

Identify and reviewing the company's investor relations information

[Business](#)



Summary and Analysis of Best Buy's Financial Health The summary of Best Buy's financial health shall include analysis of its financial statements (income statement and balance sheet) and analysis of significant ratios that determine's a company's over-all financial well being. The ratios shall include return on asset ratio, return on equity ratio or equity per share, debt to equity ratio and liquidity ratios (current and acid test). Period covered for summary and analysis shall be the fiscal year February 2010-February 2011. Best buy made a net profit of \$1. 277 bn for 2011. While the company resulted in a net profit, this is still a deduction compared to its performance previous year that netted \$1. 317 bn. In sum, net profit declined by 3. 13%. This can be attributed to a significant increase in operating expense from \$46. 875 in 2010 to \$47. 373 in 2011 while increase in sales was only moderate from \$49. 243 in 2010 to \$49. 747 in 2011. The profitability ratio of the company is not that very good. Return on assets (Net income/average total assets, $1,427.00/17,849.00$) is only 7. 9 %. It meant that the company use a lot of resources to yield returns. Return on equity ratio(net income/average stockholders' equity, $1,427.00/6,602$) or Equity per share (EPS) however is moderately positive with 21. 6 % return to investors. But while the company is giving modest returns, its stability in terms of debt to equity (total liability/total stockholder's equity) ratio is very disturbing. Its debt is more than 270. 35% ($17,849/6,602$) than its equity which means that the company is heavily indebted. This is being supported by its liquidity ratio which has current ratio (Current asset/current liability) of . 47 which means that Best Buy cannot settle its obligations right away and has to source out more than half of its obligations.

The shortcoming of Best Buy is however recognized by the company and vowed to address them. In its press release, it enumerated as one of its action plans to improve business performance is its reduction in its operating cost which caused the the company's lesser profitability. It vowed to reduced cost by \$800 million dollars and along with this is the closure of 50 big box stores in 2013 to be replaced by 100 Best Buy Mobile small format stand-alone stores in fiscal 2013 (Epstein, 2012). It also plans to grow its online presence revenue by 15% recognizing the growing profitability in ecommerce.

My analysis

If I am an investor, I will not put my money in Best Buy because I am worried with the company's long-term stability. It just owes a lot which is 270% more than the capital. In simpler terms, the company basically operates in debt. While the company is giving modest return of 21.6% this may be just temporary. If I am the CEO of the company, the action plan of the company is just right but does not still fully address the company's other vulnerabilities such as its heavy debt. Reducing cost and increasing sales is always a good strategic move but the company should also include reduction of debt because servicing it also incurs cost albeit not obvious, in addition to an issue that it undermines the company's long-term stability.

Reference:

Epstein, Zach (March 29, 2012). Best Buy posts mixed Q4 earnings, plans to close 50 U. S. stores. Retrieved at [http://www. bgr. com/2012/03/29/best-buy-posts-mixed-q4-earnings-plans-to-close-50-u-s-stores/](http://www.bgr.com/2012/03/29/best-buy-posts-mixed-q4-earnings-plans-to-close-50-u-s-stores/)