$ 33.52
Settlement of January 2016 ASR ⁽²⁾	\$ —	\$ —	\$ —	\$ 28.55

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Average	\$57.14	\$ 37.67	\$52.35	\$ 33.03
Number of shares repurchased and retired				
Open market ⁽¹⁾	6.4	5.5	21.9	14.4
Settlement of January 2016 ASR ⁽²⁾	—	—	—	1.6
Total	6.4	5.5	21.9	16.0

As of October 28, 2017, \$17 million, or 0.3 million shares, in trades remained unsettled. As of October 29, 2016, (1)\$11 million, or 0.3 million shares, in trades remained unsettled. The liability for unsettled trades is included in Accrued liabilities in the Condensed Consolidated Balance Sheets.

Table of Contents

See Note 7, Shareholders' Equity, in the Notes to Consolidated Financial Statements included in our Annual Report (2) on Form 10-K for the fiscal year ended January 28, 2017, for additional information regarding the January 2016 ASR.

Approximately 3.9 billion shares remained available for additional purchases under the February 2017 share repurchase program as of October 28, 2017. Between the end of the third quarter of fiscal 2018 and November 30, 2017, we repurchased an incremental 4.5 million shares of our common stock at a cost of \$256 million. Repurchased shares are retired and constitute authorized but unissued shares.

11. Segments

Our chief operating decision maker ("CODM") is our Chief Executive Officer. Our business is organized into two segments: Domestic (which is comprised of all operations within the U.S. and its districts and territories) and International (which is comprised of all operations within Canada and Mexico). Our CODM has ultimate responsibility for enterprise decisions. Our CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise, the Domestic segment and the International segment. The Domestic segment managers and International segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. Our CODM relies on internal management reporting that analyzes enterprise results to the net earnings level and segment results to the operating income level.

We aggregate our Canada and Mexico businesses into one International operating segment. Our Domestic and International operating segments also represent our reportable segments. The accounting policies of the segments are the same as those described in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

Revenue by reportable segment was as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Domestic	\$8,491	\$ 8,192	\$24,675	\$ 23,910
International	829	753	2,113	2,011
Total revenue	\$9,320	\$ 8,945	\$26,788	\$ 25,921

Operating income by reportable segment and the reconciliation to earnings from continuing operations before income tax expense were as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Domestic	\$345	\$ 298	\$959	\$ 959
International	5	14	12	14
Total operating income	350	312	971	973
Other income (expense)				
Gain on sale of investments	—	—	—	2
Investment income and other	12	8	30	22
Interest expense	(20)	(16)	(57)	(54)
Earnings from continuing operations before income tax expense	\$342	\$ 304	\$944	\$ 943

Assets by reportable segment were as follows (\$ in millions):

	October 28, 2017	January 28, 2017	October 29, 2016
Domestic	\$ 13,140	\$ 12,496	\$ 13,115
International	1,645	1,360	1,427
Total assets	\$ 14,785	\$ 13,856	\$ 14,542

Table of Contents

12. Contingencies

We are involved in a number of legal proceedings. Where appropriate, we have made accruals with respect to these matters, which are reflected in our Condensed Consolidated Financial Statements. However, there are cases where liability is not probable or the amount cannot be reasonably estimated and, therefore, accruals have not been made. We provide disclosure of matters where we believe it is reasonably possible the impact may be material to our Condensed Consolidated Financial Statements.

Securities Actions

In February 2011, a purported class action lawsuit captioned, IBEW Local 98 Pension Fund, individually and on behalf of all others similarly situated v. Best Buy Co., Inc., et al., was filed against us and certain of our executive officers in the U.S. District Court for the District of Minnesota. This federal court action alleges, among other things, that we and the officers named in the complaint violated Sections 10(b) and 20A of the Exchange Act and Rule 10b-5 under the Exchange Act in connection with press releases and other statements relating to our fiscal 2011 earnings guidance that had been made available to the public. Additionally, in March 2011, a similar purported class action was filed by a single shareholder, Rene LeBlanc, against us and certain of our executive officers in the same court. In July 2011, after consolidation of the IBEW Local 98 Pension Fund and Rene LeBlanc actions, a consolidated complaint captioned, IBEW Local 98 Pension Fund v. Best Buy Co., Inc., et al., was filed and served. We filed a motion to dismiss the consolidated complaint in September 2011, and in March 2012, subsequent to the end of fiscal 2012, the court issued a decision dismissing the action with prejudice. In April 2012, the plaintiffs filed a motion to alter or amend the court's decision on our motion to dismiss. In October 2012, the court granted plaintiff's motion to alter or amend the court's decision on our motion to dismiss in part by vacating such decision and giving plaintiff leave to file an amended complaint, which plaintiff did in October 2012. We filed a motion to dismiss the amended complaint in November 2012 and all responsive pleadings were filed in December 2012. A hearing was held on April 26, 2013. On August 5, 2013, the court issued an order granting our motion to dismiss in part and, contrary to its March 2012 order, denying the motion to dismiss in part, holding that certain of the statements alleged to have been made were not forward-looking statements and therefore were not subject to the "safe-harbor" provisions of the Private Securities Litigation Reform Act. Plaintiffs moved to certify the purported class. By Order filed August 6, 2014, the court certified a class of persons or entities who acquired Best Buy common stock between 10:00 a.m. EDT on September 14, 2010, and December 13, 2010, and who were damaged by the alleged violations of law. The 8th Circuit Court of Appeals granted our request for interlocutory appeal. On April 12, 2016, the 8th Circuit held the trial court misapplied the law and reversed the class certification order. IBEW petitioned the 8th Circuit for a rehearing en banc, which was denied on June 1, 2016. In October 2016, IBEW advised the trial court it will not seek review by the Supreme Court. On June 23, 2017, the trial court denied plaintiff's request to file a new Motion for Class Certification. On October 30, 2017, plaintiffs filed with the trial court a motion for leave to file a second amended class action complaint which Best Buy opposed in a filing on November 6, 2017. That motion is pending. We continue to believe that the remaining individual plaintiff's allegations are without merit and intend to vigorously defend our company in this matter.

In June 2011, a purported shareholder derivative action captioned, Salvatore M. Talluto, Derivatively and on Behalf of Best Buy Co., Inc. v. Richard M. Schulze, et al., as Defendants and Best Buy Co., Inc. as Nominal Defendant, was filed against both present and former members of our Board of Directors serving during the relevant periods in fiscal 2011 and us as a nominal defendant in the U.S. District Court for the State of Minnesota. The lawsuit alleges that the director defendants breached their fiduciary duty, among other claims, including violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, in failing to correct public misrepresentations and material misstatements and/or omissions regarding our fiscal 2011 earnings projections and, for certain directors, selling stock while in possession of material adverse non-public information. Additionally, in July 2011, a similar purported class action was filed by a single shareholder, Daniel Himmel, against us and certain of our executive officers in the same court. In November 2011, the respective lawsuits of Salvatore M. Talluto and Daniel Himmel were consolidated into a new

action captioned, In Re: Best Buy Co., Inc. Shareholder Derivative Litigation, and a stay ordered pending the close of discovery in the consolidated IBEW Local 98 Pension Fund v. Best Buy Co., Inc., et al. case. Additionally, in June 2015, a similar purported class action was filed by a single shareholder, Khuong Tran, derivatively on behalf of Best Buy Co., Inc. against us and certain of our executive officers and directors in the same court. The Khuong Tran lawsuit has also been stayed pending the close of discovery in IBEW.

The plaintiffs in the above securities actions seek damages, including interest, equitable relief and reimbursement of the costs and expenses they incurred in the lawsuits. As stated above, we believe the allegations in the above securities actions are without merit, and we intend to defend these actions vigorously. Based on our assessment of the facts underlying the claims in the above securities actions, their respective procedural litigation history and the degree to which we intend to defend our company in these matters, the amount or range of reasonably possible losses, if any, cannot be estimated.

Table of Contents

Other Legal Proceedings

We are involved in various other legal proceedings arising in the normal course of conducting business. For such legal proceedings, we have accrued an amount that reflects the aggregate liability deemed probable and estimable, but this amount is not material to our consolidated financial position, results of operations or cash flows. Because of the preliminary nature of many of these proceedings, the difficulty in ascertaining the applicable facts relating to many of these proceedings, the variable treatment of claims made in many of these proceedings and the difficulty of predicting the settlement value of many of these proceedings, we are not able to estimate an amount or range of any reasonably possible additional losses. However, based upon our historical experience, the resolution of these proceedings is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, the use of the terms “Best Buy,” “we,” “us” and “our” in the following refers to Best Buy Co., Inc. and its consolidated subsidiaries. Any references to our website addresses do not constitute incorporation by reference of the information contained on the websites.

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Unless otherwise noted, transactions and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. Our MD&A is presented in the following sections:

Overview

Business Strategy Update

Best Buy 2020: Building the New Blue

Results of Operations

Liquidity and Capital Resources

Off-Balance-Sheet Arrangements and Contractual Obligations

Significant Accounting Policies and Estimates

New Accounting Pronouncements

Safe Harbor Statement Under the Private Securities Litigation Reform Act

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (including the information presented therein under Risk Factors), as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

Overview

We are a leading provider of technology products, services and solutions. We offer these products and services to customers who visit our stores, engage with Geek Squad agents or use our websites or mobile applications. We have operations in the U.S., Canada and Mexico. We operate two reportable segments: Domestic and International. The Domestic segment is comprised of all operations within the U.S. and its districts and territories. The International segment is comprised of all operations in Canada and Mexico.

Our fiscal year ends on the Saturday nearest the end of January. Fiscal 2018 will include 53 weeks with the additional week included in the fourth quarter and fiscal 2017 included 52 weeks. Our business, like that of many retailers, is seasonal. A higher proportion of our revenue and earnings is generated in the fourth fiscal quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico ("Holiday").

Comparable Sales

Throughout this MD&A, we refer to comparable sales. Our comparable sales calculation compares revenue from stores, websites and call centers operating for at least 14 full months, as well as revenue related to certain other comparable sales channels for a particular period to the corresponding period in the prior year. Relocated stores, as well as remodeled, expanded and downsized stores closed more than 14 days, are excluded from the comparable sales calculation until at least 14 full months after reopening. Acquisitions are included in the comparable sales calculation beginning with the first full quarter following the first anniversary of the date of the acquisition. The calculation of comparable sales excludes the impact of revenue from discontinued operations and the effect of fluctuations in foreign currency exchange rates (applicable to our International segment only). The method of calculating comparable sales

varies across the retail industry. As a result, our method of calculating comparable sales may not be the same as other retailers' methods.

The Canadian brand consolidation, which included the permanent closure of 66 Future Shop stores, the conversion of 65 Future Shop stores to Best Buy stores and the elimination of the Future Shop website, had a material impact on a year-over-year basis on the remaining Canadian retail stores and the website. As such, from the first quarter of fiscal 2016 through the third quarter of fiscal 2017, all Canadian store and website revenue was removed from the comparable sales base and the International segment no longer had a comparable sales metric. Therefore, Consolidated comparable sales for the first quarter of fiscal 2016 through the third quarter of fiscal 2017 equaled the Domestic segment comparable sales. Beginning in the fourth quarter of fiscal 2017, we resumed reporting International comparable sales and, as such, Consolidated comparable sales are once again equal to the aggregation of Domestic and International comparable sales.

Table of Contents

Non-GAAP Financial Measures

This MD&A includes financial information prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), as well as certain adjusted or non-GAAP financial measures such as constant currency, non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net earnings from continuing operations, non-GAAP diluted earnings per share ("EPS") from continuing operations and non-GAAP debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") ratio. We believe that non-GAAP financial measures, when reviewed in conjunction with GAAP financial measures, can provide more information to assist investors in evaluating current period performance and in assessing future performance. For these reasons, our internal management reporting also includes non-GAAP measures. Generally, our non-GAAP measures include adjustments for items such as restructuring charges, goodwill impairments and gains or losses on investments. In addition, certain other items may be excluded from non-GAAP financial measures when we believe this provides greater clarity to management and our investors. These non-GAAP financial measures should be considered in addition to, and not superior to or as a substitute for, GAAP financial measures. We strongly encourage investors and shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies.

In our discussions of the operating results of our Consolidated business and our International segment, we sometimes refer to the impact of changes in foreign currency exchange rates or the impact of foreign currency exchange rate fluctuations, which are references to the differences between the foreign currency exchange rates we use to convert the International segment's operating results from local currencies into U.S. dollars for reporting purposes. We also use the term "constant currency", which represents results adjusted to exclude foreign currency impacts. We calculate those impacts as the difference between the current period results translated using the current period currency exchange rates and using the comparable prior period currency exchange rates. We believe the disclosure of revenue changes in constant currency provides useful supplementary information to investors in light of significant fluctuations in currency rates and our inability to report comparable store sales for the International segment from the first quarter of fiscal 2016 through the third quarter of fiscal 2017 as a result of the Canadian brand consolidation.

Beginning in the first quarter of fiscal 2018, we no longer exclude non-restructuring property and equipment impairment charges from our non-GAAP financial metrics. When we began to execute our Renew Blue transformation in the fourth quarter of fiscal 2013, we adopted a change to non-GAAP reporting to exclude non-restructuring property and equipment impairment charges from our non-GAAP results. From that point, through the fourth quarter of fiscal 2017, we believed that reporting non-GAAP results that excluded these charges provided a supplemental view of our ongoing performance that was useful and relevant to our investors. Now that Renew Blue has ended and Best Buy 2020: Building The New Blue has officially launched, we believe it is no longer necessary to adjust for non-restructuring property and equipment impairments in our non-GAAP reporting. We believe that future such impairments will predominantly be immaterial and incurred in the ordinary scope of ongoing operations. Accordingly, commencing in the first quarter of fiscal 2018, we no longer adjust for non-restructuring property and equipment impairments. Impacted prior period non-GAAP financial measures have been recast to conform with this presentation.

Refer to the Non-GAAP Financial Measures section below for the detailed reconciliation of items that impacted the non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net earnings from continuing operations and non-GAAP diluted EPS from continuing operations in the presented periods.

Refer to the Other Financial Measures section below for the detailed reconciliation of items that impacted the non-GAAP debt to EBITDAR ratio. Management believes this ratio is an important indicator of our creditworthiness.

Furthermore, we believe that our non-GAAP debt to EBITDAR ratio is important for understanding our financial position and provides meaningful additional information about our ability to service our long-term debt and other fixed obligations and to fund our future growth. We also believe our non-GAAP debt to EBITDAR ratio is relevant because it enables investors to compare our indebtedness to that of retailers who own, rather than lease, their stores. Our decision to own or lease real estate is based on an assessment of our financial liquidity, our capital structure, our desire to own or to lease the location, the owner's desire to own or to lease the location and the alternative that results in the highest return to our shareholders.

Business Strategy Update

In the third quarter of fiscal 2018, our Consolidated revenue increased 4.2% to \$9.3 billion with Consolidated comparable sales growth of 4.4% compared to last year. Diluted earnings per share increased 30.0% to \$0.78 compared to \$0.60 last year.

Table of Contents

These results included the negative impact of two significant factors. First, despite what we previously characterized as moderate expectations for mobile phone launches in the quarter, revenue in the mobile category was materially lower than expected. This was due to the fact that a major new phone did not launch until November, which is the first month of our fourth fiscal quarter. This resulted in significant softness in sales of existing mobile phone models in October as customers delayed their purchases. We estimate the related revenue impact in the quarter was more than \$100 million. Second, we felt the impact of the natural disasters in south Texas, Florida, Puerto Rico and Mexico. We estimate the negative impact to our Consolidated comparable sales was 15 to 20 basis points, and that with the related costs, including insurance deductibles, repairs and employee-related pay, our earnings were negatively impacted by approximately \$0.03.

Despite these two factors, the results we reported were within the earnings guidance we shared in August. In our most recent Annual Report, we announced the launch of our growth strategy, Best Buy 2020: Building the New Blue. Our Consolidated revenue growth rate was 3.3% for the nine months ended October 28, 2017, compared to the same period in the prior year. We believe that technology innovation is fueling demand and that our strategy is resonating with our customers. While we are investing in key initiatives and capabilities, in the first nine months of fiscal 2018 we increased diluted earnings per share year-over-year and have returned capital to our shareholders through dividends and continued share repurchases.

Looking ahead to Holiday, our teams across all functions are ready and keen to take care of our customers--online, in our stores or in the customer's home. There are a number of great new products across many categories, including smart home, phones, gaming and tech toys. We believe we have a compelling promotional calendar with strong brand messaging. We are again this year offering free shipping with no minimum purchase. We are also offering a range of new capabilities, including our new in-home advisor program, now available nation-wide, an updated gift center and same-day shipping in 40 cities.

Best Buy 2020: Building the New Blue

We believe there are opportunities in this next chapter to develop deeper and stickier relationships with our customers and to build a strong, vibrant, growing company with significant competitive advantages. We are committed to building a company that can thrive in both today's and tomorrow's environment.

As we discussed at our Investor Day in September 2017, Best Buy 2020 is designed to take advantage of key growth opportunities by expanding what we sell and evolving how we sell.

The work we are doing in the smart home space is a great example of how we are expanding what we sell. We plan to build on our position in the smart home market by continuing to expand our curated assortment, demonstrating new technology solutions in a meaningful way and expanding in the solutions and services part of the market. We believe needs-based demonstrations and experiential merchandising are critical, and we have a unique capability to showcase the products, both online and in-store. In this spirit, as we approach Holiday, all of our stores have enhanced smart home departments. In addition, 700 stores have new Alexa and Google experiences developed in collaboration with Amazon and Google, and 450 stores have a Best Buy Smart Home powered by Vivint home automation and security offering. To complement all of this, we have added an incremental 1,500 dedicated smart home store employees to help our customers identify which smart home solution would work best for them.

As we discussed at our Investor Day, as a natural offshoot of our smart home focus, we are testing opportunities to leverage technology to help the rapidly growing segment of aging seniors stay in their homes as long as possible. We are piloting a service called Assured Living, that uses a non-invasive set of smart home connectors and sensors to help adult children remotely check in on the health and safety of their aging parents. Aging parents also benefit from the increased automation in their home, such as connected door locks and smart lighting. While early in our test program,

we are piloting the opportunity in the Twin Cities of Minneapolis and St. Paul and in the Denver market.

As it relates to supporting customers, we are also focused on expanding what we sell. We believe that customers' support needs are not limited to a specific product; the need now is to have all of their technology working together to improve and simplify their lives as promised. Total Tech Support is a new Geek Squad offering that provides support for all of a customer's technology, no matter where or when they bought it. This support is available to customers 24/7 via online, in-store and phone, and includes significant discounts if in-home services are needed. In September, we expanded the pilot to just over 200 stores across 10 cities in the U.S.

Meanwhile, we are evolving how we sell to focus not only on selling products but also on solving customers' underlying needs. We see opportunities in our ability to continue to improve the customer experience within and across channels. Almost all of our customers currently use both the store and the online channel, and they have different expectations of what the channels should do for them depending on their mindset. As an example, customers often use the online channel when they are more

Table of Contents

certain about their purchase and the store channel when they are less certain. In our online channel, we have made a great deal of progress and have driven innovation. In the third quarter of fiscal 2018, we reported Domestic online sales of \$1.1 billion, or 12.7% of our total Domestic revenue, with comparable sales of 22.3% compared to last year. We have also significantly improved the in-store experience, as evidenced by increased NPS scores and our revenue growth.

Going forward, we see continued opportunity in examining how customers use the various channels in their shopping journeys and designing and linking experiences across channels. Ultimately, this makes it easier for customers to start their shopping process online and complete it in the store or vice versa. We are using this approach to more effectively address customer needs in areas where we have significant potential for growth, particularly appliances and mobile phones. In appliances, for example, where a significant portion of sales are the result of broken appliances that need to be replaced, we are making it clear to customers searching online which appliances are available real time at their local store for those customers who would like to replace very quickly. In mobile, we are enhancing the online experience to smooth pre-orders and streamline phone choice, allowing customers to do most of the work online before they pick up their phone in-store for activation. We are also improving the in-store experience to make the various carrier pricing options more clear, reducing the time it takes to activate a phone and using text alerts for clarity on the timing of activation.

We are also focused on building our in-home channel. To that end, in September, we expanded our In-Home Advisor program to all major U.S. markets with 300 advisors. These in-home advisors are professional sales consultants with broad product knowledge who have completed an extensive five week training program. They provide free consultations and serve as the single point of contact for customers covering all technology needs across all vendors. We are pleased with the results of the program so far. In fact, we are planning to expand the number of advisors to 375 by early next year based on initial demand.

To deliver on our strategy, we are investing in a range of enablers. We have built a great set of assets over the past several years. We are expanding on these assets by investing in key capabilities and tools. For example, we are making technology investments in enterprise customer relationship management, a services platform and knowledge management tools. We are investing in our supply chain to build for volume, choice, speed and efficiencies that will help us offset the normal volume-based increases in expense. For example, during the third quarter of fiscal 2018, we opened a new distribution center in Compton, California, just in time for the busy holiday season.

As we have begun work on some of these investments, this is resulting in higher capital and operating expenses this year. This is going to be a multi-year journey, which is why we are committed to creating efficiencies to help fund investments and offset ongoing pressures in the business. After reducing cost by \$1.4 billion in the past five years, our current target, established in the second quarter of fiscal 2018, is \$600 million in additional annualized cost reductions and gross profit optimization to be completed by the end of fiscal 2021. During the third quarter of fiscal 2018, we achieved \$50 million towards our new goal, for a total thus far of \$100 million.

In summary, we delivered strong top and bottom line results in the third quarter despite the pressure from the later phone launch and the multiple natural disasters. We believe we have also made significant progress against our Best Buy 2020 strategy to position us well for long-term value creation. Additionally, in the nine months ended October 28, 2017, we returned approximately \$1.5 billion in cash to our shareholders through both dividends and stock repurchases. We plan to spend approximately \$2.0 billion on share repurchases this fiscal year, ahead of our original expectation of \$1.5 billion.

Results of Operations

In order to align our fiscal reporting periods and comply with statutory filing requirements, we consolidate the financial results of our Mexico operations on a one-month lag. Consistent with such consolidation, the financial and non-financial information presented in our MD&A relative to these operations is also presented on a lag. Our policy is to accelerate the recording of events occurring in the lag period that significantly affect our consolidated financial statements. No such events were identified for the periods presented.

Table of Contents

Consolidated Performance Summary

The following table presents selected consolidated financial data (\$ in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Revenue	\$9,320	\$ 8,945	\$26,788	\$25,921
Revenue % growth	4.2	% 1.4	% 3.3	% 0.1
Comparable sales % gain ⁽¹⁾	4.4	% 1.8	% 3.8	% 0.8
Gross profit	\$2,280	\$ 2,203	\$6,455	\$ 6,410
Gross profit as a % of revenue ⁽²⁾	24.5	% 24.6	% 24.1	% 24.7
SG&A	\$1,932	\$ 1,890	\$5,484	\$ 5,407
SG&A as a % of revenue ⁽²⁾	20.7	% 21.1	% 20.5	% 20.9
Restructuring charges	\$(2)	\$ 1	\$—	\$ 30
Operating income	\$350	\$ 312	\$971	\$ 973
Operating income as a % of revenue	3.8	% 3.5	% 3.6	% 3.8
Net earnings from continuing operations	\$238	\$ 192	\$635	\$ 600
Earnings from discontinued operations, net of tax	\$1	\$ 2	\$ 1	\$ 21
Net earnings	\$239	\$ 194	\$636	\$ 621
Diluted earnings per share from continuing operations	\$0.78	\$ 0.60	\$2.05	\$ 1.85
Diluted earnings per share	\$0.78	\$ 0.61	\$2.05	\$ 1.92

Due to the Canadian brand consolidation impact on our International segment comparable sales metric,

(1) Consolidated comparable sales for the three and nine months ended October 29, 2016, equal the Domestic segment comparable sales. Refer to the Overview section within this Item 2. MD&A for more information.

Because retailers vary in how they record costs of operating their supply chain between cost of goods sold and SG&A, our gross profit rate and SG&A rate may not be comparable to other retailers' corresponding rates. For (2) additional information regarding costs classified in cost of goods sold and SG&A, refer to Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

The components of the 4.2% and 3.3% revenue increase for the three and nine months ended October 28, 2017 were as follows:

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 28, 2017	October 28, 2017	October 28, 2017
Comparable sales impact	4.2	%	3.7	%
Non-comparable sales impact ⁽¹⁾	(0.4)	%	(0.5)	%
Foreign currency exchange rate fluctuation impact	0.4	%	0.1	%
Total revenue increase	4.2	%	3.3	%

Non-comparable sales reflects the impact of net store opening and closing activity, as well as the impact of revenue (1) streams not included within our comparable sales calculation, such as profit sharing benefits, certain credit card revenue, gift card breakage, commercial sales and sales of merchandise to wholesalers and dealers, as applicable.

The gross profit rate decreased slightly in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017, driven by our International segment. The gross profit rate decrease in the first nine months of fiscal 2018 was driven by our Domestic segment. For further discussion of each segment's gross profit rate changes, see Segment Performance Summary below.

The SG&A rate decreased in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017, driven by our Domestic segment. The SG&A rate decrease in the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017 was also driven by our Domestic segment. For further discussion of each segment's SG&A rate changes, see Segment Performance Summary below.

Our operating income rate increased in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017, driven by lower SG&A rates in our Domestic segment. Our operating income rate decreased in the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017. This decrease in operating income was primarily due to the decrease in our Domestic segment gross profit rate, partially offset by a decrease in our Domestic segment SG&A rate and a decrease in our

Table of Contents

Domestic segment restructuring charges. For further discussion of each segment's operating income, see Segment Performance Summary below.

Income Tax Expense

Income tax expense decreased to \$104 million in the third quarter of fiscal 2018 compared to \$112 million in the prior-year period, primarily as a result of the recognition of excess tax benefits related to stock-based compensation and the resolution of certain tax matters in the current year, partially offset by an increase in pre-tax earnings. Our effective income tax rate in the third quarter of fiscal 2018 was 30.4% compared to a rate of 36.7% in the third quarter of fiscal 2017. The decrease in the effective income tax rate was primarily due to the recognition of excess tax benefits related to stock-based compensation and the resolution of certain tax matters in the current year period.

Income tax expense decreased to \$309 million in the first nine months of fiscal 2018 compared to \$343 million in the prior-year period, primarily as a result of the recognition of excess tax benefits related to stock-based compensation and the resolution of certain tax matters in the current year period. Our effective income tax rate for the first nine months of fiscal 2018 was 32.7%, compared to a rate of 36.4% in the first nine months of fiscal 2017. The decrease in the effective income tax rate was primarily due to the recognition of excess tax benefits related to stock-based compensation and the resolution of certain tax matters in the current year period.

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. We update our estimate of the annual effective tax rate each quarter, and we make a cumulative adjustment if our estimated tax rate changes. Our quarterly tax provision and our quarterly estimate of our annual effective tax rate are subject to variation due to several factors, including our ability to accurately forecast our pre-tax and taxable income and loss by jurisdiction, tax audit developments, recognition of excess tax benefits or deficiencies related to stock-based compensation, changes in laws or regulations and expenses or losses for which tax benefits are not recognized. Our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items and non-deductible losses on our effective tax rate is greater when our pre-tax income is lower.

In addition, our consolidated effective tax rate is impacted by the statutory income tax rates applicable to each of the jurisdictions in which we operate. As our foreign earnings are generally taxed at lower statutory rates than the 35% U.S. statutory rate, changes in the proportion of our consolidated taxable earnings originating in foreign jurisdictions impact our consolidated effective rate. Our foreign earnings have been indefinitely reinvested outside the U.S. and are not subject to current U.S. income tax.

Table of Contents

Segment Performance Summary

Domestic

The following table presents selected financial data for the Domestic segment (\$ in millions):

	Three Months Ended		Nine Months Ended		
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016	
Revenue	\$8,491	\$ 8,192	\$24,675	\$23,910	
Revenue % growth	3.6	% 1.3	% 3.2	% 0.2	%
Comparable sales % gain ⁽¹⁾	4.5	% 1.8	% 3.8	% 0.8	%
Gross profit	\$2,096	\$ 2,020	\$5,952	\$5,901	
Gross profit as a % of revenue	24.7	% 24.7	% 24.1	% 24.7	%
SG&A	\$1,751	\$ 1,720	\$4,993	\$4,915	
SG&A as a % of revenue	20.6	% 21.0	% 20.2	% 20.6	%
Restructuring charges	\$—	\$ 2	\$—	\$27	
Operating income	\$345	\$ 298	\$959	\$959	
Operating income as a % of revenue	4.1	% 3.6	% 3.9	% 4.0	%

Selected Online Revenue Data

Total online revenue	\$1,077	\$ 881	\$3,191	\$2,548	
Online revenue as a % of total segment revenue	12.7	% 10.8	% 12.9	% 10.7	%
Comparable online sales % gain ⁽¹⁾	22.3	% 24.1	% 25.3	% 23.9	%

(1) Comparable online sales is included in the comparable sales calculation.

The components of the 3.6% and 3.2% revenue increase for the three and nine months ended October 28, 2017 were as follows:

	Three		Nine	
	Months	Months	Months	Months
	Ended	Ended	Ended	Ended
	October 28,	October 28,	October 28,	October 28,
	2017	2017	2017	2017
Comparable sales impact	4.3	% 3.6	% 3.6	%
Non-comparable sales impact ⁽¹⁾	(0.7))% (0.4)% (0.4)%
Total revenue increase	3.6	% 3.2	% 3.2	%

Non-comparable sales reflects the impact of net store opening and closing activity, as well as the impact of revenue (1) streams not included within our comparable sales calculation, such as profit sharing benefits, certain credit card revenue, gift card breakage, commercial sales and sales of merchandise to wholesalers and dealers, as applicable.

The increase in the third quarter of fiscal 2018 Domestic segment revenue was driven by comparable sales growth of 4.5%, partially offset by the loss of revenue from Best Buy and Best Buy Mobile store closures. Domestic segment online revenue of \$1.1 billion increased 22.3% on a comparable basis, primarily due to higher conversion rates and higher average order values.

The increase in the first nine months of fiscal 2018 Domestic segment revenue was driven by comparable sales growth of 3.8%, partially offset by the loss of revenue from Best Buy and Best Buy Mobile store closures. Domestic segment online revenue of \$3.2 billion increased 25.3% on a comparable basis, primarily due to higher conversion rates and increased traffic.

The following table reconciles the number of Domestic stores open at the beginning and end of the third quarters of fiscal 2018 and 2017:

	2018			2017				
	Total		Total	Total		Total		
	Stores		Stores	Stores		Stores	Total	
	at	Stores	Stores	at	Stores	Stores	Stores	
	Beginning	Opened	Closed	Beginning	Opened	Closed	at End	
	of			of			of Third	
	Third			Third			Quarter	
	Quarter			Quarter			Quarter	
Best Buy	1,024	—	(16)	1,008	1,035	—	(9)	1,026
Best Buy Mobile	292	—	(5)	287	334	—	(3)	331
Pacific Sales	28	—	—	28	28	—	—	28
Total Domestic segment stores	1,344	—	(21)	1,323	1,397	—	(12)	1,385

Table of Contents

We continuously monitor store performance. As we approach the expiration date of our store leases, we evaluate various options for each location, including whether a store should remain open.

The following table presents the Domestic segment revenue mix percentages and comparable sales percentage changes by revenue category in the third quarters of fiscal 2018 and 2017:

	Revenue Mix		Comparable Sales	
	Three Months Ended		Three Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Consumer Electronics	31 %	31 %	3.5 %	4.9 %
Computing and Mobile Phones	48 %	49 %	3.5 %	1.6 %
Entertainment	6 %	6 %	4.1 %	(9.4)%
Appliances	10 %	9 %	13.5 %	3.0 %
Services	5 %	5 %	3.2 %	(1.8)%
Other	— %	— %	n/a	n/a
Total	100 %	100 %	4.5 %	1.8 %

The following is a description of the notable comparable sales changes in our Domestic segment by revenue category:

• **Consumer Electronics:** Comparable sales gain was driven primarily by smart home, home theater and portable audio, partially offset by declines in digital imaging and health & fitness products.

• **Computing and Mobile Phones:** Comparable sales gain was driven primarily by computing, wearables and mobile phones.

• **Entertainment:** Comparable sales gain was driven primarily by gaming hardware and drones.

• **Appliances:** Comparable sales gain was driven primarily by large and small appliances.

• **Services:** Comparable sales gain was driven primarily by continued growth in our warranty business and higher installation and delivery services.

The third quarter of fiscal 2018 gross profit rate of our Domestic segment was flat. Improved margin rates were offset by the \$25 million periodic profit share revenue related to our service plan portfolio earned in the third quarter of fiscal 2017. The profit-share revenue included in our non-comparable sales relates to our extended warranty protection plans that are managed by a third party underwriter. We may be eligible to receive profit-sharing payments, depending on the performance of the portfolio. When performance of the portfolio is strong and the claims cost to the third party underwriter declines, we are entitled to share in the excess premiums.

The gross profit rate of our Domestic segment decreased in the first nine months of fiscal 2018 due to the \$183 million in non-recurring cathode ray tube ("CRT") settlement proceeds recorded in the first quarter of fiscal 2017, which was partially offset by improved margin rates across multiple categories.

The third quarter of fiscal 2018 SG&A rate of our Domestic segment decreased primarily due to sales leverage, noting that expenses increased due to increases in growth investments, higher advertising expenses and higher variable costs due to increased revenue.

The SG&A rate of our Domestic segment decreased in the first nine months of fiscal 2018 primarily due to leverage on our increased revenue and the \$22 million in non-recurring CRT settlement legal fees incurred in the first quarter of fiscal 2017.

Our Domestic segment restructuring charges in the first nine months of fiscal 2017 related to our Renew Blue Phase 2, which had no activity in the same period of fiscal 2018. Refer to Note 5, Restructuring Charges, in the Notes to the Condensed Consolidated Financial Statements for additional information.

Our third quarter of fiscal 2018 Domestic segment operating income rate increased due to a lower SG&A rate.

Our Domestic segment operating income rate slightly decreased in the first nine months of fiscal 2018 due to the net \$161 million non-recurring CRT settlement recorded in the first quarter of fiscal 2017, partially offset by lower restructuring charges, improved gross margin rates across multiple categories and lower SG&A rates.

Table of Contents

International

The following table presents selected financial data for the International segment (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Revenue	\$829	\$ 753	\$2,113	\$ 2,011
Revenue % growth (decline)	10.1 %	3.3 %	5.1 %	(1.8 %) %
Comparable sales % gain ⁽¹⁾	3.8 %	n/a	4.2 %	n/a
Gross profit	\$184	\$ 183	\$503	\$ 509
Gross profit as a % of revenue	22.2 %	24.3 %	23.8 %	25.3 %
SG&A	\$181	\$ 170	\$491	\$ 492
SG&A as a % of revenue	21.8 %	22.6 %	23.2 %	24.5 %
Restructuring charges	\$(2)	\$(1)	\$—	\$ 3
Operating income	\$5	\$ 14	\$12	\$ 14
Operating income as a % of revenue	0.6 %	1.9 %	0.6 %	0.7 %

Due to the Canadian brand consolidation impact on our International segment comparable sales metric, we did not (1) report an International segment comparable sales metric for the three or nine months ended October 29, 2016.

Refer to the Overview section within this Item 2. MD&A for more information.

The components of the 10.1% and 5.1% revenue increase for the three and nine months ended October 28, 2017 were as follows:

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	October 28, 2017	October 28, 2017	October 28, 2017	October 28, 2017
Comparable sales impact	3.7 %	%	4.0 %	%
Non-comparable sales impact ⁽¹⁾	1.1 %	%	0.3 %	%
Foreign currency exchange rate fluctuation impact	5.3 %	%	0.8 %	%
Total revenue increase	10.1 %	%	5.1 %	%

Non-comparable sales reflects the impact of net store opening and closing activity, including the Canadian brand consolidation activity, as well as the impact of revenue streams not included within our comparable sales (1) calculation, such as profit sharing benefits, certain credit card revenue, gift card breakage, commercial sales and sales of merchandise to wholesalers and dealers.

The increase in the third quarter of fiscal 2018 International segment revenue was driven by the positive impact of foreign currency exchange rate fluctuations primarily related to Canada and comparable sales growth of 3.8% due to growth in both Canada and Mexico.

The increase in the first nine months of fiscal 2018 International segment revenue was driven by comparable sales growth of 4.2% due to growth in both Canada and Mexico and the positive impact of foreign currency exchange rate fluctuations related to Canada, which was partially offset by a \$13 million decrease in our periodic profit share in Canada. The profit-share revenue included in our non-comparable sales relates to our extended warranty protection plans that are managed by a third party underwriter. The arrangements for our Canadian profit-share are similar to the terms described in the Domestic segment section above.

Table of Contents

The following table reconciles the number of International stores open at the beginning and end of the third quarters of fiscal 2018 and 2017:

	2018			2017				
	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter
Canada								
Best Buy	134	—	—	134	135	—	—	135
Best Buy Mobile	53	—	(1)	52	54	—	(1)	53
Mexico								
Best Buy	22	1	—	23	18	—	—	18
Best Buy Express	5	—	—	5	6	—	(1)	5
Total International segment stores	214	1	(1)	214	213	—	(2)	211

The following table presents the International segment's revenue mix percentages and comparable sales percentage changes by revenue category in the third quarters of fiscal 2018 and 2017:

	Revenue Mix			Comparable Sales		
	Three Months Ended			Three Months Ended		
	October 28, 2017	October 29, 2016	%	October 28, 2017	October 29, 2016 ⁽¹⁾	%
Consumer Electronics	27	% 28	%	4.5	%	n/a
Computing and Mobile Phones	52	% 54	%	0.6	%	n/a
Entertainment	6	% 6	%	7.8	%	n/a
Appliances	8	% 5	%	49.0	%	n/a
Services	5	% 6	%	(15.1)	%	n/a
Other	2	% 1	%	n/a		n/a
Total	100	% 100	%	3.8	%	n/a

Due to the Canadian brand consolidation impact on our International segment comparable sales metric, we did not (1) report an International segment comparable sales metric for the three months ended October 29, 2016. Refer to the Overview section within this Item 2. MD&A for more information.

The following is a description of the notable comparable sales changes in our International segment by revenue category:

• Consumer Electronics: Comparable sales gain was driven primarily by smart home and portable audio, partially offset by declines in digital imaging.

• Computing and Mobile Phones: Comparable sales gain was driven primarily by computing and wearables, partially offset by declines in tablets.

• Entertainment: Comparable sales gain was driven primarily by gaming hardware and drones.

• Appliances: Comparable sales gain was driven primarily by large and small appliances.

• Services: Comparable sales decline was driven primarily by technical support, partially offset by gains in installation.

The third quarter of fiscal 2018 gross profit rate of our International segment decreased due to lower sales in the higher-margin services category in Canada primarily driven by the launch of Canada's Total Tech Support offer, a long-term recurring revenue model.

The gross profit rate of our International segment decreased in the first nine months of fiscal 2018 primarily due to a \$13 million decrease in our periodic profit share revenue in Canada as described above and lower sales in the higher-margin services category primarily driven by the launch of Canada's Total Tech Support offer.

The third quarter of fiscal 2018 SG&A rate of our International segment decreased primarily due to leverage on our increased revenue.

Our International segment SG&A rate decrease in the first nine months of fiscal 2018 was driven primarily by lower payroll and benefits and administrative costs.

Our third quarter of fiscal 2018 International segment operating income rate decreased due to a lower gross profit rate driven by lower sales in Canada in the higher-margin services category, partially offset by a lower SG&A rate due to leverage on our increased revenue.

Table of Contents

Our International segment operating income rate decreased in the first nine months of fiscal 2018 due to a lower gross profit rate, partially offset by a lower SG&A rate.

Consolidated Non-GAAP Financial Measures

The following table reconciles consolidated operating income, effective tax rate, net earnings and diluted earnings per share ("EPS") from continuing operations for the periods presented (GAAP financial measures) to non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net earnings and non-GAAP diluted earnings per share from continuing operations for the periods presented (\$ in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016 ⁽¹⁾	October 28, 2017	October 29, 2016 ⁽¹⁾
Operating income	\$350	\$312	\$971	\$973
Net CRT/LCD settlements ⁽²⁾	—	—	—	(161)
Other Canadian brand consolidation charges - SG&A ⁽³⁾	—	—	—	1
Restructuring charges ⁽⁴⁾	(2)	1	—	30
Non-GAAP operating income	\$348	\$313	\$971	\$843
Income tax expense	\$104	\$112	\$309	\$343
Effective tax rate	30.4 %	36.7 %	32.7 %	36.4 %
Income tax impact of non-GAAP adjustments ⁽⁵⁾	—	—	2	(49)
Non-GAAP income tax expense	\$104	\$112	\$311	\$294
Non-GAAP effective tax rate	30.4 %	36.6 %	32.8 %	36.3 %
Net earnings from continuing operations	\$238	\$192	\$635	\$600
Net CRT/LCD settlements ⁽²⁾	—	—	—	(161)
Other Canadian brand consolidation charges - SG&A ⁽³⁾	—	—	—	1
Restructuring charges ⁽⁴⁾	(2)	1	—	30
(Gain) loss on investments, net ⁽⁶⁾	1	—	6	(2)
Income tax impact of non-GAAP adjustments ⁽⁵⁾	—	—	(2)	49
Non-GAAP net earnings from continuing operations	\$237	\$193	\$639	\$517
Diluted EPS from continuing operations	\$0.78	\$0.60	\$2.05	\$1.85
Per share impact of net CRT/LCD settlements ⁽²⁾	—	—	—	(0.50)
Per share impact of other Canadian brand consolidation charges - SG&A ⁽³⁾	—	—	—	0.01
Per share impact of restructuring charges ⁽⁴⁾	—	—	—	0.09
Per share impact of (gain) loss on investments, net ⁽⁶⁾	—	—	0.02	(0.01)
Per share income tax impact of non-GAAP adjustments ⁽⁵⁾	—	—	(0.01)	0.16
Non-GAAP diluted EPS from continuing operations	\$0.78	\$0.60	\$2.06	\$1.60

Beginning in the first quarter of fiscal 2018, we no longer exclude non-restructuring property and equipment impairment charges from our non-GAAP financial measures. To ensure our financial results are comparable, we

(1) have recast the prior period balance to conform to this presentation. Refer to the Overview section within this MD&A for more information.

(2) Represents CRT and LCD litigation settlements reached, net of related legal fees and costs. Settlements related to products purchased and sold in prior fiscal years. For the nine months ended October 29, 2016, the entire balance related to the United States. Refer to Note 12, Contingencies and Commitments, within the Notes to Consolidated

Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for further information.

Represents charges related to the Canadian brand consolidation initiated in the first quarter of fiscal 2016, (3) primarily due to retention bonuses and other store-related costs that were a direct result of the consolidation but did not qualify as restructuring charges.

Refer to Note 5, Restructuring Charges, in the Notes to Condensed Consolidated Financial Statements for additional information regarding the nature of these charges. For the three months ended October 28, 2017, the (4) entire balance related to Canada. For the three months ended October 29, 2016, a charge of \$2 million related to the United States and a benefit of \$1 million related to Canada. For the nine months ended October 29, 2016, \$27 million related to the United States and \$3 million related to Canada.

Income tax impact of non-GAAP adjustments is the summation of the calculated income tax charge related to each non-GAAP non-income tax adjustment. The non-GAAP adjustments relate primarily to adjustments in the United (5) States and Canada. As such, the income tax charge is calculated using the statutory tax rates of 38.0% for the United States and 26.6% for Canada, applied to the non-GAAP adjustments of each country.

Table of Contents

- (6) Represents Gain on sale of investments and investment impairments included in Investment income and other within the Condensed Consolidated Statement of Earnings.

Non-GAAP operating income was 3.7% and 3.5% of revenue for the three months ended October 28, 2017, and October 29, 2016, respectively. This increase was driven by a lower non-GAAP SG&A rate driven by sales leverage partially offset by a slightly lower gross profit rate.

Non-GAAP operating income was 3.6% and 3.3% of revenue for the nine months ended October 28, 2017, and October 29, 2016, respectively. This increase was driven by an increase in our non-GAAP gross profit rate driven by improved merchandise margin rates and a lower non-GAAP SG&A rate driven by leverage on our increased revenue.

The third quarter of fiscal 2018 non-GAAP effective tax rate decreased from the prior year period primarily due to the recognition of excess tax benefits related to stock-based compensation and the resolution of certain tax matters in the current year period.

The non-GAAP effective tax rate for the first nine months of fiscal 2018 decreased from the prior year period primarily due to the recognition of excess tax benefits related to stock-based compensation and the resolution of certain tax matters in the current year period.

For the three and nine months ended October 28, 2017, the increase in non-GAAP operating income and the decrease in the non-GAAP effective tax rate drove the increase in both non-GAAP net earnings from continuing operations and non-GAAP diluted EPS from continuing operations. Non-GAAP diluted EPS from continuing operations also increased due to lower diluted weighted-average common shares outstanding driven by our share repurchases. Refer to the Share Repurchases and Dividends section below for additional details.

Liquidity and Capital Resources

Summary

We closely manage our liquidity and capital resources. Our liquidity requirements depend on key variables, including the level of investment needed to support our business strategies, the performance of our business, capital expenditures, credit facilities and short-term borrowing arrangements and working capital management. Capital expenditures and share repurchases are components of our cash flow and capital management strategy which, to a large extent, we can adjust in response to economic and other changes in our business environment. We have a disciplined approach to capital allocation, which focuses on investing in key priorities that support our Best Buy 2020: Building the New Blue strategies.

The following table summarizes our cash and cash equivalents and short-term investments balances at October 28, 2017, January 28, 2017, and October 29, 2016 (\$ in millions):

	October 28, 2017	January 28, 2017	October 29, 2016
Cash and cash equivalents	\$ 1,103	\$ 2,240	\$ 1,341
Short-term investments	2,237	1,681	1,777
Total cash, cash equivalents and short-term investments	\$ 3,340	\$ 3,921	\$ 3,118

Existing cash, cash equivalents and short-term investments as well as cash generated from operations were sufficient to fund share repurchases, capital expenditures and dividends during the first nine months of fiscal 2018 without the need to utilize our credit facilities or other debt arrangements.

Table of Contents

Cash Flows

The following table summarizes our cash flows from total operations for the first nine months of fiscal 2018 and 2017 (\$ in millions):

	Nine Months Ended	
	October 28, 2017	October 29, 2016 ⁽¹⁾
Total cash provided by (used in):		
Operating activities	\$1,203	\$1,407
Investing activities	(1,016)	(848)
Financing activities	(1,335)	(1,199)
Effect of exchange rate changes on cash	15	13
Decrease in cash, cash equivalents and restricted cash	\$(1,133)	\$(627)

Represents cash flows as of October 29, 2016, recast to present our retrospective adoption of accounting guidance (1) related to the presentation of the cash flow statement. Refer to Note 1, Basis of Presentation, of the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Operating activities

The decrease in cash provided by operating activities was primarily due to changes in working capital associated with the timing of inventory receipts and payments as well as the timing of advertising payments. During fiscal 2017, we generally purchased inventory later in the Holiday season than in the prior year causing more payments to occur during the first quarter of fiscal 2018. This was partially offset by changes in receivables driven by higher revenues at the end of fiscal 2017 than the prior year and the subsequent timing of collections during fiscal 2018 compared with fiscal 2017. Timing of income tax payments also contributed to an increase to inflows in fiscal 2018.

Investing activities

The increase in cash used in investing activities was primarily due to purchases of short-term investments and cash received in fiscal 2017 for the sale of a retail property in Shanghai, China related to the Five Star disposition. Refer to Note 2, Discontinued Operations, in the Notes to Condensed Consolidated Financial Statements for additional information regarding the nature of the sale.

Financing activities

The increase in cash used in financing activities was due to increased share repurchases, which was due to an increase in our share price and number of shares repurchased, and an increase in our regular quarterly dividend rate. On March 1, 2017, we announced our intent to increase our share repurchases to \$3.0 billion over the next two years compared to the \$1.0 billion over two years that had been announced in February 2016. We also increased our regular quarterly dividend from \$0.28 per share to \$0.34 per share. This was substantially offset by repayment of our 2016 Notes and payment of a special dividend in fiscal 2017 and proceeds from option exercises in fiscal 2018 driven by the increased share price.

Sources of Liquidity

Funds generated by operating activities, available cash and cash equivalents, short-term investments, our credit facilities and other debt arrangements are our most significant sources of liquidity. We believe our sources of liquidity will be sufficient to fund operations and anticipated capital expenditures, strategic initiatives, share repurchases and dividends. However, in the event our liquidity is insufficient, we may be required to limit our spending. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain

our ability to borrow under our existing credit facilities or obtain additional financing, if necessary, on favorable terms.

We have a \$1.25 billion five-year senior unsecured revolving credit facility (the "Five-Year Facility Agreement") with a syndicate of banks that expires in June 2021. At October 28, 2017, we had no borrowings outstanding under the Five-Year Facility Agreement. Refer to Note 5, Debt, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for further information on our Five-Year Facility Agreement.

Our ability to access our revolving credit facility under the Five-Year Facility Agreement is subject to our compliance with the terms and conditions of the facility, including financial covenants. The financial covenants require us to maintain certain financial ratios. At October 28, 2017, we were in compliance with all such financial covenants. If an event of default were to occur with respect to any of our other debt, it would likely constitute an event of default under our facilities as well.

Table of Contents

Our credit ratings and outlooks at November 28, 2017, are summarized below. In fiscal 2018, Standard & Poor's Rating Services affirmed its long-term credit rating of BBB- and changed its outlook from Stable to Positive; Moody's Investors Service, Inc. affirmed its long-term credit rating of Baa1 with a Stable outlook; and Fitch Ratings Limited affirmed its long-term credit rating of BBB- and changed its outlook from Stable to Positive .

Rating Agency	Rating	Outlook
Standard & Poor's	BBB-	Positive
Moody's	Baa1	Stable
Fitch	BBB-	Positive

Credit rating agencies review their ratings periodically, and, therefore, the credit rating assigned to us by each agency may be subject to revision at any time. Accordingly, we are not able to predict whether our current credit ratings will remain as disclosed above. Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions in the retail and consumer electronics industries, our financial position and changes in our business strategy. If further changes in our credit ratings were to occur, they could impact, among other things, interest costs for certain of our credit facilities, our future borrowing costs, access to capital markets, vendor financing terms and future store leasing costs.

Restricted Cash

Our liquidity is also affected by restricted cash balances that are pledged as collateral or restricted to use for general liability insurance and workers' compensation insurance. Restricted cash and cash equivalents related to our continuing operations, which are included in Other current assets, remained consistent at \$197 million, \$193 million, and \$193 million at October 28, 2017, January 28, 2017, and October 29, 2016, respectively.

Debt and Capital

As of October 28, 2017, we have \$500 million principal amount of notes due August 1, 2018 (the "2018 Notes") and \$650 million principal amount of notes due March 15, 2021 (the "2021 Notes"). Refer to Note 5, Debt, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for further information about our 2018 Notes and 2021 Notes. As we approach the due date for the 2018 Notes in the second quarter of fiscal 2019, we will continue to evaluate whether to fund the repayment through existing cash resources or issuance of new debt.

Share Repurchases

We repurchase our common stock and pay dividends pursuant to programs approved by our Board of Directors ("Board"). Our long-term capital allocation strategy is to first fund operations and investments in growth and then return excess cash over time to shareholders through dividends and share repurchases while maintaining investment grade credit metrics.

On March 1, 2017, we announced our intent to repurchase \$3.0 billion of shares over the next two years. In order to execute this plan, our Board approved a new \$5.0 billion share repurchase program in February 2017. This share repurchase program supersedes the previous \$5.0 billion authorization dated June 2011. There is no expiration date governing the period over which we can repurchase shares under the February 2017 share repurchase program. We plan to spend approximately \$2.0 billion on share repurchases in fiscal 2018, versus our original expectation of \$1.5 billion. Approximately \$3.9 billion remained available for additional purchases under the February 2017 share repurchase program as of October 28, 2017. Between the end of the third quarter of fiscal 2018 and November 30, 2017, we repurchased an incremental 4.5 million shares of our common stock at a cost of \$256 million. Repurchased shares are retired and constitute authorized but unissued shares.

The following table presents our share repurchase history for the three and nine months ended October 28, 2017, and October 29, 2016 (in millions except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016 ⁽¹⁾
Total cost of shares repurchased	\$366	\$ 206	\$1,147	\$ 528
Average price per share	\$57.14	\$ 37.67	\$52.35	\$33.03
Number of shares repurchased and retired	6.4	5.5	21.9	16.0

Table of Contents

Includes the settlement of an accelerated share repurchase contract. Refer to Note 7, Shareholders' Equity, in the (1)Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for further information on this contract.

The cost of shares repurchased in the three and nine months ended October 28, 2017, increased compared to the same periods in the prior year largely due to an increase in our share price, but also included an increase in the number of shares repurchased. The increases reflect our announced intent to increase our share repurchases to \$3.0 billion over the next two years compared with the \$1.0 billion over two years that had been announced in February 2016.

Dividends

In fiscal 2004, our Board initiated the payment of a regular quarterly cash dividend on common stock. A quarterly cash dividend has been paid in each subsequent quarter. The payment of cash dividends is subject to customary legal restrictions. The following table presents our dividend activity for the three and nine months ended October 28, 2017, and October 29, 2016 (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 28, 2017		October 29, 2016	
Regular quarterly cash dividends per share	\$0.34	\$ 0.28	\$1.02	\$ 0.84
Special cash dividends per share ⁽¹⁾	—	—	—	0.45
Total cash dividends per share	\$0.34	\$ 0.28	\$1.02	\$ 1.29

Cash dividends declared and paid	\$102	\$ 89	\$310	\$ 417
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⁽¹⁾ Special cash dividends are authorized by our Board and issued upon their discretion. Dividends paid in fiscal 2017 related to the net after-tax proceeds from certain legal settlements and asset disposals.

The increase in cash dividends declared and paid for the three months ended October 28, 2017, compared to the same period in the prior year was the result of a 21% increase in the regular quarterly dividend rate in fiscal 2018 compared to fiscal 2017. This was somewhat offset by fewer shares due to the return of capital to shareholders through share repurchases.

The decline in cash dividends declared and paid for the nine months ended October 28, 2017, compared to the same period in the prior year was the result of the lack of a special dividend in fiscal 2018 and fewer shares due to share repurchases. This was somewhat offset by the increase in the regular quarterly dividend rate.

Other Financial Measures

Our current ratio, calculated as current assets divided by current liabilities, was 1.2 at the end of the third quarter of fiscal 2018, compared to 1.5 at the end of fiscal 2017 and 1.3 at the end of the third quarter of fiscal 2017. The third quarter of fiscal 2018 declined from the end of fiscal 2017 due primarily to the reclassification of our 2018 Notes to current liabilities and a decline in receivables attributed to higher sales at the end of fiscal 2017.

Our debt to net earnings ratio was 1.1 at the end of the third quarter of fiscal 2018, compared to 1.1 at the end of fiscal 2017 and 1.3 at the end of the third quarter of fiscal 2017. The decrease at the end of the third quarter of fiscal 2018 compared to the end of the third quarter of fiscal 2017 was primarily due to an increase in earnings.

Our non-GAAP debt to EBITDAR ratio, which includes capitalized operating lease obligations in its calculation, remained unchanged at 1.6 for all periods presented below.

Our non-GAAP debt to EBITDAR ratio is calculated as follows:

$$\text{Non-GAAP debt to EBITDAR} = \frac{\text{Non-GAAP debt}}{\text{Non-GAAP EBITDAR}}$$

The most directly comparable GAAP financial measure to our non-GAAP debt to EBITDAR ratio is our debt to net earnings ratio, which excludes capitalized operating lease obligations from debt in the numerator of the calculation and does not adjust net earnings in the denominator of the calculation.

Table of Contents

The following table presents a reconciliation of our debt to net earnings ratio and our non-GAAP debt to EBITDAR ratio for continuing operations (\$ in millions):

	October 28, 2017 ⁽¹⁾	January 28, 2017 ⁽¹⁾	October 29, 2016 ⁽¹⁾
Debt (including current portion)	\$ 1,329	\$ 1,365	\$ 1,367
Capitalized operating lease obligations (5 times rental expense) ⁽²⁾	3,910	3,872	3,834
Non-GAAP debt	\$ 5,239	\$ 5,237	\$ 5,201
Net earnings from continuing operations	\$ 1,242	\$ 1,207	\$ 1,077
Other income (expense) (including interest expense, net)	35	38	51
Income tax expense	575	609	616
Depreciation and amortization expense	663	654	654
Rental expense	782	774	767
Restructuring charges ⁽³⁾	9	39	42
Non-GAAP EBITDAR	\$ 3,306	\$ 3,321	\$ 3,207
Debt to net earnings ratio	1.1	1.1	1.3
Non-GAAP debt to EBITDAR ratio	1.6	1.6	1.6

Debt is reflected as of the balance sheet dates for each of the respective fiscal periods, while net earnings from (1) continuing operations and the other components of non-GAAP EBITDAR represent activity for the 12-months ended as of each of the respective dates.

The multiple of five times annual rent expense in the calculation of our capitalized operating lease obligations is (2) the multiple used for the retail sector by one of the nationally recognized credit rating agencies that rate our creditworthiness, and we consider it to be an appropriate multiple for our lease portfolio.

Refer to Note 5, Restructuring Charges, in the Notes to Condensed Consolidated Financial Statements for additional information regarding the nature of these charges. Previously, we also added back non-restructuring property and equipment impairment charges to our non-GAAP EBITDAR. However, beginning in the first quarter (3) of fiscal 2018, we no longer exclude non-restructuring property and equipment impairment charges from our non-GAAP financial measures. To ensure our financial results are comparable, we have recast the prior period balances to conform to this presentation. Refer to the Overview section within this Item 2. MD&A for more information.

Off-Balance-Sheet Arrangements and Contractual Obligations

Our liquidity is not dependent on the use of off-balance-sheet financing arrangements other than in connection with our operating leases and our \$1.25 billion in undrawn capacity on our credit facilities at October 28, 2017, which, if drawn upon, would be included as Short-term debt in our Condensed Consolidated Balance Sheets.

There has been no material change in our contractual obligations other than in the ordinary course of business since the end of fiscal 2017. See our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for additional information regarding our off-balance-sheet arrangements and contractual obligations.

Significant Accounting Policies and Estimates

We describe our significant accounting policies in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017. We discuss our critical accounting estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended

January 28, 2017. In the first quarter of fiscal 2018, we adopted accounting policy changes related to stock-based compensation and inventory valuation, as described in Note 1, Basis of Presentation, of the Notes to Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the quarter ended April 29, 2017. There have been no other significant changes in our significant accounting policies or critical accounting estimates since the end of fiscal 2017.

New Accounting Pronouncements

For a description of new applicable accounting pronouncements, see Note 1, Basis of Presentation, of the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Table of Contents

Safe Harbor Statement Under the Private Securities Litigation Reform Act

Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”), provide a “safe harbor” for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Quarterly Report on Form 10-Q are forward-looking statements and may be identified by the use of words such as “anticipate,” “assume,” “believe,” “estimate,” “expect,” “guidance,” “intend,” “outlook,” “plan,” “project” and other words and terms of similar meaning. Such statements reflect our current views and estimates with respect to future market conditions, company performance and financial results, business prospects, new strategies, the competitive environment and other events. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the potential results discussed in such forward-looking statements. Readers should review Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for a description of important factors that could cause our actual results to differ materially from those contemplated by the forward-looking statements made in this Quarterly Report on Form 10-Q. Among the factors that could cause actual results and outcomes to differ materially from those contained in such forward-looking statements are the following: macro-economic conditions (including fluctuations in housing prices and jobless rates), financial and commodity market conditions (including but not limited to the credit, equity, currency and energy markets), conditions in the industries and categories in which we operate, changes in consumer preferences or confidence, changes in consumer spending and debt levels, the mix of products and services offered for sale in our physical stores and online, product availability, trade restrictions or changes in the costs of imports, competitive initiatives of competitors (including pricing actions and promotional activities), strategic and business decisions of our vendors (including actions that could impact promotional support, product margin and/or supply), the success of new product launches, the impact of pricing investments and promotional activity, weather, natural or man-made disasters, attacks on our data systems, our ability to prevent or react to a disaster recovery situation, changes in law or regulations, changes in tax rates, changes in taxable income in each jurisdiction, tax audit developments and resolution of other discrete tax matters, changes in our stock price and the impact on excess tax benefits or deficiencies related to stock-based compensation, our ability to manage our property portfolio, the impact of labor markets, our ability to retain qualified employees and management, failure to achieve anticipated expense and cost reductions, disruptions in our supply chain, the costs of procuring goods we sell, failure to achieve anticipated revenue and profitability increases from operational and restructuring changes (including investments in our multi-channel capabilities), inability to secure or maintain favorable vendor terms, failure to accurately predict the duration over which we will incur costs, development of new businesses, failure to complete or achieve anticipated benefits of announced transactions and our ability to protect information relating to our employees and customers. We caution that the foregoing list of important factors is not complete. Any forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statement that we may make.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As disclosed in our Form 10-K for fiscal 2017, in addition to the risks inherent in our operations, we are exposed to certain market risks.

Interest Rate Risk

We are exposed to changes in short-term market interest rates and these changes in rates will impact our net interest expense. Our cash and short-term investments generate interest income that will vary based on changes in short-term interest rates. In addition, we have swapped our fixed-rate debt to a floating-rate such that the interest rate expense on this debt will vary with short-term interest rates. Refer to Note 5, Debt, and Note 6, Derivative Instruments, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, for further information regarding our interest rate swaps.

As of October 28, 2017, we had \$3.3 billion of cash and short-term investments and \$1.2 billion of debt that has been swapped to floating rate. Therefore, we had net cash and short-term investments of \$2.1 billion generating income, which is exposed to interest rate changes. As of October 28, 2017, a 50 basis point increase in short-term interest rates would lead to an estimated \$11 million reduction in net interest expense, and conversely a 50 basis point decrease in short-term interest rates would lead to an estimated \$11 million increase in net interest expense.

Foreign Currency Exchange Rate Risk

We have market risk arising from changes in foreign currency exchange rates related to our International segment operations. On a limited basis, we utilize foreign exchange forward contracts to manage foreign currency exposure to certain forecast inventory purchases, recognized receivable and payable balances and our investment in our Canadian operations. Our primary

Table of Contents

objective in holding derivatives is to reduce the volatility of net earnings and cash flows, as well as net asset value associated with changes in foreign currency exchange rates. Our foreign currency risk management strategy includes both hedging instruments and derivatives that are not designated as hedging instruments, which generally have terms of up to 12 months. The aggregate notional amount related to our foreign exchange forward contracts outstanding at October 28, 2017, was \$304 million. The net fair value recorded on our Condensed Consolidated Balance Sheets at October 28, 2017, related to our foreign exchange forward contracts was zero. The amount recorded in our Condensed Consolidated Statements of Earnings from continuing operations related to all contracts settled and outstanding was a gain of \$2 million for the three months ended October 28, 2017, and a loss of \$1 million for the nine months ended October 28, 2017.

The weakness of the U.S. dollar compared to the Canadian dollar and Mexican peso compared to the prior-year period had a positive overall impact on our revenue as these foreign currencies translated into more U.S. dollars. We estimate that foreign currency exchange rate fluctuations had a net favorable impact of \$40 million on our revenue and \$1 million on our net earnings for the three months ended October 28, 2017, and a net favorable impact of \$17 million on our revenue and \$1 million on our net earnings for the nine months ended October 28, 2017.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a regular quarterly basis, and otherwise as needed.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at October 28, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at October 28, 2017, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the fiscal quarter ended October 28, 2017, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our legal proceedings, see Note 12, Contingencies, of the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Stock Repurchases

The following table presents information regarding our repurchases of common stock during the third quarter of fiscal 2018:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
July 30, 2017 through August 26, 2017	1,891,131	\$ 60.50	1,891,131	\$4,143,000,000
August 27, 2017 through September 30, 2017	1,831,093	\$ 55.16	1,831,093	\$4,042,000,000
October 1, 2017 through October 28, 2017	2,680,203	\$ 56.13	2,680,203	\$3,891,000,000
Total	6,402,427	\$ 57.14	6,402,427	

Pursuant to a \$5.0 billion share repurchase program that was authorized by our Board in February 2017. There is no expiration date governing the period over which we can repurchase shares under the February 2017 share repurchase program. For additional information see Note 10, Repurchase of Common Stock, Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q.

Table of Contents

Item 6. Exhibits

- 3.1 Restated Articles of Incorporation (incorporated herein by reference to the Definitive Proxy Statement filed by Best Buy Co., Inc. on May 12, 2009)
- 3.2 Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Best Buy Co., Inc. on September 26, 2013)
- 31.1 Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002⁽¹⁾
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002⁽¹⁾

101 The following financial information from our Quarterly Report on Form 10-Q for the third quarter of fiscal 2018, filed with the SEC on December 1, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at October 28, 2017, January 28, 2017, and October 29, 2016, (ii) the Condensed Consolidated Statements of Earnings for the three and nine months ended October 28, 2017, and October 29, 2016, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended October 28, 2017, and October 29, 2016, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 28, 2017, and October 29, 2016, (v) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended October 28, 2017, and October 29, 2016, and (vi) the Notes to Condensed Consolidated Financial Statements.

(1) The certifications in Exhibit 32.1 and Exhibit 32.2 to this Quarterly Report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K under the Securities Act of 1933, as amended, the registrant has not filed as exhibits to this Quarterly Report on Form 10-Q certain instruments with respect to long-term debt under which the amount of securities authorized does not exceed 10% of the total assets of the registrant. The registrant hereby agrees to furnish copies of all such instruments to the SEC upon request.

Table of Contents

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: December 1, 2017 By: /s/ HUBERT JOLY
Hubert Joly
Chairman and Chief Executive Officer

Date: December 1, 2017 By: /s/ CORIE BARRY
Corie Barry
Chief Financial Officer

Date: December 1, 2017 By: /s/ MATHEW R. WATSON
Mathew R. Watson
Senior Vice President, Finance – Controller and Chief Accounting Officer