BEST BUY CO INC
Form 10-K
March 23, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 30, 2016
OR

o 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)

Registrant's telephone number, including area code 612-291-1000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes o No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No
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 for 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. x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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). x Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) o Yes x No
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 1, 2015, was approximately $6.6 billion, computed by reference to the price of $32.29 per share, the price at which the common equity was last sold on August 1, 2015, as reported on the New York Stock Exchange-Composite Index. (For purposes of this calculation all of the registrant's directors and executive officers are deemed affiliates of the registrant.)
As of March 21, 2016, the registrant had 323,347,681 shares of its Common Stock issued and outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to is 2016 Regular Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III. The Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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 Annual Report on Form 10-K are forward-looking statements and may be identified by the use of words such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "foresee," "outlook," "plan," "project," and other words and terms of similar meaning. Such statements reflect our current view with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause our future results to differ materially from the anticipated results expressed in such forward-looking statements. Readers should review Item 1A, Risk Factors, of this Annual Report on Form 10-K for a description of important factors that could cause our future results to differ materially from those contemplated by the forward-looking statements made in this Annual Report on Form 10-K. Our forward-looking statements speak only as of the date of this report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

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PART I

Item 1. Business.

Unless the context otherwise requires, the use of the terms "we," "us" and "our" in this Annual Report on Form 10-K refers to Best Buy Co., Inc. and, as applicable, its consolidated subsidiaries. Any references to our website addresses do not constitute incorporation by reference of the information contained on the websites.

Description of Business

We were incorporated in the state of Minnesota in 1966. Today, we are a leading provider of technology products, services and solutions. We offer these products and services to the 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.

Information About Our Segments and Geographic Areas

We have two reportable segments: Domestic and International. The Domestic segment is comprised of the operations in all states, districts and territories of the U.S., under various brand names including Best Buy, bestbuy.com, Best Buy Mobile, Best Buy Direct, Best Buy Express, Geek Squad, Magnolia Home Theater and Pacific Kitchen and Home.

The International segment is comprised of all operations in Canada and Mexico under the brand names Best Buy, bestbuy.com.ca, bestbuy.com.mx, Best Buy Express, Best Buy Mobile and Geek Squad.

In March 2015, we decided to consolidate Future Shop and Best Buy stores and websites in Canada under the Best Buy brand. This resulted in permanently closing 66 Future Shop stores and converting 65 Future Shop stores to the Best Buy brand.

Additional information on these changes is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 4, Restructuring Charges, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

In fiscal 2007, we acquired a 75% interest in Jiangsu Five Star Appliance Co., Ltd. (“Five Star”), one of China’s largest appliance and consumer electronics retailers. In fiscal 2009, we acquired the remaining 25% interest in Five Star. On December 3, 2014, we entered into an agreement to sell Five Star, and we completed the sale on February 13, 2015. In fiscal 2009, we acquired a 50% interest in Best Buy Europe Distributions Limited (“Best Buy Europe”), a venture with Carphone Warehouse Group plc (“CPW”). On June 26, 2013, we sold our 50% ownership interest in Best Buy Europe to CPW.

Financial information about our segments and geographic areas is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 11, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Operations

Our Domestic and International segments are managed by leadership teams responsible for all areas of the business. Both segments operate an omni-channel platform that provides customers the ability to shop when and where they want.

Domestic Segment

Development of merchandise and services offerings, pricing and promotions, procurement and supply chain, online and mobile application operations, marketing and advertising, and labor deployment across all channels are centrally managed at our corporate headquarters. In addition, support capabilities (for example, human resources, finance and real estate management) are generally performed at our corporate headquarters. We also have field operations that support retail teams. Our retail stores have procedures for inventory management, asset protection, transaction processing, customer relations, store administration, product sales and services, staff training and merchandise display that are largely standardized within each store brand. All stores within each store brand generally operate under standard procedures with a degree of flexibility for store management to address certain local market characteristics.

International Segment

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Our Canada and Mexico store operations are similar to those in our Domestic segment.

In March 2015, we decided to consolidate Future Shop and Best Buy stores and websites in Canada under the Best Buy brand. This resulted in permanently closing 66 Future Shop stores and converting 65 Future Shop stores to the Best Buy brand.

Merchandise and Services

Our Domestic and International segments have offerings in six revenue categories: Consumer Electronics, Computing and Mobile Phones, Entertainment, Appliances, Services and Other. The key components of each revenue category are as follows:

- Consumer Electronics - home theater, home automation, digital imaging, health and fitness and portable audio;
- Computing and Mobile Phones - computing and peripherals, networking, tablets, mobile phones (including related mobile network carrier commissions), wearables (including smart watches) and e-readers;
- Entertainment - gaming hardware and software, movies, music, technology toys and other software;
- Appliances - major appliances (for example, refrigeration, dishwashers, ovens, laundry, etc.) and small appliances (for example, coffee makers, blenders, etc.);
- Services - consultation, design, delivery, installation, set-up, protection plans, repair, technical support and educational classes; and
- Other - snacks, beverages and other sundry items.

Distribution

Domestic Segment

U.S. Best Buy online merchandise sales are typically either picked up at U.S. Best Buy stores or delivered directly to customers from a distribution center or retail store. The ship-from-store capability allows us to improve product availability and delivery times for customers. Most merchandise is shipped directly from manufacturers to our distribution centers or warehouses located throughout the U.S. In order to meet release dates for certain products, merchandise may be shipped directly to our stores from suppliers.

International Segment

Our distribution model for Canada and Mexico is similar to that of our Domestic segment model.

Suppliers and Inventory

Our Domestic and International segments purchase merchandise from a variety of suppliers. In fiscal 2016, our 20 largest suppliers accounted for approximately 75% of the merchandise we purchased, with five suppliers – Apple, Samsung, Hewlett-Packard, Sony and LG Electronics – representing approximately 51% of total merchandise purchased. We generally do not have long-term contracts with our major suppliers that require them to continue supplying us with merchandise or any other terms.

We carefully monitor and manage our inventory levels to match quantities on hand with consumer demand as closely as possible. Key elements to our inventory management process include the following: continuous monitoring of historical and projected consumer demand, continuous monitoring and adjustment of inventory receipt levels, agreements with vendors relating to reimbursement for the cost of markdowns or sales incentives and agreements with vendors relating to return privileges for certain products.

We also have a global sourcing operation to design, develop, test and contract-manufacture our exclusive brand products.

Store Development

We had approximately 1,200 large-format and 400 small-format stores at the end of fiscal 2016 throughout our Domestic and International segments. Our stores are a vital component of our omni-channel strategy and represent an important competitive advantage. In the U.S., we have the ability to ship from all of our Best Buy stores. Customers may also elect to pick up orders initiated online in any of our stores. In recent years, we have opened vendor store-within-a-store concepts to allow closer vendor partnership and a better quality customer experience. In fiscal 2017 and beyond, we will continue to look for opportunities to optimize our store space, renegotiating leases and selectively opening or closing locations to support our ongoing transformation.

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In March 2015, we made a decision to consolidate Future Shop and Best Buy stores and websites in Canada under the Best Buy brand. This resulted in permanently closing 66 Future Shop stores and converting 65 Future Shop stores to the Best Buy brand.

Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for tables reconciling our Domestic and International segment stores open at the end of each of the last three fiscal years.

Intellectual Property

We own or have the right to use valuable intellectual property such as trademarks, service marks and tradenames, including, but not limited to, Best Buy, Best Buy Mobile, Dynex, Future Shop, Geek Squad, Init, Insignia, Magnolia, Modal, My Best Buy, Pacific Sales, Rocketfish, Plantinum and our Yellow Tag logo.

We have secured domestic and international trademark and service mark registrations for many of our brands. We have also secured patents for many of our inventions. We believe our intellectual property has significant value and is an important factor in the marketing of our company, our stores, our products and our websites.

Seasonality

Our business, like that of many retailers, is seasonal. A higher proportion of our revenue and earnings is generated in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico.

Working Capital

We fund our business operations through a combination of available cash and cash equivalents, short-term investments and cash flows generated from operations. In addition, our revolving credit facilities are available for additional working capital needs, for general corporate purposes and investment and growth opportunities. Our working capital needs typically increase in the months leading up to the holiday shopping season as we purchase inventory in advance of expected sales.

Competition

Our competitors are primarily multi-channel retailers, internet-based businesses, technology service providers, traditional store-based retailers and vendors and mobile network carriers, who offer their products and services directly to customers. We believe our ability to deliver a high quality customer experience offers us a key competitive advantage. Some of our competitors have low cost operating structures and seek to compete for sales primarily on price. In addition, in the U.S., online-only operators are exempt from collecting sales taxes in certain states. We believe this advantage will continue to be eroded as sales tax rules are re-evaluated at both the state and federal levels. We carefully monitor pricing offered by other retailers, and maintaining price competitiveness is one of our ongoing priorities. In addition, we have a price-matching policy in the U.S. that allows customers to request that we match a price offered by certain retail store and online operators. In order to allow this, we are focused on maintaining efficient operations and leveraging the economies of scale available to us through our global vendor partnerships. We believe our dedicated and knowledgeable people, integrated online and retail assets, broad product assortment, strong vendor relationships, range of focused service and support offerings, distinct store formats, brand marketing strategies and supply chain are important ways in which we maintain this advantage.

Environmental Matters

Best Buy is committed to positively impacting the environment and our communities. We believe that effectively managing our environmental impacts, setting sustainability goals and advancing energy-efficient consumer solutions creates long-term value for all of our stakeholders.

We are continuously looking for cost-effective solutions to minimize carbon emissions in our operations. In fiscal year 2016 we set a new goal to reduce our own carbon emissions by 45 percent by 2020 (over a 2009 baseline), from both operational reductions and renewable sourcing.

See our Best Buy Corporate Responsibility & Sustainability Report for further information on environmental performance.

Number of Employees

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At the end of fiscal 2016, we employed approximately 125,000 full-time, part-time and seasonal employees in the U.S., Canada, Mexico and our sourcing office in China. We consider our employee relations to be good. We offer our employees a wide array of company-paid benefits that vary within our company due to customary local practices and statutory requirements, which we believe are competitive locally and in the aggregate relative to others in our industry.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). We make available, free of charge on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our website at www.investors.bestbuy.com. In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers, such as the Company, that file electronically with the SEC at www.sec.gov.

We also make available, free of charge on our website, our Amended and Restated By-laws, the Corporate Governance Principles of our Board of Directors ("Board") and our Code of Business Ethics (including any amendment to, or waiver from, a provision of our Code of Business Ethics) adopted by our Board, as well as the charters of all of our Board's committees: Audit Committee; Compensation and Human Resources Committee; Finance and Investment Policy Committee; and Nominating, Corporate Governance and Public Policy Committee. These documents are posted on our website at www.investors.bestbuy.com.

Copies of any of the above-referenced documents will also be made available, free of charge, upon written request to Best Buy Co., Inc. Investor Relations Department at 7601 Penn Avenue South, Richfield, MN 55423-3645.

Item 1A. Risk Factors.

Described below are certain risks that we believe apply to our business and the industry in which we operate. You should carefully consider each of the following risk factors in conjunction with other information provided in this Annual Report on Form 10-K and in our other public disclosures. The risks described below highlight potential events, trends or other circumstances that could adversely affect our business, financial condition, results of operations, cash flows, liquidity or access to sources of financing, and consequently, the market value of our common stock and debt instruments. These risks could cause our future results to differ materially from historical results and from guidance we may provide regarding our expectations of future financial performance. The risks described below are not an exhaustive list of all the risks we face. There may be others that we have not identified or that we have deemed to be immaterial. All forward-looking statements made by us or on our behalf are qualified by the risks described below.

We face strong competition from multi-channel retailers, internet-based businesses, technology service providers, traditional store-based retailers and vendors and mobile network carriers, who offer their products and services directly to customers, which directly affects our revenue and profitability.

The retail business is highly competitive. Price is of great importance to most customers, and price transparency and comparability continues to increase, particularly as a result of digital technology. The ability of consumers to compare prices on a real-time basis puts additional pressure on us to maintain competitive prices. We compete with many other local, regional, national and international retailers and technology service providers, as well as certain of our vendors and mobile network carriers who offer products directly to consumers. Some of our competitors have greater financial resources than us and may be able to offer lower prices than us for a sustained period of time. The retail industry continues to experience a trend towards an increase in sales initiated online and using mobile applications, and some online-only businesses have lower operating costs than us and are not required to collect and remit sales taxes in all U.S. states, which can negatively impact the ability of multi-channel retailers to be price competitive on a tax-included basis. Online and multi-channel retailers continue to focus on delivery services, with customers increasingly seeking faster, guaranteed delivery times and low-price or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, and our failure to successfully manage these factors and offer competitive delivery options could negatively impact the demand for our products and our profit margins. Because our business strategy is based on offering superior levels of customer service and a full range of services to complement the products we offer, our cost structure is higher than some of our competitors, and this, in conjunction with price transparency, puts pressure on our margins.

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As these and related competitive factors evolve, we may experience material adverse pressure on our revenue and profitability.

Consumer electronics products are highly susceptible to technological advancement and changes in consumer preferences.

In general, consumer electronics product life cycles (which begin with initial market launch and conclude with maturity or obsolescence) have become shorter and less predictable. This is largely due to rapid technological advancement and innovation and generally faster adoption by consumers. Consumer preferences have also become susceptible to rapid change and this adds to the unpredictability of our business. These factors affect us in a number of ways, for example:

- the emergence of new products and categories (for example, wearable devices);
- the rapid maturity and decline of relatively new categories (for example, tablets);
- cannibalization of categories (for example, the effect of smart phones on demand for GPS, mobile audio, digital imaging devices, etc.);
- intense consumer interest in high-profile product updates (for example, smartphone model updates) which concentrates purchasing activity around new launch dates;
- unpredictable consumer adoption rates (for example, contrasting adoption rates of 3D and Ultra-HD televisions);
- rapidly declining price-points in many categories (for example, digital imaging, Ultra-HD televisions, etc.); and
- availability of content (for example, Ultra-HD programming, online streaming services, sporting events or other broadcast programming).

The effects of these factors can also be exacerbated by the competitive environment and the ease with which customers can research and compare product features and price. If we fail to interpret, predict and react to these factors in a timely and effective manner, the consequences can include:

- not offering the products and services that our customers want;
- having excess inventory, which may require heavy discounting or liquidation;
- not securing adequate access to brands or products for which consumer demand exceeds supply;
- delays in adapting our merchandising, marketing or supply chain capabilities to accommodate changes in product trends; and
- damage to our brand and reputation.

These and other similar factors could have a material adverse impact on our revenues and profitability.

Our reliance on key vendors and mobile network carriers subjects us to various risks and uncertainties which could affect our revenue and profitability.

We source the products we sell from a wide variety of domestic and international vendors. In fiscal 2016, our 20 largest suppliers accounted for approximately 75% of the merchandise we purchased (73% in fiscal 2015), with 5 suppliers – Apple, Samsung, Hewlett-Packard, Sony and LG Electronics – representing approximately 51% of total merchandise purchased (47% in fiscal 2015). We generally do not have long-term written contracts with our vendors that would require them to continue supplying us with merchandise or any other terms. Our profitability depends on us securing acceptable terms with our vendors for, among other things, the price of merchandise we purchase from them, funding for various forms of promotional programs, payment terms, allocations of merchandise, development of compelling assortments of products, operation of vendor-focused shopping experiences within our stores and terms covering returns and factory warranties. To varying degrees, our vendors may be able to leverage their competitive advantages -- for example, their financial strength, the strength of their brand with customers, their own stores or online channels or their relationships with other retailers -- to our commercial disadvantage, with a consequent adverse impact on our profitability. The potential adverse impact of these factors can be amplified by price transparency (which can limit our flexibility to modify selling prices) and a highly competitive retail environment. Generally, our ability to negotiate favorable terms with our vendors is more difficult with vendors where our purchases represent a smaller proportion of their total revenues, consequently impacting our profitability from such vendor relationships.

We are also dependent on a relatively small number of mobile carriers to allow us to offer mobile devices with carrier connections. The competitive strategies utilized by mobile network carriers can have a material impact on our business. For example, if carriers change the structure of customer contracts, customer upgrade terms, customer qualification requirements, monthly fee plans, cancellation fees or service levels, the volume of upgrades and new contracts we sign with customers may be reduced, adversely affecting our revenues and profitability. In addition, our carriers also may serve customers through their own stores, websites, mobile applications and call centers or through other competing retail channels. Carriers may decide to

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cease allowing us to offer their contracts, focus their marketing efforts on alternative channels or make unfavorable changes to our commissions or other terms. Each of these potential factors could have a materially adverse impact on our revenue and profitability.

We have internal standards that we require all of our vendors to meet. Our ability to find qualified vendors who meet our standards and supply products in a timely and efficient manner can be a challenge, especially with respect to goods sourced from outside the U.S. Political or financial instability, merchandise quality issues, product safety concerns, trade restrictions, work stoppages, port delays, tariffs, foreign currency exchange rates, transportation capacity and costs, inflation, civil unrest, natural disasters, outbreaks of pandemics and other factors relating to foreign trade are beyond our control. These and other issues affecting our vendors could materially adversely affect our financial results.

Our focus on services as a strategic imperative exposes us to certain risks that could have a material adverse impact on our revenue and profitability as well as our reputation.

Our customer promises include provision of a full range of services to complement our product offerings, including consultation, design, delivery, installation, set-up, protection plans, repair, technical support and educational classes. These services can differentiate us from many of our competitors and provide an opportunity to deliver superior customer service while generating incremental revenue and profit. However, designing, marketing and executing these services successfully and consistently is subject to incremental risks. These risks include, for example:

- increased labor expense to fulfill our customer promises, which may be higher than the related revenue;
- unpredictable warranty failure rates and related expenses;
- employees in transit using company vehicles to visit customer locations and employees being present in customer homes; these factors may increase our scope of liability related to our employees' actions;
- employees having access to customer devices, including the information held on those devices, which may increase our responsibility for the security of those devices and the data they hold; and
- the engagement of third party contractors to assist with some aspects of construction and installation and the potential responsibility for the actions they take and for compliance with building codes and related regulations.

In addition, as customers increasingly migrate to websites and mobile applications to initiate transactions, it is inherently more difficult to demonstrate and explain the features and benefits of our service offerings, which can lead to a lower revenue mix of these services. If, for these or other reasons, we fail to design and market services effectively to our customers or fail to meet our customers’ expectations in the execution of these services, our reputation, revenue and profitability could be adversely affected.

Macroeconomic pressures in the U.S. and key international markets could adversely affect consumer spending and our financial results.

To varying degrees, our products and services are sensitive to changes in macroeconomic conditions that impact consumer spending. As a result, consumers may be affected in many different ways, including, for example:

- whether or not they make a purchase;
- their choice of brand, model or price-point;
- how frequently they upgrade their devices; and
- their appetite for complementary services (for example, protection plans).

Consumer confidence, employment levels, oil prices, interest rates, tax rates, availability of consumer financing, housing market conditions, foreign currency exchange rate fluctuations, costs for items such as fuel and food and other macroeconomic trends can adversely affect consumers' demand for the products and services that we offer. Our future results could be significantly adversely impacted by these factors.

Interruptions to our supply chain and other factors affecting our distribution may adversely affect our business.

Our supply chain is a critical part of our operations, particularly in light of recent industry trends and initiatives such as ship-from-store and the emphasis on fast and free delivery when purchasing online. We also depend on third parties for certain aspects of our supply chain network. In managing our supply chain we are exposed to the following risks, for example, which may not be fully controllable by us:

- interruptions to our delivery capabilities;

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- failure of third party companies to meet our standards or commitments;
- disruptions to our systems and implementation of new systems;
- limitations in capacity;
- consolidation or other changes in the distribution market;
- labor strikes or slow-downs impacting ports or any other aspect of our supply chain;
- damages or other loss to products; and
- costs that are excessive.

The risks associated with our dependence on third parties are greater for small parcel home deliveries, because of the relatively small number of carriers with the scope and capacity required by our business. The aforementioned channel shift increases our exposure to these risks. If we fail to manage these risks effectively, we could experience a material adverse impact on our reputation, revenue and profitability.

If we fail to attract, retain and engage appropriately qualified employees, including employees in key positions, our business and operating results may be harmed.

Our performance is highly dependent on attracting, retaining and engaging appropriately qualified employees, including our executive team and other employees in key positions. Our strategy of offering high quality services and assistance for our customers requires a highly trained and engaged workforce. The turnover rate in the retail industry is relatively high, and there is an ongoing need to recruit and train new employees. Factors that affect our ability to maintain sufficient numbers of qualified employees include employee morale, our reputation, unemployment rates, competition from other employers and our ability to offer appropriate compensation packages. Failure to recruit or retain qualified employees in the future may impair our efficiency and effectiveness and our ability to pursue growth opportunities. In addition, a significant amount of turnover of our executive team or other employees in key positions with specific knowledge relating to us, our operations and our industry may negatively impact our operations.

Demand for the products and services we sell could decline if we fail to maintain positive brand perception and recognition.

We operate a portfolio of brands with a commitment to customer service and innovation. We believe that recognition and the reputation of our brands are key to our success. The ubiquity of social media means that customer feedback and other information about our company are shared with a broad audience in a manner that is easily accessible and rapidly disseminated. Damage to the perception or reputation of our brands could result in declines in customer loyalty, decreases in gift card and service plan sales, lower employee retention and productivity, vendor relationship issues and other factors, all of which could materially affect our revenue and profitability.

Our success is dependent on the design and execution of appropriate business strategies.

We operate in a highly-competitive and ever-changing commercial environment. Our success is dependent on our ability to identify, develop and execute appropriate strategies within this environment. Strategies that have proved successful in the past may not be successful in the future. Our current strategy includes transformational change to certain areas of our business and the pursuit of new growth opportunities. It is possible that our strategies may prove to be ineffective and that we may need to make substantial changes to them in the future. It is also possible that we will be unsuccessful in executing our strategies or that they expose us to additional risks. Our results could be materially adversely affected if we fail to develop and execute appropriate strategies. The market value of our common stock and debt instruments could be materially adversely affected if investors are uncertain about the appropriateness of our strategies or our ability to execute them.

Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further information regarding our strategies.

Failure to effectively manage our real estate portfolio may negatively impact our operating results.

Effective management of our real estate portfolio is critical to our omni-channel strategy. We primarily secure properties through operating leases with third-party landlords. In light of the long-term nature of most of these commitments, it is essential that we effectively evaluate a range of factors that may influence our long-term real estate strategy. Such factors include, for example:

- changing patterns of customer consumption and behavior, particularly in light of an evolving omni-channel environment;

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- the appropriate number of stores in our portfolio;
- the formats and sizes of our stores;
- the locations of our stores;
- the interior layouts of our stores;
- the trade area demographics and economic data of each of our stores;
- the local competitive positioning in and around our stores;
- the primary term lease commitment for each store;
- the long-term lease option coverage for each store;
- the occupancy cost of our stores relative to market rents;
- our supply chain network strategy; and
- our ongoing network of service locations.

If we fail to effectively evaluate these factors, fail to negotiate terms which keep us market competitive, or if unforeseen changes arise, the consequences could include, for example:

- having to close stores and abandon the related assets, while retaining the financial commitments of the lease;
- incurring significant costs to remodel or transform our stores;
- having stores, supply chain or service locations that no longer meet the needs of our business; and
- bearing excessive lease expenses.

These consequences could have a materially adverse impact on our profitability, cash flows and liquidity.

For leased property, the financial impact of exiting a location can vary greatly depending on, among other factors, the terms of the lease, the condition of the local real estate market, demand for the specific property, our relationship with the landlord and the availability of potential sub-lease tenants. It is difficult for us to influence some of these factors and the costs of exiting a property can be significant. We are still responsible for the maintenance, taxes, insurance, and common area maintenance charges for vacant properties until the lease commitment expires or is terminated. Similarly, when we enter into a contract with a tenant to sub-lease property, we usually retain our obligations as the master lessor. This leaves us at risk for any remaining liability in the event of default by the sub-lease tenant.

Failure to effectively manage our costs could have a material adverse effect on our profitability.

Some of our operating costs are fixed and/or are subject to multi-year contracts. Some elements of our costs may be higher than our competitors, because, for example, of our differential service offerings or levels of customer service. As discussed above, our revenues are susceptible to volatility from various sources, which can lead to periods of flat or declining revenues. Accordingly, our ongoing drive to reduce cost and increase efficiency represents a strategic imperative. Failure to successfully manage our costs could have a material adverse impact on our profitability and curtail our ability to fund our growth or other critical initiatives.

Our liquidity may be materially adversely affected by constraints in the capital markets or our vendor credit terms.

We need sufficient sources of liquidity to fund our working capital requirements, service our outstanding indebtedness and finance business opportunities. Without sufficient liquidity, we could be forced to curtail our operations, or we may not be able to pursue business opportunities. The principal sources of our liquidity are funds generated from operating activities, available cash and liquid investments, credit facilities, other debt arrangements and trade payables. Our liquidity could be materially adversely impacted if our vendors reduce payment terms and/or impose tighter credit limits. If our sources of liquidity do not satisfy our requirements, we may need to seek additional financing. The future availability of financing will depend on a variety of factors, such as economic and market conditions, the regulatory environment for banks and other financial institutions, the availability of credit and our credit ratings and our reputation with potential lenders. These factors could materially adversely affect our costs of borrowing and our ability to pursue business opportunities, and threaten our ability to meet our obligations as they become due.

Changes in our credit ratings may limit our access to capital and materially increase our borrowing costs.

Our credit ratings and outlooks at January 30, 2016 are summarized below. In fiscal 2016, Standard & Poor's Rating Services upgraded its long-term credit rating from BB to BB+ with a Stable outlook. Moody's Investors Service, Inc. upgraded its long-term credit rating from Baa2 to Baa1 with a Stable outlook. Fitch Ratings Limited upgraded its long-term credit rating from BB to BBB- with a Stable outlook.

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Rating Agency	Rating	Outlook
Standard and Poor's	BB+	Stable
Moody's	Baa1	Stable
Fitch	BBB-	Stable

Any future downgrades to our credit ratings and outlook could negatively impact the perception of our credit risk, and thus our access to capital markets, borrowing costs, vendor terms and lease terms. Our credit ratings are based upon information furnished by us or obtained by a rating agency from its own sources and are subject to revision, suspension or withdrawal by one or more rating agencies at any time. Rating agencies may change the ratings assigned to us due to developments that are beyond our control, including the introduction of new rating practices and methodologies.

We are highly dependent on the cash flows and net earnings we generate during our fourth fiscal quarter, which includes the majority of the holiday shopping season.

Approximately one-third of our revenue and more than one-half of our net earnings have historically been generated in our fourth fiscal quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico. In addition, the holiday shopping season also incorporates many other unpredictable factors, such as the level of promotional activity and customer buying patterns, and forecasting and reacting to these factors quickly is difficult. Unexpected events or developments such as natural or man-made disasters, product sourcing issues, failure or interruption of management information systems, or disruptions in services or systems provided or managed by third-party vendors could significantly disrupt our operations. As a result of these factors, there is a risk that our fourth quarter and annual results are adversely affected.

Failure to effectively manage strategic ventures, alliances or acquisitions could have a negative impact on our business.

In the future, we may decide to enter into new ventures, alliances or acquisitions. Assessing a potential opportunity can be based on assumptions that might not ultimately prove to be correct. In addition, the amount of information we can obtain about a potential opportunity may be limited.

The success of ventures, alliances or acquisitions is also largely dependent on the current and future participation, working relationship and strategic vision of the venture or alliance partners, which can change following a transaction. Integrating new businesses, stores or concepts can be difficult and risky. These types of transactions may divert our capital and our management's attention from other business issues and opportunities and may also negatively impact our return on invested capital. Entering into new ventures, alliances or acquisitions may also impair our relationships with our vendors or other strategic partners. We may not be able to successfully assimilate or integrate businesses that we acquire, including their personnel, financial systems, distribution, operations and general operating procedures, or we may encounter challenges in achieving appropriate internal control over financial reporting. Failure to effectively integrate and manage strategic ventures, alliances and acquisitions could adversely affect our profitability and liquidity and may require impairment of associated goodwill, tradenames or other assets.

Failure to protect the integrity, security and confidentiality of our employee and customer data could expose us to litigation costs and materially damage our standing with our employees or customers.

The use and handling of personally identifiable data by our business, our business associates and third parties is regulated at the state, federal and international levels. We are also contractually obligated to comply with certain industry standards regarding payment card information. Increasing costs associated with information security, such as increased investment in technology and qualified staff, the costs of compliance and costs resulting from fraud could cause our business and results of operations to suffer materially. Additionally, the success of our online operations depends upon the secure transmission of customer and other confidential information over public networks, including the use of cashless payments. While we take significant steps to protect this information, lapses in our controls or the intentional or negligent actions of employees, business associates or third parties may undermine our security measures. As a result, unauthorized parties may obtain access to our data systems and misappropriate employee, customer and other confidential data. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may not prevent the compromise of our customer transaction processing capabilities and customer personal data. Furthermore, because the methods used to obtain unauthorized access change frequently and may not be immediately detected, we may be unable to anticipate these methods or promptly implement preventative measures. Any such compromise of our security or the security of information residing with our business associates or third parties could have a material adverse effect on our reputation or our relationship with our employees, which may in turn have a negative impact on our revenue, and may expose us to material costs, penalties and compensation claims. In addition, any compromise of our data

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security may materially increase the costs we incur to protect against such breaches and could subject us to additional legal risk.

Natural disasters, changes in climate, geo-political events or other catastrophes could adversely affect our operating results.

The risk or actual occurrence of various catastrophic events could materially adversely affect our financial performance. Such events may be caused by, for example:

- natural disasters or extreme weather events;
- diseases or epidemics that may affect our employees, customers or partners;
- floods, fire or other catastrophes affecting our properties; or
- terrorism, civil unrest or other conflicts.

Such events can adversely affect our work force and prevent employees and customers from reaching our stores and properties and can disrupt or disable portions of our supply chain and distribution network. As a consequence of these or other catastrophic events, we may endure interruption to our operations or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

Our exclusive brands products are subject to several additional product, supply chain and legal risks that could affect our operating results.

Sales of our exclusive brands products, which include Insignia, Modal, Dynex, Init, Platinum and Rocketfish branded products, represent an important component of our revenue. Most of these products are manufactured by contract manufacturers based in southeastern Asia. This arrangement exposes us to the following additional potential risks, which could materially adversely affect our operating results:

- we have greater exposure and responsibility to consumers for warranty replacements and repairs as a result of exclusive brand product defects, and our recourse to contract manufacturers for such warranty liabilities may be limited in foreign jurisdictions;
- we may be subject to regulatory compliance and/or product liability claims relating to personal injury, death or property damage caused by exclusive brand products, some of which may require us to take significant actions such as product recalls;
- we may experience disruptions in manufacturing or logistics due to inconsistent and unanticipated order patterns, our inability to develop long-term relationships with key manufacturers or unforeseen natural disasters;
- we may not be able to locate manufacturers that meet our internal standards, whether for new exclusive brand products or for migration of the manufacturing of products from an existing manufacturer;
- we are subject to developing and often-changing labor and environmental laws for the manufacture of products in foreign countries, and we may be unable to conform to new rules or interpretations in a timely manner;
- we may be subject to claims by technology or other intellectual property owners if we inadvertently infringe upon their patents or other intellectual property rights, or if we fail to pay royalties owed on our exclusive brand products;
- we may be unable to obtain or adequately protect patents and other intellectual property rights on our exclusive brand products or manufacturing processes; and
- regulations regarding disclosure of efforts to identify the country of origin of “conflict minerals” in certain portions of our supply chain could increase the cost of doing business and, depending on the findings of our country of origin inquiry, could have an adverse effect on our reputation.

Maintaining consistent quality, availability and competitive pricing of our exclusive brands products helps us build and maintain customer loyalty, generate revenue and achieve acceptable margins. Failure to maintain these factors could have a significant adverse impact on the demand for exclusive brand products and the profits we are able to generate from them.

We are subject to certain statutory, regulatory and legal developments which could have a material adverse impact on our business.

Our statutory, regulatory and legal environments expose us to complex compliance and litigation risks that could materially adversely affect our operations. The most significant compliance and litigation risks we face are:

- the difficulty of complying with sometimes conflicting statutes and regulations in local, national or international jurisdictions;

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- the potential for unexpected costs related to compliance with new or existing environmental legislation or international agreements affecting energy, carbon emissions, electronics recycling and water or product materials;
- ensuring compliance with applicable product compliance laws and regulations with respect to both the products we sell and contract to manufacture, including laws and regulation related to product safety and product transport;
- the impact of new regulations governing data privacy and security, whether imposed as a result of increased cyber-security risks or otherwise;
- the impact of other new or changing statutes and regulations including, but not limited to, financial reform, National Labor Relations Board rule changes, health care reform, corporate governance matters, escheatment rules and/or other as yet unknown legislation, that could affect how we operate and execute our strategies as well as alter our expense structure;
- the impact of changes in global tax laws (or interpretations thereof by courts and taxing authorities) and accounting standards; and
- the impact of litigation trends, including class action lawsuits involving consumers and shareholders, and labor and employment matters.

Regulatory activity focused on the retail industry has grown in recent years, increasing the risk of fines and additional operating costs associated with compliance. Additionally, defending against lawsuits and other proceedings may involve significant expense and divert management's attention and resources from other matters.

Changes to the National Labor Relations Act or other labor-related statutes or regulations could have an adverse impact on our costs and impair the viability of our operating model.

As an employer of approximately 125,000 people in a large number of different jurisdictions, we are subject to risks related to employment laws and regulations including, for example:

- unionization and related regulations that affect the nature of labor relations, the organization of unions and union elections; in the U.S. the National Labor Relations Board continually considers changes to such regulations; as of January 30, 2016, none of our U.S. operations had employees represented by labor unions or working under collective bargaining agreements;
- laws that impact the relationship between the company and independent contractors; and
- laws that impact minimum wage and scheduling requirements, that could directly or indirectly increase our payroll costs and/or impact the level of service we are able to provide.

Changes to laws and regulations such as these could adversely impact our reputation, our ability to continue operations and thus our revenue and profitability.

Economic, regulatory and other developments could adversely affect our ability to offer attractive promotional financing to our customers and adversely affect the profits we generate from these programs.

We offer promotional financing and credit cards issued by third-party banks that manage and directly extend credit to our customers. Customers choosing promotional financing can receive extended payment terms and low- or no-interest financing on qualifying purchases. We view our financing programs as a way to generate incremental revenue of products and services from customers who prefer the financing terms to other available forms of payment. Approximately 21% of our fiscal 2016 revenue was transacted using one of the company's branded cards. In addition, we earn profit-share income from our banking partners based on the performance of the programs. The income we earn in this regard is subject to numerous factors, including the volume and value of transactions, the terms of promotional financing offers, bad debt rates, interest rates, the regulatory and competitive environment and expenses of operating the program. Adverse changes to any of these factors could impair our ability to offer these programs to customers and reduce our ability to earn income from sharing in the profits of the programs.

We rely heavily on our information technology systems for our key business processes. Any failure or interruption in these systems could have a material adverse impact on our business.

The effective and efficient operation of our business is dependent on our management information systems. We rely heavily on our management information systems to manage all key aspects of our business, including demand forecasting, purchasing, supply chain management, point-of-sale processing, services fulfillment, staff planning and deployment, website offerings, financial management, reporting and forecasting and safeguarding critical and sensitive information. The failure of our management information systems to perform as we anticipate (whether from internal or external factors), or to meet the continuously evolving needs of our business, could significantly disrupt our business and cause, for example, higher costs and lost revenues and could threaten our ability to remain in operation.

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We utilize complex information technology platforms to operate our websites and mobile applications. Disruptions to these services, such as those caused by unforeseen traffic levels or other technical difficulties, could cause us to forego material revenues and adversely affect our reputation with consumers.

We utilize third-party vendors for certain aspects of our business operations.

We engage key third-party business partners to support various functions of our business, including but not limited to, information technology, web hosting and cloud-based services, human resource operations, customer loyalty programs, promotional financing and customer loyalty credit cards, gift cards, customer warranty, technical support and insurance programs. Any material disruption in our relationship with key third-party business partners or any disruption in the services or systems provided or managed by third parties could impact our revenues and cost structure and hinder our operations, particularly if a disruption occurs during peak revenue periods.

Our international activities are subject to many of the same risks as described above, as well as to risks associated with the legislative, judicial, regulatory, political and economic factors specific to the countries or regions in which we operate.

We operate retail locations in Canada and Mexico. In addition, we have wholly owned legal entities registered in various other foreign countries, including Bermuda, China, Germany, Hong Kong, Japan, Luxembourg, the Republic of Mauritius, the Netherlands, Taiwan, Turks and Caicos, and the U.K. During fiscal 2016, our International segment's operations generated 8% of our revenue. In general, the risk factors identified above also have relevance to our International operations. In addition, our International operations also expose us to other risks, including those related to, for example:

- political conditions;
- economic conditions, including monetary and fiscal policies and tax rules;
- legal and regulatory environments;
- rules governing international trade and ownership of foreign entities;
- risks associated with foreign currency exchange rates;
- cultural differences that we may be unable to anticipate or respond to appropriately;
- difficulties in enforcing intellectual property rights; and
- difficulties encountered in exerting appropriate management oversight to operations in remote locations.

These factors could significantly disrupt our International operations and have a material adverse effect on our revenue and profitability and could lead to us incurring material impairments and other exit costs.

Failure to meet the financial performance guidance or other forward-looking statements we have provided to the public could result in a decline in our stock price.

We may provide public guidance on our expected financial results or other forward-looking information for future periods. Although we believe that this guidance provides investors and analysts with a better understanding of management's expectations for the future and is useful to our existing and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Our actual results may not be in line with guidance we have provided. If our financial results for a particular period do not meet our guidance or the expectations of market participants or if we reduce our guidance for future periods, the market price of our common stock may decline.

Item 1B. Unresolved Staff Comments.

Not applicable.

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Item 2. Properties.
Stores, Distribution Centers and Corporate Facilities
Domestic Segment
The following table summarizes the location and total square footage of our Domestic segment stores at the end of fiscal 2016:

	U.S. Best Buy Stores	U.S. Best Buy Mobile Stand-Alone Stores	Pacific Sales Stores
Alabama	15	5	—
Alaska	2	—	—
Arizona	24	2	—
Arkansas	9	5	—
California	118	26	28
Colorado	21	5	—
Connecticut	12	5	—
Delaware	4	1	—
District of Columbia	2	—	—
Florida	64	32	—
Georgia	28	10	—
Hawaii	2	—	—
Idaho	5	2	—
Illinois	50	14	—
Indiana	23	11	—
Iowa	13	1	—
Kansas	9	3	—
Kentucky	9	7	—
Louisiana	16	4	—
Maine	5	—	—
Maryland	23	12	—
Massachusetts	24	10	—
Michigan	32	11	—
Minnesota	23	11	—
Mississippi	8	2	—
Missouri	19	10	—
Montana	3	—	—
Nebraska	5	3	—
Nevada	10	4	—
New Hampshire	6	3	—
New Jersey	27	11	—
New Mexico	5	3	—
New York	54	15	—
North Carolina	32	12	—
North Dakota	4	1	—
Ohio	37	11	—
Oklahoma	13	4	—
Oregon	12	3	—
Pennsylvania	37	14	—
Puerto Rico	3	—	—

Rhode Island	1	—	—
South Carolina	15	4	—
South Dakota	2	1	—
Tennessee	16	9	—
Texas	103	33	—
Utah	10	—	—
Vermont	1	—	—
Virginia	34	10	—
Washington	19	8	—
West Virginia	5	—	—
Wisconsin	22	11	—
Wyoming	1	1	—
Total	1,037	350	28
Square footage (in thousands)	39,999	480	737
Average square feet per store (in thousands)	39	1	26

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The following table summarizes the ownership status of our Domestic segment store locations at the end of fiscal 2016:

	U.S. Best Buy Stores	U.S. Best Buy Mobile Stand Alone Stores	Pacific Sales Stores
Owned store locations	25	—	—
Owned buildings and leased land	36	—	—
Leased store locations	976	350	28

The following table summarizes the location, ownership status and total square footage of space utilized for distribution centers, service centers and corporate offices of our Domestic segment at the end of fiscal 2016:

		Square Footage (in thousands)	
	Location	Leased	Owned
Distribution centers	23 locations in 17 U.S. states	7,489	3,168
Geek Squad service centers[1]	Louisville, Kentucky	237	—
Principal corporate headquarters[2]	Richfield, Minnesota	—	1,452
Territory field offices	12 locations throughout the U.S.	104	—
Pacific Sales corporate office space	Torrance, California	12	—

(1) The leased space utilized by our Geek Squad operations is used primarily to service notebook and desktop computers.

(2) Our principal corporate headquarters consists of four interconnected buildings. Certain vendors who provide us with a variety of corporate services occupy a portion of our principal corporate headquarters. We also sublease a portion of our principal corporate headquarters to unaffiliated third parties.

International Segment

The following table summarizes the location and total square footage of our International segment continuing operations stores at the end of fiscal 2016:

	Best Buy Stores	Best Buy Mobile Stores	Best Buy Express Stores
Canada			
Alberta	19	9	—
British Columbia	22	10	—
Manitoba	4	—	—
New Brunswick	3	—	—
Newfoundland	1	—	—
Nova Scotia	3	1	—
Ontario	55	30	—
Prince Edward Island	1	—	—
Quebec	24	6	—
Saskatchewan	4	—	—
Square footage (in thousands)	3,848	52	—
Average square feet per store (in thousands)	28	1	—
Mexico			
Coahuila	—	—	1
Estado de Mexico	3	—	1

Distrito Federal	7	—	3
Jalisco	4	—	—
Nuevo Leon	2	—	1
Michoacan	1	—	—
San Luis Potosi	1	—	—
Square footage (in thousands)	634	—	9
Average square feet per store (in thousands)	35	—	2
Total store count	154	56	6

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The following table summarizes the ownership status of our International segment continuing operations store locations at the end of fiscal 2016:

	Canada		Mexico	
	Best Buy Stores	Best Buy Mobile Stores	Best Buy Stores	Best Buy Express Stores
Owned store locations	3	—	—	—
Leased store locations	133	56	18	6

The following table summarizes the location, ownership status and total square footage of space for distribution centers and corporate offices of our International segment continuing operations at the end of fiscal 2016:

		Square Footage (in thousands)			Square Footage (in thousands)	
	Distribution Centers	Leased	Owned	Principal Corporate Offices	Leased	Owned
Canada	Brampton and Bolton, Ontario	1,685	—	Burnaby, British Columbia	141	—
	Vancouver, British Columbia	439	—			
Mexico	Estado de Mexico, Mexico	89	—	Distrito Federal, Mexico	32	—

Exclusive Brands

We lease approximately 61,000 square feet of office space in China to support our exclusive brands operations.

Operating Leases

Almost all of our stores and a majority of our distribution facilities are leased. Additional information regarding our operating leases is available in Note 1, Summary of Significant Accounting Policies, and Note 8, Leases, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

For a description of our legal proceedings, see Note 12, Contingencies and Commitments, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

Not applicable.

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Executive Officers of the Registrant
(As of March 21, 2016)

Name	Age	Position With the Company	Years With the Company
Hubert Joly	56	Chairman and Chief Executive Officer	3
Sharon L. McCollam	53	Chief Administrative Officer and Chief Financial Officer	3
Paula F. Baker	48	Chief Human Resources Officer	12
Shari L. Ballard	49	President, U.S. Retail	23
Mary Lou Kelley	55	President, E-commerce	2
R. Michael (Mike) Mohan	48	Chief Merchandising Officer	12
Keith J. Nelsen	52	General Counsel and Secretary	10
Greg Revelle	38	Chief Marketing Officer	1
Mathew R. Watson	45	Chief Accounting Officer	10

Hubert Joly is chairman and Chief Executive Officer. Since joining Best Buy in September 2012, Mr. Joly has led the company's Renew Blue transformation. As a result, Best Buy has delivered improved domestic comparative sales and profit; an increase in customer satisfaction and employee morale; an enhanced in-store experience with the addition of thousands of shops-in-shop developed in partnership with many of the world's leading technology companies; and, a richer online shopping experience on BestBuy.com. Before joining Best Buy, Mr. Joly was president and CEO of Carlson, Inc., a global hospitality and travel company, from 2008 until he joined us. He previously led Carlson Wagonlit Travel as its CEO, and held senior leadership positions at Vivendi Universal Games and Electronic Data Systems' French business. He serves on the boards of Ralph Lauren Corp., the Retail Industry Leaders Association and the Minnesota Business Partnership. He previously served on the boards of Carlson, Inc., the Rezidor Hotel Group and Carlson Wagonlit Travel.

Sharon L. McCollam was appointed Chief Administrative and Chief Financial Officer in December 2012. In this role, she leads our global finance, information technology, information security, supply chain, logistics, real estate, procurement, enterprise customer care, pricing, and internal audit functions, as well as our Mexico operations. Ms. McCollam was previously Executive Vice President, Chief Operating Officer and Chief Financial Officer of Williams-Sonoma Inc., a premier specialty retailer of home furnishings, from July 2006 until her retirement in March 2012. At Williams-Sonoma, she was responsible for the long-term strategic planning activities of the company and oversaw multiple key functions, including global finance, treasury, investor relations, information technology, real estate, store development, corporate operations and human resources. Ms. McCollam also held various executive leadership roles, including principal accounting officer, at Williams-Sonoma from March 2000 to July 2006. Prior to her time at Williams-Sonoma, Ms. McCollam served as Chief Financial Officer of Dole Fresh Vegetables Inc. from 1996 to 2000 and in various other finance-related leadership positions at Dole Food Company Inc., a producer and marketer of fresh fruit and vegetables, from 1993 to 1996. Ms. McCollam serves as a member of the board of directors for Sutter Health, a nonprofit network of hospitals and doctors in Northern California; Art.com, an online specialty art retailer; and Privalia Venta Directa, s.a., a European e-commerce apparel retailer. Ms. McCollam previously served as a member of the board of directors of OfficeMax Incorporated, Williams-Sonoma, and Del Monte Foods Company.

Paula F. Baker is the Chief Human Resources Officer, effective March 2016. In her role, Ms. Baker oversees talent development and the health and well-being of the more than 125,000 Best Buy employees worldwide. Ms. Baker has a proven track record of leading teams that drove stellar financial and customer performance results. She has served in a variety of retail and human resources leadership roles since joining the company in 2004. Most recently, she was territory vice president for the Southeast region of the United States since 2012, responsible for 172 stores and more than 10,000 employees. Prior to that, Ms. Baker was a territory human resources director from 2010 to 2012. In that role, she built strong business partnerships that helped create a culture of engagement, reduced turnover, succession planning and talent development that led to company-leading business performance. She has also previously held district manager and general manager roles. Before joining Best Buy, Ms. Baker worked at Books-A-Million, Golfsmith International and St. Andrews Golf Company in retail leadership roles. She received her bachelor's degree in accounting/finance from the University of Nevada-Las Vegas. She serves as a board member for the Best Buy PAC and for Girls Incorporated of Greater Atlanta.

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Shari L. Ballard is the President of U.S. Retail. In her role, she is responsible for all domestic Best Buy stores. Ms. Ballard is a seasoned executive with deep retail experience. After graduating with a bachelor's degree from the University of Michigan - Flint, she was hired in 1993 to work in a local Best Buy store, beginning as an assistant store manager and rising to general manager. After a variety of retail leadership roles, she was promoted to executive vice president of human resources and legal in 2004. In 2007, Ms. Ballard assumed responsibility for Best Buy stores in the United States, focusing her energies on deepening customer relationships and better utilizing the full range of talent and resources that reside within the company's stores to drive growth. She was promoted to president of Americas, U.S. and Mexico in 2010, and, two years later, she was appointed president of international, overseeing business and the transformation efforts in Canada, China, Europe, and Mexico. In April 2014, Ms. Ballard assumed the role of president of U.S. retail and a few months later, began a dual role to include Chief Human Resources Officer, a position allowing her to leverage her broad experience, expertise and knowledge of the company and its employees. Ms. Ballard serves on the Board of Directors of the Delhaize Group and the University of Minnesota Foundation.

Mary Lou Kelley is the President of E-commerce, having joined us in 2014. In this role, Ms. Kelley leads the company's overall digital strategy and is charged with advancing Best Buy's global e-commerce vision and retail omni-channel capabilities. She is responsible for all of Best Buy's global e-commerce channels, including bestbuy.com and the company's highly-rated mobile applications. Ms. Kelley has extensive experience in retail e-commerce. Prior to joining Best Buy, she was the Senior Vice President E-commerce from 2010 to 2014 for Chico's FAS where she was responsible for the direct-to-consumer business for its three brands, Chico's, White House Black Market and Soma Intimates. Ms. Kelley has over 25 years experience in retail, e-commerce, marketing, and strategic planning, including nine years with L.L.Bean, Inc., primarily as its Vice President of E-commerce. Prior to L.L.Bean, Ms. Kelley held positions of increasing leadership with McKinsey and Company and Ben & Jerry's Homemade, Inc. Her earlier career experience included stints with Sears and other small multi-channel retailers. Ms. Kelley holds a B.A. in economics from Boston College and an MBA from the Darden Graduate School of Business at the University of Virginia. She serves on the boards of Vera Bradley, the women's handbags and accessories brand, and the Minnesota Orchestra.

R. Michael (Mike) Mohan is the Chief Merchandising Officer. He is responsible for the category management and merchandising functions for Best Buy's U.S. business, their largest market, reporting directly into Hubert Joly, Chairman and CEO. In this capacity, Mr. Mohan uses his 25 years of retail and management experience to build actionable business plans that drive business growth, profitability, market share gains, increased employee and customer satisfaction for Best Buy. Specifically, Mr. Mohan oversees all category strategy, merchandising, purchasing, vendor relations, financial planning and end-of-life product disposition, inclusive of Pacific Kitchen & Bath, Magnolia and Best Buy Mobile operations, both the standalone stores and store-within-a-store formats. He also oversees the global private label product business, and the business sales channel at the company. Mr. Mohan joined Best Buy in February 2004 as vice president of the digital imaging business group, assuming additional responsibilities through his career, covering nearly all product/business categories at Best Buy, becoming an enterprise senior vice president in April 2008, and the president of the home business group in January 2013. He was appointed to chief merchandising officer in January 2014. Before joining Best Buy, Mr. Mohan served as vice president and general merchandise manager for Good Guys, an audio/video specialty retailer with 79 stores in the western United States. He also served in various positions at Future Shop from 1988 through 1997. Mr. Mohan has served as member of the board of industry leaders for the Consumer Electronics Association since October 2013.

Keith J. Nelsen has served as our General Counsel and Secretary since 2011. In this role, he manages our enterprise legal and risk management functions, as well as acts as Secretary to our Board of Directors. Previously, in addition to his current role, he also served as Chief Risk Officer from 2012 to 2013. He was appointed Executive Vice President, General Counsel in May 2011 and Secretary of the Company in June 2011 and served as Senior Vice President, Commercial and International General Counsel from 2008 until his current appointment. Mr. Nelsen joined Best Buy in 2006 as Vice President, Operations and International General Counsel. Prior to joining us, he worked at Danka Business Systems PLC, an office products supplier, from 1997 to 2006 and served in various roles, including chief administration officer and general counsel. Prior to his time at Danka, Mr. Nelsen held the role of vice president, legal from 1995 to 1997 at NordicTrack, Inc., a provider of leisure equipment products. Mr. Nelsen began his career in 1989 as a practicing attorney with Best and Flanagan, LLP, a law firm located in Minneapolis, Minnesota. Mr. Nelsen is a member of the board of directors of NuShoe, Inc., a privately held shoe repair facility in San Diego, California.

Greg Revelle joined us in November 2014 as our Chief Marketing Officer. In this role, Mr. Revelle is responsible for marketing strategy, branding and execution across all consumer touch points both in-store and online. Functional areas include branding, offline and online advertising, customer relationship management, strategy, customer loyalty, enterprise research and analytics and financial services. Prior to joining Best Buy, Mr. Revelle served as Chief Marketing Officer at AutoNation, the largest automotive retailer in the United States from 2012 to 2014. While there, he led a major overhaul of AutoNation's marketing organization and platform, consolidating 15 regional brands into one unified national brand, rebuilding the

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company's online marketing and e-commerce teams, and launching new web and mobile e-commerce platforms. Before that, he was Vice President of worldwide online marketing at Expedia Inc., one of the world's leading online travel companies from 2009 to 2012, and before that held other marketing roles from 2005 to 2009. He also was an investment banker at Credit Suisse from 2000 to 2003.

Mathew R. Watson has served as Best Buy's Vice President, Controller and Chief Accounting Officer since April 2015. Mr. Watson is responsible for our controllership and external reporting functions. Mr. Watson has served in the role of Vice President, Finance - Controller since 2014. Prior to that role, he was Vice President - Finance, Domestic Controller from 2013 to 2014. Mr. Watson was also Senior Director, External Reporting and Corporate Accounting from 2010 to 2013 and Director, External Reporting and Corporate Accounting beginning in 2007. Prior to joining us in 2005, Mr. Watson worked at KPMG, a professional audit, advisory and tax firm, from 1995 to 2005.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Dividends

Our common stock is traded on the New York Stock Exchange under the ticker symbol BBY. In fiscal 2004, our Board initiated the payment of a regular quarterly cash dividend with respect to shares of our common stock. A quarterly cash dividend has been paid in each subsequent quarter. In addition, our Board approved a special dividend that was declared and paid in the first quarter of fiscal 2016. Another special dividend that was announced on February 25, 2016 will be paid in the first quarter of fiscal 2017. Future dividend payments will depend on our earnings, capital requirements, financial condition and other factors considered relevant by our Board. The table below sets forth the high and low sales prices of our common stock as reported on the New York Stock Exchange – Composite Index and the dividends declared and paid during the periods indicated.

	Sales Price				Dividends Declared and Paid	
	Fiscal 2016		Fiscal 2015		Fiscal Year	
	High	Low	High	Low	2016	2015
First Quarter	$42.00	$34.13	$28.20	$22.30	$0.74	$0.17
Second Quarter	37.18	31.68	32.24	24.57	0.23	0.17
Third Quarter	39.10	28.32	35.53	28.80	0.23	0.19
Fourth Quarter	36.51	25.31	40.03	33.17	0.23	0.19

Holders

As of March 21, 2016, there were 2,839 holders of record of our common stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In June 2011, our Board authorized up to $5.0 billion of share repurchases, which became effective on June 21, 2011. There is no expiration date governing the period over which we can repurchase shares under the June 2011 program. At the end of fiscal 2015, $4.0 billion under this program was available for share repurchases. During fiscal 2016, we repurchased and retired 32.8 million shares at a cost of $1 billion. At the end of fiscal 2016, approximately $3.0 billion of the $5.0 billion of share repurchases authorized by our Board in June 2011 was available for future share repurchases.

In January 2016, we entered into an accelerated share repurchase agreement ("ASR") to purchase $150 million to $175 million of our common stock. Under the agreement, we paid $175 million at the beginning of the contract and received an initial delivery of 4.4 million shares on January 25, 2016. The ASR agreement was settled on February 17, 2016 for a final notional amount of $165 million. Accordingly, we received an additional 1.6 million shares and a cash payment from our counterparty of $10 million equal to the difference between the $175 million up-front payment and the final notional amount.

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The following table presents the total number of shares of our common stock that we purchased during the fourth quarter of fiscal 2016, the average price paid per share, the number of shares that we purchased as part of our publicly announced repurchase program and the approximate dollar value of shares that still could have been repurchased at the end of the applicable fiscal period, pursuant to our June 2011 $5.0 billion share repurchase program:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program[1]
Nov. 1, 2015 through Nov. 28, 2015				
Open market	2,377,063	$ 31.67	2,377,063	$ 3,525,000,000
Nov. 29, 2015 through Jan. 2, 2016				
Open market	4,677,222	$ 30.42	4,677,222	$ 3,383,000,000
Jan. 3, 2016 through Jan. 30, 2016				
Open market	9,963,036	$ 27.54	9,963,036	$ 3,109,000,000
January 2016 ASR	4,398,827	$ 27.28	4,398,827	$ 2,989,000,000
Total Fiscal 2016 Fourth Quarter	21,416,148	$ 28.58	21,416,148	$ 2,989,000,000

(1) We have a $5.0 billion share repurchase program that was authorized by our board in June 2011. At the beginning of the fourth quarter of fiscal 2016, there was $3.6 billion available for share repurchases. The "Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program" reflects the $612 million we purchased in the fourth quarter of fiscal 2016 pursuant to such program. There is no expiration date governing the period over which we can repurchase shares under the June 2011 share repurchase program. For additional information, see Note 7, Shareholders' Equity, of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our common stock that may be issued under our equity compensation plans as of January 30, 2016:

Plan Category	Securities to Be Issued Upon Exercise of Outstanding Options and Rights[1] (a)	Weighted Average Exercise Price per Share of Outstanding Options and Rights[2] (b)	Securities Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))[3] (c)
Equity compensation plans approved by security holders	15,703,886	$ 36.51	23,933,241

(1) Includes grants of stock options and market-based restricted stock under our 2004 Omnibus Stock and Incentive Plan, as amended, and our 2014 Omnibus Incentive Plan.

(2) Includes weighted-average exercise price of outstanding stock options only.

(3) Includes 4,343,227 shares of our common stock which have been reserved for issuance under our 2008 and 2003 Employee Stock Purchase Plans.

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Best Buy Stock Comparative Performance Graph

The information contained in this Best Buy Stock Comparative Performance Graph section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

The graph below compares the cumulative total shareholder return on our common stock for the last five fiscal years with the cumulative total return on the Standard & Poor's 500 Index ("S&P 500"), of which we are a component, and the Standard & Poor's Retailing Group Industry Index ("S&P Retailing Group"), of which we are also a component. The S&P Retailing Group is a capitalization-weighted index of domestic equities traded on the NYSE and NASDAQ and includes high-capitalization stocks representing the retail sector of the S&P 500.

The graph assumes an investment of $100 at the close of trading on February 25, 2011, the last trading day of fiscal 2011, in our common stock, the S&P 500 and the S&P Retailing Group.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Best Buy Co., Inc., the S&P 500 and the S&P Retailing Group

	FY11	FY12	FY13	FY14	FY15	FY16
Best Buy Co., Inc.	$100.00	$76.88	$52.95	$79.14	$121.15	$99.87
S&P 500	100.00	105.12	117.67	142.99	163.33	162.25
S&P Retailing Group	100.00	118.24	146.26	185.65	222.83	261.07

*Cumulative total return assumes dividend reinvestment.
Source: Research Data Group, Inc.

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Item 6. Selected Financial Data.

The following table presents our selected financial data. The table should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Five-Year Financial Highlights

$ in millions, except per share amounts

Fiscal Year	12-Month 2016(1)	2015(2)	2014(4)	11-Month 2013(5)(6)	12-Month 2012(5)(7)
Consolidated Statements of Earnings Data					
Revenue	$39,528	$40,339	$40,611	$38,252	$43,426
Operating income	1,375	1,450	1,144	90	2,126
Net earnings (loss) from continuing operations	807	1,246	695	(259)	1,368
Gain (loss) from discontinued operations	90	(11)	(172)	(161)	(1,346)
Net earnings (loss) including noncontrolling interests	897	1,235	523	(420)	22
Net earnings (loss) attributable to Best Buy Co., Inc. shareholders	897	1,233	532	(441)	(1,231)
Per Share Data					
Net earnings (loss) from continuing operations	$2.30	$3.53	$2.00	$(0.76)	$3.67
Net gain (loss) from discontinued operations	0.26	(0.04)	(0.47)	(0.54)	(6.94)
Net earnings (loss)	2.56	3.49	1.53	(1.30)	(3.27)
Cash dividends declared and paid	1.43	0.72	0.68	0.66	0.62
Common stock price:					
High	42.00	40.03	44.66	27.95	33.22
Low	25.31	22.30	13.83	11.20	21.79
Operating Statistics					
Comparable sales gain (decline)(8)	0.5%	0.5%	(1.0)%	(2.7)%	(2.2)%
Gross profit rate	23.3%	22.4%	23.1%	23.6%	24.5%
Selling, general and administrative expenses rate	19.3%	18.8%	20.0%	20.7%	19.5%
Operating income rate	3.5%	3.6%	2.8%	0.2%	4.9%
Year-End Data					
Current ratio(3)(9)	1.4	1.5	1.4	1.1	1.1
Total assets(3)	$13,519	$15,245	$13,990	$16,774	$15,994
Debt, including current portion(3)	1,734	1,613	1,647	2,290	2,201
Total equity	4,378	5,000	3,989	3,715	4,366
Number of stores					
Domestic	1,415	1,448	1,495	1,503	1,447
International	216	283	284	276	264
Total	1,631	1,731	1,779	1,779	1,711
Retail square footage (000s)					
Domestic	41,216	41,716	42,051	42,232	43,785
International	4,543	6,470	6,636	6,613	6,814
Total	45,759	48,186	48,687	48,845	50,599

(1) Included within operating income and net earning (loss) from continuing operations for fiscal 2016 is $201 million ($159 million net of taxes) of restructuring charges from continuing operations recorded in fiscal 2016 related to measures we took to restructure our business. Net earnings (loss) attributable to Best Buy Co., Inc. shareholders for fiscal 2016 includes restructuring charges (net of tax and noncontrolling interest) from continuing operations.

(2) Included within net earnings (loss) from continuing operations and net earnings (loss) attributable to Best Buy Co., Inc. shareholders for fiscal 2015 includes $353 million due to a discrete benefit related to reorganizing certain European legal entities.

(3) For fiscal 2015, 2014, 2013, and 2012 total assets and debt, including current portion are recast to present our retrospective adoption of Accounting Standards Update (ASU) 2015-17 Balance Sheet Classification of Deferred Taxes, ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs, and ASU 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. Refer to Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K for further information about our credit facilities. The current ratio for the related fiscal years was also recast to account for the change in balance sheet classification related to the adoption of these ASUs.

(4) Included within operating income and net earnings (loss) from continuing operations for fiscal 2014 is $149 million ($95 million net of taxes) of restructuring charges from continuing operations recorded in fiscal 2014 related to measures we took to restructure our business. Net earnings (loss) attributable to Best Buy Co., Inc. shareholders for fiscal 2014 includes restructuring charges (net of tax and noncontrolling interest) from continuing operations.

(5) Fiscal 2013 (11-month) included 48 weeks and fiscal 2012 included 53 weeks. All other periods presented included 52 weeks.

(6) Included within our operating income and net earnings (loss) from continuing operations for fiscal 2013 (11-month) is $415 million ($268 million net of taxes) of restructuring charges from continuing operations recorded in fiscal 2013 (11-month) related to measures we took to restructure our business. Also included in net earnings (loss) from continuing operations for fiscal 2013 (11-month) is $614 million (net of taxes) of goodwill impairment charges primarily related to Best Buy Canada. Included in gain (loss) from discontinued operations is $23 million (net of taxes) of restructuring charges primarily related to Best Buy Europe and $207 million (net of taxes) of goodwill impairment charges related to Five Star. Net earnings (loss) attributable to Best Buy Co., Inc. shareholders for fiscal 2013 (11-month) includes restructuring charges (net of tax and noncontrolling interest) from continuing operations and the net of tax goodwill impairment.

(7) Included within our operating income and net earnings (loss) from continuing operations for fiscal 2012 is $48 million ($30 million net of taxes) of restructuring charges from continuing operations recorded in fiscal 2012 related to measures we took to restructure our business. Included in gain (loss) from discontinued operations is $194 million (net of taxes) of restructuring charges recorded in fiscal 2012 related to measures we took to restructure our business. Also included in gain (loss) from discontinued operations for fiscal 2012 is $1.2 billion (net of taxes) of goodwill impairment charges related to Best Buy Europe. Net earnings (loss) attributable to Best Buy Co., Inc. shareholders for fiscal 2012 includes restructuring charges (net of tax and noncontrolling interest) from both continuing and discontinued operations and the net of tax goodwill impairment, and excludes $1.3 billion in noncontrolling interest related to the agreement to buy out Carphone Warehouse Group plc's interest in the profit share-based management fee paid to Best Buy Europe pursuant to the 2007 Best Buy Mobile agreement (which represents earnings attributable to the noncontrolling interest).

(8) 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 portion of the calculation of comparable sales attributable to our International segment excludes the effect of fluctuations in foreign currency exchange rates. The calculation of comparable sales excludes the impact of the extra week of revenue in the fourth quarter of fiscal 2012, as well as revenue from discontinued operations. Comparable online sales are included in our comparable sales calculation. 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.

(9) The current ratio is calculated by dividing total current assets by total current liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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
- Fiscal 2017 Trends
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Estimates
- New Accounting Pronouncements

Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Overview

We are a leading provider of technology products, services and solutions. We offer these products and services to the 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

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comprised of all operations within the U.S. and its districts and territories. The International segment is comprised of all operations outside the U.S. and its territories.

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 Canadian brand consolidation, which includes 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, has a material impact on a year-over-year basis on the remaining Canadian retail stores and the website. As such, all Canadian store and website revenue has been removed from the comparable sales base and the International segment no longer has a comparable metric in fiscal 2016 and the Enterprise comparable sales equals the Domestic segment comparable sales. Enterprise comparable sales for periods presented prior to fiscal 2016 include revenue from our International segment.

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.

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. The impact of foreign currency exchange rate fluctuations is typically calculated as the difference between current period activity translated using the current period's currency exchange rates and the comparable prior-year period's currency exchange rates. We use this method to calculate the impact of changes in foreign currency exchange rates for all countries where the functional currency is not the U.S. dollar.

In our discussions of the operating results below, we sometimes refer to the impact of net new stores on our results of operations. The key factors that dictate the impact that the net new stores have on our operating results include: (i) store opening and closing decisions; (ii) the size and format of new stores, as we operate stores ranging from approximately 1,000 square feet to approximately 50,000 square feet; (iii) the length of time the stores were open during the period; and (iv) the overall success of new store launches.

When assessing our performance in consumer electronics categories against other retailers, we often reference The NPD Group's ("NPD") Weekly Tracking Service for the appropriate period. NPD defines the consumer electronics industry as including televisions, desktop and notebook computers, tablets not including Kindle, digital imaging and other categories. Sales of these products represent approximately 65% of our Domestic segment revenue in fiscal 2016. The data does not include mobile phones, appliances, services, gaming, Apple watch, movies or music.

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 non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net earnings from continuing operations, non-GAAP diluted earnings per share from continuing operations and adjusted debt to earnings before goodwill impairment, interest, income taxes, depreciation, amortization and rent ("EBITDAR") ratio. Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures should be viewed as a supplement to, and not a substitute for, financial measures presented in accordance with GAAP. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies.

We believe that the non-GAAP measures described above provide meaningful supplemental information to assist shareholders in understanding our financial results and assessing our prospects for future performance. Management believes adjusted operating income, adjusted effective tax rate, adjusted net earnings from continuing operations and adjusted diluted earnings per share from continuing operations are important indicators of our operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results and provide a baseline for analyzing trends in our underlying businesses. Management makes standard adjustments for items such as restructuring charges, goodwill impairments, non-restructuring asset impairments and gains or losses on investments, as well as adjustments for other items that may arise during the period and have a meaningful impact on comparability. Refer to the Non-GAAP Financial Measures section below for the detailed reconciliation of items that impacted the non-GAAP measures in the presented periods. Management believes our

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adjusted debt to EBITDAR ratio is an important indicator of our creditworthiness. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These non-GAAP financial measures are an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the reconciliations to corresponding GAAP financial measures within our discussion of consolidated performance below, provide a more complete understanding of our business. 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.

Business Strategy

On a full year basis, fiscal 2016 marked the second year in a row we increased our Domestic segment revenue and expanded our operating margin. We also continued to make significant progress against our Renew Blue strategy. During the year, we continued to gain share in appliances and nearly all of our traditional consumer electronics categories. We grew the Domestic segment online revenue 13% to over $4 billion, or 11% of total Domestic segment revenue in fiscal 2016. We increased our Net Promoter Score ("NPS") by over 300 basis points. We continued to improve our employee engagement scores and decreased employee turnover. We deepened our partnerships with the top tech companies in the world. We delivered $150 million against our $400 million Renew Blue Phase 2 cost reduction and gross profit optimization program. We consolidated brands and embarked on a significant transformation in Canada, including the closure of 68 stores. And finally, in one year, we returned $1.5 billion in cash to our shareholders, including $1 billion in share repurchases, which was originally planned to be completed over three years.

Fiscal 2017 Priorities

Turning to fiscal 2017, we are entering the next phase of our Renew Blue strategy. Our purpose from a customer standpoint is to build a company that does a unique job of helping customers learn about and enjoy the latest technology. As we begin this next phase in fiscal 2017, we will focus on the following priorities: (1) building on our strong industry position and multi-channel capabilities to drive the existing business; (2) driving cost reduction and efficiencies; and (3) advancing key initiatives to drive future growth and differentiation.

Our first priority is to build on our strong industry position and multi-channel capabilities to drive the existing business. More specifically, we plan to implement a number of initiatives across merchandising, marketing, digital, stores, services, and supply chain.

Our second priority for fiscal 2017 is to reduce cost and drive efficiencies throughout the business. Reducing costs is essential for us to be able to fund our investments, build our resilience to product cycles and increase our profitability over time. Furthermore, based on current economic factors and softness in the consumer electronics industry, it is essential that we be proactive on the cost reduction front.

A key element of our approach to achieving this is to simplify our core business processes to simultaneously improve the customer experience and drive costs out. As an example, we have a project focused on reducing the amount of open box appliances we take into our stores by addressing root cause issues. This project has the potential to not only improve the customer experience but also to drive material savings through lower markdowns, lower transportation costs and better use of labor in our stores and distribution centers.

More broadly, we aspire to deliver world-class operational performance, defined in terms of quality, service and cost. This focus has to be a way of life, especially given our margin structure and the volatility of our industry. In fiscal 2016, we announced a specific cost reduction and gross profit optimization program called Renew Blue Phase 2, with a goal of $400 million over three years on top of the $1 billion we eliminated as part of Phase 1 in fiscal 2015.

Against that goal, in fiscal 2016, we achieved $150 million of annualized savings leaving us with $250 million remaining. In light of our increased focus on cost and productivity, we believe there are incremental savings that can be achieved above and beyond our current goal. Partially offsetting these savings, however, will be our expected future investments in the areas of labor expertise, services pricing and key growth initiatives. In fiscal 2016, these investments totaled approximately $100 million and we expect a similar level in fiscal 2017, which again will be funded by our cost savings.

Our third priority is to advance key initiatives to more deeply transform our company in order to drive future growth and differentiation. While there may be short-term pressures, we continue to believe we operate in an opportunity rich environment. The Internet of Things is providing a new technology wave and is making our operating model increasingly relevant to customers.

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We are investing to be the leading technology expert who makes it easy to learn about and confidently enjoy the best technology. In this context, we believe we have ongoing growth opportunities around key product categories, as well as from increasing our share of wallet with existing customers and acquiring new customers within our target segment who are passionate about technology and need help with it. Our Services capabilities and Geek Squad are key building blocks of this strategy. While it is not visible in our services top line results today, we are making progress to bring these opportunities to life.

Over the last two years, we have improved many aspects of our extended service plan and repair operations. We have also had to adjust our pricing of our extended service plans. We are seeing the results of our efforts through substantial increases in NPS, higher total customer interactions and from a financial point of view, the periodic profit sharing payments we earned this year. We are also beginning to see improving attach rates as we enter fiscal 2017.

Building on this foundational work, we will continue our work to improve the customer experience and enhance our service offering and capabilities, in support of our mission to help customers learn about and enjoy the latest technology. While we are energized by the potential of this opportunity, the work necessary to capture it takes time. Thus, fiscal 2017 will be another year of gradual and incremental improvement, with more meaningful results expected in fiscal 2018.

Fiscal 2017 Trends

We believe that the consumer electronics industry will continue to be characterized by product innovation cycles. We are undeterred by this fact - as we believe there will always be technology innovation. Our imperative is, that in these cycles, we continue to deliver superior execution against what is in our control, recognizing that the cycles rarely align at any point in time.

In fiscal 2017, we are focused on continuing to build on our foundation to both drive and capitalize on these technology cycles. In parallel, we are focused on building the key initiatives outlined above that we believe will result in stronger relationships with our customers, provide profitable revenue even during down cycles and continue to create long-term shareholder value.

Over time, as the fruit of these key initiatives materialize, we expect to accelerate our revenue and operating income growth by taking advantage of opportunities provided by ongoing technology innovation and the need customers have for help. In the short-term, we expect to be characterized by our strong cash flow generating capabilities and our intent to regularly return excess free cash flow to shareholders.

From a financial outlook perspective, for fiscal 2017, based on current industry dynamics and how we see the various product cycles playing out in our Domestic segment, we are expecting revenue declines in the first half followed by growth in the back half. We also expect that our strong execution and operational capabilities will allow us to continue to gain market share. In this context we are targeting flat Domestic segment revenue for the full fiscal year due to continued growth in appliances, connected home and home theater in particular, but recognize that it will be challenging without a strong mobile cycle and improvements in the NPD-reported categories overall.

Despite the soft revenue environment, we will target approximately flat operating income, including the lapping of the significant periodic profit sharing benefits from our services plan portfolio that we earned in fiscal 2016. A key element to achieve this will be the delivery of our cost reduction and gross profit optimization initiatives. In addition, we intend to reward our shareholders by being a premium dividend payer and increasing our EPS through ongoing share repurchases.

After three consecutive years of strong cash flow generation under Renew Blue, we believe now is an ideal time to provide a view of our long-term capital allocation strategy. This strategy is based on our strong cash position today and our ongoing confidence in our future cash-flow generation. At the core of this strategy is our intent to first fund our operations and growth investments, including potential acquisitions, and then to return the remaining excess free cash flow to our shareholders, over time, through dividends and share repurchases, while maintaining investment grade credit metrics. This strategy targets the return of excess free cash flow to shareholders through a 35% to 45% non-GAAP dividend payout ratio (defined as dividends divided by non-GAAP net earnings) and regular share repurchases with a minimum annual expectation of offsetting dilution from equity compensation.

In line with this strategy, our fiscal 2017 return of capital plan includes (1) a 22% increase in the regular quarterly dividend to $0.28 per share; (2) the intent to repurchase $1 billion worth of shares over the next two years; and (3) a special dividend of $0.45 per share, or approximately $145 million. This is in addition to the $1.5 billion in cash we returned to shareholders in fiscal 2016.

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Results of Operations

In order to align our fiscal reporting periods and comply with statutory filing requirements in certain foreign jurisdictions, we consolidate the financial results of our Mexico operations, as well as our discontinued China and Europe 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. There were no significant intervening events which would have materially affected our financial condition, results of operations, liquidity or other factors had they been recorded during fiscal 2016.

Discontinued Operations Presentation

The results of mindSHIFT Technologies, Inc. ("mindSHIFT") in our Domestic segment and Best Buy Europe and Five Star in our International segment are presented as discontinued operations in our Consolidated Statements of Earnings. Unless otherwise stated, financial results discussed herein refer to continuing operations.

Domestic Segment Installment Billing Plans

In April 2014, we began to sell installment billing plans offered by mobile carriers to our customers to complement the more traditional two-year plans. While the two types of contracts have broadly similar overall economics, installment billing plans typically generate higher revenues due to higher proceeds for devices and higher cost of sales due to lower device subsidies. As we increase our mix of installment billing plans, there is an associated increase in revenue and cost of goods sold and a decrease in gross profit rate, with gross profit dollars relatively unaffected. This change in plan offer does not impact our International segment.

The following table presents our Domestic and Enterprise comparable sales and the estimated benefit of installment billing for fiscal 2016 and 2015:

	January 30, 2016[1]	January 31, 2015
Domestic		
Comparable sales % gain	0.5 %	1.0 %
Estimated benefit of installment billing	0.6 %	0.5 %
Comparable sales % gain (decline) excluding estimated impact of installment billing	(0.1)%	0.5 %
Enterprise		
Comparable sales % gain	0.5 %	0.5 %
Estimated benefit of installment billing	0.6 %	0.5 %
Comparable sales % gain (decline) excluding estimated impact of installment billing	(0.1)%	— %

(1) 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, has a material impact on a year-over-year basis on the remaining Canadian retail stores and the website. As such, all Canadian store and website revenue has been removed from the comparable sales base and the International segment no longer has a comparable metric in fiscal 2016 and the Enterprise comparable sales equals the Domestic segment comparable sales. Enterprise comparable sales for periods presented prior to fiscal 2016 include revenue from our International segment.

Consolidated Results

Fiscal 2016 Summary

- Fiscal 2016 included net earnings from continuing operations of $0.8 billion, compared to $1.2 billion in fiscal 2015. Net earnings in fiscal 2016 included $201 million of restructuring charges, while fiscal 2015 included a $353 million discrete tax benefit related to reorganizing certain European legal entities. Earnings per diluted share from continuing operations was $2.30 in fiscal 2016, compared to $3.53 in fiscal 2015.
- Revenue was $39.5 billion in fiscal 2016 a decrease of $811 million compared to fiscal 2015. The decrease was driven by the International segment and related to the negative impact of foreign currency exchange fluctuations and the negative impact of Canadian store closures.

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- Our gross profit rate increased by 0.9% of revenue to 23.3% of revenue in fiscal 2016. The increase was primarily due to a periodic profit sharing benefit based on performance of our externally-managed extended service plan portfolio and cathode ray tube and liquid crystal display ("CRT/LCD") related legal settlements received.
- We generated $1.3 billion in operating cash flow in fiscal 2016, compared to $1.9 billion in fiscal 2015, and we ended fiscal 2016 with $3.3 billion of cash, cash equivalents and short-term investments, compared to $3.9 billion at the end of fiscal 2015.
- During fiscal 2016, we made four dividend payments totaling $1.43 per share, or $499 million in the aggregate.

The following table presents selected consolidated financial data for each of the past three fiscal years ($ in millions, except per share amounts):

Consolidated Performance Summary	2016		2015		2014	
Revenue	$39,528		$40,339		$40,611	
Revenue % gain (decline)	(2.0	)%	(0.7	)%	6.2	%
Comparable sales % gain (decline)[(1)]	0.5	%	0.5	%	(1.0	)%
Comparable sales % gain (decline), excluding estimated impact of installment billing[(1)(2)]	(0.1	)%	—	%	(1.0	)%
Restructuring charges - cost of goods sold	$3		$—		$—	
Gross profit	$9,191		$9,047		$9,399	
Gross profit as a % of revenue[(3)]	23.3	%	22.4	%	23.1	%
SG&A	$7,618		$7,592		$8,106	
SG&A as a % of revenue	19.3	%	18.8	%	20.0	%
Restructuring charges	$198		$5		$149	
Operating income	$1,375		$1,450		$1,144	
Operating income as a % of revenue	3.5	%	3.6	%	2.8	%
Net earnings from continuing operations	$807		$1,246		$695	
Gain (loss) from discontinued operations[(4)]	$90		$(13	)	$(163	)
Net earnings attributable to Best Buy Co., Inc. shareholders	$897		$1,233		$532	
Diluted earnings per share from continuing operations	$2.30		$3.53		$2.00	
Diluted earnings per share	$2.56		$3.49		$1.53	

(1) Enterprise comparable sales for fiscal 2015 and fiscal 2014 includes revenue from continuing operations in the the International segment. Excluding the International segment, Enterprise comparable sales for fiscal 2015 and fiscal 2014, excluding the impact of installment billing, would have been 0.5% and (0.4%), respectively, or equal to Domestic comparable sales excluding the impact of installment billing, for the same period.

(2) Represents comparable sales excluding the estimated revenue benefit from installment billing.

(3) 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' correspondi