

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2020

OR

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

For the transition period from _____ to _____

Commission File Number: 1-9595



BEST BUY CO., INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0907483

(I.R.S. Employer Identification No.)

**7601 Penn Avenue South
Richfield, Minnesota**

(Address of principal executive offices)

55423

(Zip Code)

(612) 291-1000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, \$0.10 par value per share	BBY	New York Stock Exchange

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. **Yes No**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). **Yes No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes No**

The registrant had 258,944,852 shares of common stock outstanding as of November 25, 2020.

BEST BUY CO., INC.
FORM 10-Q FOR THE QUARTER ENDED OCTOBER 31, 2020

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
Condensed Consolidated Balance Sheets
\$ in millions, except per share amounts (unaudited)

	October 31, 2020	February 1, 2020	November 2, 2019
Assets			
Current assets			
Cash and cash equivalents	\$ 5,136	\$ 2,229	\$ 1,205
Short-term investments	545	-	-
Receivables, net	1,028	1,149	1,056
Merchandise inventories	7,459	5,174	7,569
Other current assets	383	305	345
Total current assets	14,551	8,857	10,175
Property and equipment, net	2,265	2,328	2,359
Operating lease assets	2,692	2,709	2,751
Goodwill	986	984	982
Other assets	708	713	659
Total assets	\$ 21,202	\$ 15,591	\$ 16,926
Liabilities and equity			
Current liabilities			
Accounts payable	\$ 9,110	\$ 5,288	\$ 7,232
Unredeemed gift card liabilities	278	281	271
Deferred revenue	788	501	445
Accrued compensation and related expenses	446	410	351
Accrued liabilities	968	906	769
Current portion of operating lease liabilities	685	660	644
Current portion of long-term debt	670	14	14
Total current liabilities	12,945	8,060	9,726
Long-term liabilities	798	657	636
Long-term operating lease liabilities	2,117	2,138	2,200
Long-term debt	1,256	1,257	1,239
Contingencies (Note 11)			
Equity			
Preferred stock, \$1.00 par value: Authorized - 400,000 shares; Issued and outstanding - none	-	-	-
Common stock, \$0.10 par value: Authorized - 1.0 billion shares; Issued and outstanding - 258 million, 256 million and 260 million shares, respectively	26	26	26
Additional paid-in capital	133	-	-
Retained earnings	3,659	3,158	2,809
Accumulated other comprehensive income	268	295	290
Total equity	4,086	3,479	3,125
Total liabilities and equity	\$ 21,202	\$ 15,591	\$ 16,926

NOTE: The Consolidated Balance Sheet as of February 1, 2020, has been condensed from the audited consolidated financial statements.

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Earnings*\$ and shares in millions, except per share amounts (unaudited)*

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Revenue	\$ 11,853	\$ 9,764	\$ 30,325	\$ 28,442
Cost of sales	9,058	7,403	23,295	21,629
Gross profit	2,795	2,361	7,030	6,813
Selling, general and administrative expenses	2,123	1,973	5,560	5,730
Restructuring charges	111	(7)	112	41
Operating income	561	395	1,358	1,042
Other income (expense):				
Gain on sale of investments	-	1	-	1
Investment income and other	5	9	19	33
Interest expense	(11)	(16)	(43)	(50)
Earnings before income tax expense	555	389	1,334	1,026
Income tax expense	164	96	352	230
Net earnings	\$ 391	\$ 293	\$ 982	\$ 796
Basic earnings per share	\$ 1.50	\$ 1.11	\$ 3.79	\$ 2.99
Diluted earnings per share	\$ 1.48	\$ 1.10	\$ 3.74	\$ 2.96
Weighted-average common shares outstanding:				
Basic	259.8	263.2	259.3	266.0
Diluted	263.7	265.2	262.5	269.1

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income*\$ in millions (unaudited)*

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net earnings	\$ 391	\$ 293	\$ 982	\$ 796
Foreign currency translation adjustments, net of tax	10	(4)	(25)	(4)
Cash flow hedges	2	-	(2)	-
Comprehensive income	<u>\$ 403</u>	<u>\$ 289</u>	<u>\$ 955</u>	<u>\$ 792</u>

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows

\$ in millions (unaudited)

	Nine Months Ended	
	October 31, 2020	November 2, 2019
Operating activities		
Net earnings	\$ 982	\$ 796
Adjustments to reconcile net earnings to total cash provided by operating activities:		
Depreciation and amortization	628	607
Restructuring charges	112	41
Stock-based compensation	107	109
Deferred income taxes	19	20
Other, net	10	16
Changes in operating assets and liabilities, net of acquired assets and liabilities:		
Receivables	106	(36)
Merchandise inventories	(2,300)	(2,159)
Other assets	(60)	(2)
Accounts payable	3,824	1,984
Income taxes	121	(147)
Other liabilities	358	(292)
Total cash provided by operating activities	<u>3,907</u>	<u>937</u>
Investing activities		
Additions to property and equipment	(534)	(586)
Purchases of investments	(620)	(319)
Acquisitions, net of cash acquired	-	(145)
Sales of investments	-	322
Other, net	1	1
Total cash used in investing activities	<u>(1,153)</u>	<u>(727)</u>
Financing activities		
Repurchase of common stock	(62)	(696)
Issuance of common stock	28	45
Dividends paid	(426)	(398)
Borrowings of debt	1,892	-
Repayments of debt	(1,261)	(11)
Other, net	(1)	-
Total cash provided by (used in) financing activities	<u>170</u>	<u>(1,060)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(8)</u>	<u>(2)</u>
Increase (decrease) in cash, cash equivalents and restricted cash	<u>2,916</u>	<u>(852)</u>
Cash, cash equivalents and restricted cash at beginning of period	<u>2,355</u>	<u>2,184</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 5,271</u>	<u>\$ 1,332</u>

See Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity
\$ and shares in millions, except per share amounts (unaudited)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at August 1, 2020	258	\$ 26	\$ 83	\$ 3,413	\$ 256	\$ 3,778
Net earnings, three months ended October 31, 2020	-	-	-	391	-	391
Other comprehensive income:						
Foreign currency translation adjustments, net of tax	-	-	-	-	10	10
Cash flow hedges	-	-	-	-	2	2
Stock-based compensation	-	-	41	-	-	41
Issuance of common stock	-	-	6	-	-	6
Common stock dividends, \$0.55 per share	-	-	3	(145)	-	(142)
Balances at October 31, 2020	258	\$ 26	\$ 133	\$ 3,659	\$ 268	\$ 4,086
Balances at February 1, 2020	256	\$ 26	\$ -	\$ 3,158	\$ 295	\$ 3,479
Net earnings, nine months ended October 31, 2020	-	-	-	982	-	982
Other comprehensive loss:						
Foreign currency translation adjustments, net of tax	-	-	-	-	(25)	(25)
Cash flow hedges	-	-	-	-	(2)	(2)
Stock-based compensation	-	-	106	-	-	106
Issuance of common stock	3	-	28	-	-	28
Common stock dividends, \$1.65 per share	-	-	7	(433)	-	(426)
Repurchase of common stock	(1)	-	(8)	(48)	-	(56)
Balances at October 31, 2020	258	\$ 26	\$ 133	\$ 3,659	\$ 268	\$ 4,086
Balances at August 3, 2019	265	\$ 26	\$ -	\$ 2,965	\$ 294	\$ 3,285
Net earnings, three months ended November 2, 2019	-	-	-	293	-	293
Other comprehensive loss:						
Foreign currency translation adjustments, net of tax	-	-	-	-	(4)	(4)
Stock-based compensation	-	-	35	-	-	35
Issuance of common stock	-	-	18	-	-	18
Common stock dividends, \$0.50 per share	-	-	2	(133)	-	(131)
Repurchase of common stock	(5)	-	(55)	(316)	-	(371)
Balances at November 2, 2019	260	\$ 26	\$ -	\$ 2,809	\$ 290	\$ 3,125
Balances at February 2, 2019	266	\$ 27	\$ -	\$ 2,985	\$ 294	\$ 3,306
Adoption of ASU 2016-02	-	-	-	(22)	-	(22)
Net earnings, nine months ended November 2, 2019	-	-	-	796	-	796
Other comprehensive loss:						
Foreign currency translation adjustments, net of tax	-	-	-	-	(4)	(4)
Stock-based compensation	-	-	109	-	-	109
Issuance of common stock	4	-	45	-	-	45
Common stock dividends, \$1.50 per share	-	-	6	(404)	-	(398)
Repurchase of common stock	(10)	(1)	(160)	(546)	-	(707)
Balances at November 2, 2019	260	\$ 26	\$ -	\$ 2,809	\$ 290	\$ 3,125

See Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

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

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

Historically, we have generated a large proportion of our revenue and earnings in the fiscal fourth quarter, which includes the majority of the holiday shopping season in the U.S., Canada and Mexico. Due to the seasonal nature of our business, interim results are not necessarily indicative of results for the entire fiscal year. The interim financial statements and the related notes included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020. The first nine months of fiscal 2021 and fiscal 2020 included 39 weeks.

In order to align our fiscal reporting periods and comply with statutory filing requirements, we consolidate the financial results of our Mexico operations on a one-month lag. Our policy is to accelerate recording the effect of events occurring in the lag period that significantly affect our condensed consolidated financial statements. Other than as disclosed in Note 2, *Restructuring Charges*, no such events were identified for the reported periods.

In preparing the accompanying condensed consolidated financial statements, we evaluated the period from October 31, 2020, through the date the financial statements were issued for material subsequent events requiring recognition or disclosure. No such events were identified for the reported periods.

Total Cash, Cash Equivalents and Restricted Cash

The reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the totals shown within the Condensed Consolidated Statements of Cash Flows was as follows (\$ in millions):

	October 31, 2020	February 1, 2020	November 2, 2019
Cash and cash equivalents	\$ 5,136	\$ 2,229	\$ 1,205
Restricted cash included in Other current assets	135	126	127
Total cash, cash equivalents and restricted cash	<u>\$ 5,271</u>	<u>\$ 2,355</u>	<u>\$ 1,332</u>

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

2. Restructuring Charges

Restructuring charges were as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Mexico Exit and Corporate Reorganization ⁽¹⁾	\$ 148	\$ -	\$ 148	\$ -
Fiscal 2020 U.S. Retail Operating Model Changes	(1)	(7)	-	41
Total	<u>\$ 147</u>	<u>\$ (7)</u>	<u>\$ 148</u>	<u>\$ 41</u>

(1) Includes \$36 million related to inventory markdowns recorded in Cost of sales on our Condensed Consolidated Statements of Earnings for the three and nine months ended October 31, 2020.

Mexico Exit and Corporate Reorganization

The novel coronavirus disease (“COVID-19”) has had significant impacts on, for example, the economic conditions of the markets in which we operate, customer shopping behaviors, the role of technology in peoples’ lives and the way we meet these needs. In light of these changes, we have re-examined our Building the New Blue Strategy and adjusted our plans to ensure that our focus and resources are closely aligned with the opportunities we see in front of us. As a result, during the third quarter of fiscal 2021, we made the decision to exit our operations in Mexico later this fiscal year and took other actions within our Domestic segment to more broadly align our corporate organizational structure in support of our strategy.

Charges incurred in our International segment related to our decision to exit our operations in Mexico. We expect to incur additional pre-tax restructuring charges, primarily related to foreign currency translation adjustments, of approximately \$50 million to \$75 million. We expect operations in Mexico to be substantially complete during the fourth quarter of fiscal 2021 or early fiscal 2022.

Charges incurred in our Domestic segment primarily related to termination benefits associated with corporate organizational changes as well as impairments of technology assets held in service of our Mexico operations.

As we continue to evolve our Building the New Blue Strategy, it is possible that we will incur material future restructuring costs in both our Domestic and International segments, but we are unable to forecast the timing and magnitude of such costs.

All charges incurred related to this plan are from continuing operations and are presented on our Condensed Consolidated Statements of Earnings as follows (\$ in millions):

	Statement of Earnings Location	Three and Nine Months Ended October 31, 2020		
		Domestic	International	Total
Inventory markdowns	Cost of sales	\$ -	\$ 36	\$ 36
Asset impairments	Restructuring charges	10	48	58
Termination benefits	Restructuring charges	36	18	54
		<u>\$ 46</u>	<u>\$ 102</u>	<u>\$ 148</u>

As of October 31, 2020, our termination benefits liability was \$47 million, which included \$7 million of cash payments related to our Domestic segment.

Fiscal 2020 U.S. Retail Operating Model Changes

In the second quarter of fiscal 2020, we made changes primarily related to our U.S. retail operating model to increase organization effectiveness and create a more seamless customer experience across all channels. All charges incurred, including \$10 million related to a voluntary early retirement offer, related to termination benefits within our Domestic segment and are presented within Restructuring charges from continuing operations on our Condensed Consolidated Statements of Earnings. As of October 31, 2020, the cumulative amount of charges incurred was \$41 million and no material liability remains.

3. Fair Value Measurements

Fair value measurements are reported in one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in active markets); Level 2 (observable market inputs, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

Recurring Fair Value Measurements

Financial assets and liabilities accounted for at fair value were as follows (\$ in millions):

	Balance Sheet Location ⁽¹⁾	Fair Value Hierarchy	Fair Value at		
			October 31, 2020	February 1, 2020	November 2, 2019
Assets					
Money market funds ⁽²⁾	Cash and cash equivalents	Level 1	\$ 4,119	\$ 524	\$ 21
Commercial paper ⁽²⁾	Cash and cash equivalents	Level 2	-	75	-
Time deposits ⁽³⁾	Cash and cash equivalents	Level 2	84	185	85
Time deposits ⁽³⁾	Short-term investments	Level 2	545	-	-
Money market funds ⁽²⁾	Other current assets	Level 1	29	16	20
Time deposits ⁽³⁾	Other current assets	Level 2	100	101	100
Foreign currency derivative instruments ⁽⁴⁾	Other current assets	Level 2	2	1	-
Interest rate swap derivative instruments ⁽⁴⁾	Other current assets	Level 2	7	-	-
Marketable securities that fund deferred compensation ⁽⁵⁾	Other assets	Level 1	51	48	47
Interest rate swap derivative instruments ⁽⁴⁾	Other assets	Level 2	95	89	70

- (1) Balance sheet location is determined by the length to maturity from the current period-end date.
- (2) Valued at quoted market prices in active markets for same (Level 1) or similar (Level 2) instruments.
- (3) Valued at face value plus accrued interest, which approximates fair value.
- (4) Valued using readily observable market inputs. These instruments are custom, over-the-counter contracts with various bank counterparties that are not traded on an active market. See Note 7, *Derivative Instruments*, for additional information.
- (5) Valued using select mutual fund performance that trade with sufficient frequency and volume to obtain pricing information on an ongoing basis.

Fair Value of Financial Instruments

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

Long-term debt is presented at carrying value on our Condensed Consolidated Balance Sheets. If our long-term debt were recorded at fair value, it would be classified as Level 2 in the fair value hierarchy. Long-term debt balances were as follows (\$ in millions):

	October 31, 2020		February 1, 2020		November 2, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt ⁽¹⁾	\$ 1,954	\$ 1,902	\$ 1,322	\$ 1,239	\$ 1,288	\$ 1,220

(1) Includes the current portion of long-term debt and excludes debt discounts, issuance costs and finance lease obligations.

4. Goodwill and Intangible Assets

Goodwill

Balances related to goodwill were as follows (\$ in millions):

	October 31, 2020		February 1, 2020		November 2, 2019	
	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment
Domestic	\$ 1,053	\$ (67)	\$ 1,051	\$ (67)	\$ 1,049	\$ (67)
International	608	(608)	608	(608)	608	(608)
Total	\$ 1,661	\$ (675)	\$ 1,659	\$ (675)	\$ 1,657	\$ (675)

No impairment charges were recorded during the fiscal periods presented.

Indefinite-Lived Intangible Assets

In the first quarter of fiscal 2021, we made the decision to phase out our Pacific Sales tradename in our U.S. Best Buy stores over the coming years. Consequently, we reclassified the tradename from an indefinite-lived intangible asset to a definite-lived intangible asset and have no indefinite-lived intangible assets remaining as of October 31, 2020. The carrying value of the tradename was \$18 million as of February 1, 2020, and November 2, 2019, respectively, and was recorded within Other assets on our Condensed Consolidated Balance Sheets.

Definite-Lived Intangible Assets

We have definite-lived intangible assets which are recorded within Other assets on our Condensed Consolidated Balance Sheets as follows (\$ in millions):

	October 31, 2020		February 1, 2020		November 2, 2019		Weighted-Average Useful Life Remaining as of October 31, 2020 (in years)
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Customer relationships	\$ 339	\$ 111	\$ 339	\$ 70	\$ 341	\$ 56	6.7
Tradenames	81	20	63	10	63	9	5.1
Developed technology	56	24	56	15	56	11	2.8
Total	\$ 476	\$ 155	\$ 458	\$ 95	\$ 460	\$ 76	6.0

Amortization expense was as follows (\$ in millions):

Statement of Earnings Location	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Amortization expense SG&A	\$ 20	\$ 18	\$ 60	\$ 53

Amortization expense expected to be recognized in future periods is as follows (\$ in millions):

	Amortization Expense
Remainder of fiscal 2021	\$ 20
Fiscal 2022	80
Fiscal 2023	79
Fiscal 2024	54
Fiscal 2025	16
Fiscal 2026	16
Thereafter	56

5. Debt

Short-Term Debt

In light of the uncertainty surrounding the impact of COVID-19 and to maximize liquidity, we executed a short-term draw on the full amount of our \$1.25 billion five year senior unsecured revolving credit facility (the "Facility") on March 19, 2020, which remained outstanding until July 27, 2020, when the Facility was repaid in full. There were no borrowings outstanding under the Facility as of October 31, 2020, February 1, 2020, or November 2, 2019.

Information regarding our short-term debt for the nine months ended October 31, 2020, was as follows (\$ in millions):

	Average Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate
Short-term debt	\$ 595	\$ 1,250	0.9 %

Long-Term Debt

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

	October 31, 2020	February 1, 2020	November 2, 2019
Notes, 5.50%, due March 15, 2021 ("2021 Notes")	\$ 650	\$ 650	\$ 650
Notes, 4.45%, due October 1, 2028 ("2028 Notes")	500	500	500
Notes, 1.95%, due October 1, 2030 ("2030 Notes")	650	-	-
Interest rate swap valuation adjustments	102	89	70
Subtotal	1,902	1,239	1,220
Debt discounts and issuance costs	(13)	(6)	(6)
Finance lease obligations	37	38	39
Total long-term debt	1,926	1,271	1,253
Less current portion	670	14	14
Total long-term debt, less current portion	<u>\$ 1,256</u>	<u>\$ 1,257</u>	<u>\$ 1,239</u>

2030 Notes

In October 2020, we issued the 2030 Notes that bear interest at a fixed rate of 1.95% per year, payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2021. Net proceeds from the issuance were \$642 million after underwriting and issuance discounts totaling \$8 million. The net proceeds will be used to replace our 2021 Notes that mature in March 2021, which we expect to retire during the fourth quarter of fiscal 2021 by exercising our option to redeem the 2021 Notes at par.

We may redeem some or all of the 2030 Notes at any time at a redemption price equal to the greater of (i) 100% of the principal amount, and (ii) the sum of the present values of each remaining scheduled payment of principal and interest discounted to the redemption date on a semiannual basis, plus accrued and unpaid interest on the principal amount to the redemption date as described in the indenture (including the supplemental indenture) relating to the 2030 Notes. Furthermore, if a change of control triggering event occurs, we will be required to offer to purchase the remaining unredeemed 2030 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the purchase date.

The 2030 Notes are unsecured and unsubordinated obligations and rank equally with all of our other unsecured and unsubordinated debt. The 2030 Notes contain covenants that, among other things, limit our ability to incur debt secured by liens or to enter into sale and lease-back transactions.

See Note 3, *Fair Value Measurements*, for the fair value of long-term debt.

6. Revenue

We generate all of our revenue from contracts with customers from the sale of products and services. Contract balances primarily consist of receivables and contract liabilities related to product merchandise not yet delivered to customers, unredeemed gift cards, services not yet completed and options that provide a material right to customers, such as our customer loyalty programs. Contract balances were as follows (\$ in millions):

	October 31, 2020	February 1, 2020	November 2, 2019
Receivables, net ⁽¹⁾	\$ 625	\$ 567	\$ 591
Short-term contract liabilities included in:			
Unredeemed gift card liabilities	278	281	271
Deferred revenue	788	501	445
Accrued liabilities	71	139	145
Long-term contract liabilities included in:			
Long-term liabilities	7	9	9

(1) Receivables are recorded net of allowances for doubtful accounts of \$30 million, \$14 million and \$13 million as of October 31, 2020, February 1, 2020, and November 2, 2019, respectively.

During the first nine months of fiscal 2021 and fiscal 2020, \$792 million and \$762 million of revenue was recognized, respectively, that was included in the contract liabilities at the beginning of the respective periods.

See Note 10, *Segments*, for information on our revenue by reportable segment and product category.

7. Derivative Instruments

We manage our economic and transaction exposure to certain risks by using foreign exchange forward contracts to hedge against the effect of Canadian dollar exchange rate fluctuations on a portion of our net investment in our Canadian operations. We also use interest rate swaps to mitigate the effect of interest rate fluctuations on our 2021 Notes and 2028 Notes. In addition, we use foreign currency forward contracts not designated as hedging instruments to manage the impact of fluctuations in foreign currency exchange rates relative to recognized receivable and payable balances denominated in non-functional currencies.

During the second quarter of fiscal 2021, we entered into Treasury Rate Lock ("T-Lock") contracts to hedge the base interest rate variability on a portion of our then-expected refinancing of our maturing 2021 Notes. The T-Lock contracts were cash settled during the third quarter of fiscal 2021 upon issuance of our 2030 Notes. The fair value of the T-lock contracts upon settlement was released from Accumulated other comprehensive income on our Condensed Consolidated Balance Sheets and will be recorded in Interest expense on our Condensed Consolidated Statements of Earnings as interest is accrued over the life of the 2030 Notes.

Our derivative instruments designated as net investment hedges, interest rate swaps and cash flow hedges are recorded on our Condensed Consolidated Balance Sheets at fair value. See Note 3, *Fair Value Measurements*, for gross fair values of our outstanding derivative instruments and corresponding fair value classifications.

Notional amounts of our derivative instruments were as follows (\$ in millions):

Contract Type	October 31, 2020	February 1, 2020	November 2, 2019
Derivatives designated as net investment hedges	\$ 68	\$ 129	\$ 30
Derivatives designated as interest rate swaps	1,150	1,150	1,150
No hedge designation (foreign exchange contracts)	81	31	62
Total	<u>\$ 1,299</u>	<u>\$ 1,310</u>	<u>\$ 1,242</u>

Effects of our derivatives on our Condensed Consolidated Statements of Earnings were as follows (\$ in millions):

	Statement of Earnings Location	Gain (Loss) Recognized			
		Three Months Ended		Nine Months Ended	
		October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Interest rate swap contracts	Interest expense	\$ (32)	\$ (8)	\$ 13	\$ 45
Adjustments to carrying value of long-term debt	Interest expense	32	8	(13)	(45)
Total		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

8. Earnings per Share

We compute our basic earnings per share based on the weighted-average common shares outstanding and our diluted earnings per share based on the weighted-average common shares outstanding adjusted by the number of additional shares that would have been outstanding had potentially dilutive common shares been issued.

Reconciliations of the numerators and denominators of basic and diluted earnings per share were as follows (\$ and shares in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Numerator				
Net earnings	\$ 391	\$ 293	\$ 982	\$ 796
Denominator				
Weighted-average common shares outstanding	259.8	263.2	259.3	266.0
Dilutive effect of stock compensation plan awards	3.9	2.0	3.2	3.1
Weighted-average common shares outstanding, assuming dilution	263.7	265.2	262.5	269.1
Potential shares which were anti-dilutive and excluded from weighted-average share computations	-	1.1	-	0.9
Basic earnings per share	\$ 1.50	\$ 1.11	\$ 3.79	\$ 2.99
Diluted earnings per share	\$ 1.48	\$ 1.10	\$ 3.74	\$ 2.96

9. Repurchase of Common Stock

On February 23, 2019, our Board of Directors authorized a \$3.0 billion share repurchase program. There is no expiration date governing the period over which we can repurchase shares under the February 2019 authorization. On March 21, 2020, we announced the suspension of all share repurchases to conserve liquidity in light of COVID-19-related uncertainties. We resumed repurchases in the fourth quarter of fiscal 2021.

Information regarding the shares we repurchased was as follows (\$ and shares in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Total cost of shares repurchased	\$ -	\$ 371	\$ 56	\$ 707
Average price per share	\$ -	\$ 67.28	\$ 86.30	\$ 68.56
Number of shares repurchased	-	5.5	0.6	10.3

As of October 31, 2020, \$1.9 billion of the \$3.0 billion share repurchase authorization was available.

10. Segments

Segment and product category revenue information was as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Revenue by reportable segment				
Domestic	\$ 10,850	\$ 8,964	\$ 27,893	\$ 26,266
International	1,003	800	2,432	2,176
Total revenue	\$ 11,853	\$ 9,764	\$ 30,325	\$ 28,442
Revenue by product category				
Domestic:				
Computing and Mobile Phones	\$ 5,059	\$ 4,238	\$ 13,130	\$ 12,006
Consumer Electronics	3,197	2,659	8,090	8,101
Appliances	1,478	1,071	3,703	3,170
Entertainment	509	441	1,430	1,353
Services	578	519	1,461	1,526
Other	29	36	79	110
Total Domestic revenue	\$ 10,850	\$ 8,964	\$ 27,893	\$ 26,266
International:				
Computing and Mobile Phones	\$ 531	\$ 407	\$ 1,211	\$ 1,020
Consumer Electronics	265	229	663	663
Appliances	93	67	243	209
Entertainment	50	37	156	109
Services	51	50	119	138
Other	13	10	40	37
Total International revenue	\$ 1,003	\$ 800	\$ 2,432	\$ 2,176

Operating income (loss) by reportable segment and the reconciliation to consolidated earnings before income tax expense was as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Domestic	\$ 612	\$ 388	\$ 1,377	\$ 1,029
International	(51)	7	(19)	13
Total operating income	561	395	1,358	1,042
Other income (expense):				
Gain on sale of investments	-	1	-	1
Investment income and other	5	9	19	33
Interest expense	(11)	(16)	(43)	(50)
Earnings before income tax expense	\$ 555	\$ 389	\$ 1,334	\$ 1,026

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

	October 31, 2020	February 1, 2020	November 2, 2019
Domestic	\$ 19,525	\$ 14,247	\$ 15,442
International	1,677	1,344	1,484
Total assets	\$ 21,202	\$ 15,591	\$ 16,926

11. Contingencies

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

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

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

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

- Overview
- Business Strategy and COVID-19 Update
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance-Sheet Arrangements and Contractual Obligations
- Significant Accounting Policies and Estimates
- New Accounting Pronouncements
- Safe Harbor Statement Under the Private Securities Litigation Reform Act

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 1, 2020 ("Fiscal 2020 Form 10-K"), the Risk Factors included in the Fiscal 2020 Form 10-K and in this Form 10-Q, as well as our other reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

Overview

Our purpose is to enrich the lives of consumers through technology. 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. The International segment is comprised of all operations in Canada and Mexico.

Our fiscal year ends on the Saturday nearest the end of January. Our business, like that of many retailers, is seasonal. A large 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.

Comparable Sales

Throughout this MD&A, we refer to comparable sales. Comparable sales is a metric used by management to evaluate the performance of our existing stores, websites and call centers by measuring the change in net sales for a particular period over the comparable prior-period of equivalent length. Comparable sales includes revenue from stores, websites and call centers operating for at least 14 full months. Stores closed more than 14 days, including but not limited to relocated, remodeled, expanded and downsized stores, or stores impacted by natural disasters, are excluded from comparable sales until at least 14 full months after reopening. Acquisitions are included in comparable sales beginning with the first full quarter following the first anniversary of the date of the acquisition. Comparable sales also includes credit card revenue, gift card breakage, commercial sales and sales of merchandise to wholesalers and dealers, as applicable. 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). Online sales are included in comparable sales. Online sales represent those initiated on a website or app, regardless of whether customers choose to pick up product in store, curbside, at an alternative pick-up location or take delivery direct to their homes. All periods presented apply this methodology consistently.

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease ("COVID-19") as a pandemic. All stores that were temporarily closed as a result of COVID-19 or operating a curbside-only operating model are included in comparable sales.

On October 1, 2018, we acquired all outstanding shares of GreatCall, Inc. ("GreatCall") and on May 9, 2019, we acquired all outstanding shares of Critical Signal Technologies, Inc. ("CST"). Consistent with our comparable sales policy, the results of GreatCall are included in our comparable sales calculation for the three and nine months ended October 31, 2020, and the results of CST are included in our comparable sales calculation for the three months ended October 31, 2020.

We believe comparable sales is a meaningful supplemental metric for investors to evaluate revenue performance resulting from growth in existing stores, websites and call centers versus the portion resulting from opening new stores or closing existing stores. 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.

Non-GAAP Financial Measures

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

In our discussions of the operating results of our consolidated business and our International segment, we sometimes refer to the impact of changes in foreign currency exchange rates or the impact of foreign currency exchange rate fluctuations, which are references to the differences between the foreign currency exchange rates we use to convert the International segment's operating results from local currencies into U.S. dollars for reporting purposes. We also may use the term "constant currency," which represents results adjusted to exclude foreign currency impacts. We calculate those impacts as the difference between the current period results translated using the current period currency exchange rates and using the comparable prior period currency exchange rates. We believe the disclosure of revenue changes in constant currency provides useful supplementary information to investors in light of significant fluctuations in currency rates.

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

Business Strategy and COVID-19 Update

During the third quarter, our comparable sales grew 23% as we leveraged our unique capabilities, including our supply chain expertise, flexible store operating model and ability to shift quickly to digital, to meet what is clearly elevated demand for products that help customers work, learn, cook, entertain and connect in their homes. We provided customers with multiple options for how, when and where they shopped with us to ensure it satisfied their need for safety and convenience. The current environment has underscored our purpose to enrich lives through technology, and the capabilities we are strengthening now will benefit us going forward as we execute our strategy.

Our better-than-expected sales resulted in significant operating income rate expansion and earnings growth of 33% over the same period last year. Our strong financial performance is allowing us to share our success with the community, our shareholders, and, importantly, our employees. During the quarter, we made a \$40 million donation to the Best Buy Foundation to accelerate the progress towards our goal to reach 100 Teen Tech Centers across the U.S. We believe our Teen Tech Centers help to further our commitments towards economic and social justice in our communities by making a measurable difference in the lives of underserved teens who may not otherwise have access to technology. In addition, we resumed our share repurchase program during the fourth quarter of this fiscal year. For our employees, we reinstated our short-term incentive compensation, paid recognition bonuses to field employees and raised our starting wage to \$15 per hour for all employees. In the early days of the pandemic, we established an employee hardship fund that continues to provide emergency funds to our employees who are sick, have loved ones who are sick or are experiencing financial hardship. In addition, in the fourth quarter of fiscal 2021, we resumed our 401(k) employer match and invested further in our employee well-being benefits.

Throughout the pandemic and across all the ways customers can shop, we have continued to adhere to safety protocols that limit store capacity, follow strict social distancing practices and use proper protective equipment, including requiring our employees and customers to wear masks.

This COVID-19 pandemic and the shift in customer buying behavior underscores the importance of our strong multi-channel capabilities. During the third quarter, our Domestic online revenue grew approximately 174% from last year. We believe it is essential to provide options that let customers choose what works best for them. We provide fulfillment options that customers have come to expect from all retailers like fast and free home delivery and in-store-pickup. We also offer curbside pickup, in-store consultations, and home installation of appliances, TVs, fitness equipment and more. In addition, our digital experiences, such as chatting with an expert or leveraging a digital consultation in your home, remain popular options.

As we look forward, the environment is still evolving, and our operating model and supporting cost structure are evolving as well. The pandemic has accelerated the evolution of retail and compelled us to change our operating model in the best interest of our employees and customers. We have also expedited some planned strategic changes that will allow us to emerge from this time even stronger.

During the quarter, we made the difficult decision to exit our operations in Mexico and took other actions within our Domestic segment to more broadly align our corporate organizational structure in support of our strategy. As a result, we recorded \$102 million of charges in our International segment during the third quarter of fiscal 2021, including \$36 million of inventory markdowns within cost of sales and \$66 million of asset impairments and termination benefits within restructuring charges. We expect to incur additional pre-tax restructuring charges, primarily related to foreign currency translation adjustments, of approximately \$50 million to \$75 million. In fiscal 2020 our Mexico operations generated annual revenue of approximately \$400 million, with an operating loss of approximately \$10 million. We expect operations in Mexico to be substantially complete during the fourth quarter of fiscal 2021 or early fiscal 2022.

We also recorded \$45 million of restructuring charges in our Domestic segment primarily related to termination benefits associated with corporate organizational changes, as well as impairments of technology assets held in service of our Mexico operations.

It is possible that we will incur material future restructuring costs, both in our Domestic and International segments, but we are unable to forecast the timing and magnitude of such costs. Refer to Note 2, *Restructuring Charges*, in the Notes to Condensed Consolidated Financial Statements for additional information.

We believe the following will be permanent and structural implications of the pandemic relevant to Best Buy:

- Customer shopping behavior will be permanently changed in a way that is even more digital and puts customers entirely in control to shop how they want. Our strategy is to embrace that reality, and lead, not follow.
- Our workforce will need to evolve in a way that meets the needs of customers while also providing more flexible opportunities for our people.
- Technology is playing an even more crucial role in people's lives, and, as a result, our purpose to enrich lives through technology has never been more important. Said differently, people are using technology to address their needs in ways they never contemplated before, and we play a vital role in bringing tech to life for both customers and our vendor partners.

These implications are extensive and interdependent and have been considered as we have made decisions throughout the course of the pandemic and will help shape our strategy for our future store design, our operating models and our digital investments.

From the very start of the pandemic, we have been focused on guiding the business with two goals in mind: first, ensuring the health and safety of our customers and employees while protecting the employee experience as much as possible; and second, making certain we come out of this a strong, innovative company. Clearly, we are still operating in a dynamic environment, and much uncertainty remains around future outbreaks, government stimulus efforts and the economic impacts of sustained high unemployment levels and ongoing shut-downs that vary by industry. In addition, we continue to navigate the impacts of inventory constraints, natural disasters and civil unrest. We are cognizant of all of these factors. At the same time we are encouraged by our clarity of purpose and our momentum, which has guided and will continue to guide our operating model changes and investments. Our purpose to enrich lives through technology is more relevant than it has ever been, and we are confident

regarding our execution, adaptability and the opportunities ahead. We will continue to invest in those capabilities that focus on the customer experience over the long term – and that are designed to provide choice, speed and now safety.

Results of Operations

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

Consolidated Performance Summary

Selected consolidated financial data was as follows (\$ in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Revenue	\$ 11,853	\$ 9,764	\$ 30,325	\$ 28,442
Revenue % change	21.4 %	1.8 %	6.6 %	1.3 %
Comparable sales % change	23.0 %	1.7 %	8.1 %	1.5 %
Gross profit	\$ 2,795	\$ 2,361	\$ 7,030	\$ 6,813
Gross profit as a % of revenue ⁽¹⁾	23.6 %	24.2 %	23.2 %	24.0 %
SG&A	\$ 2,123	\$ 1,973	\$ 5,560	\$ 5,730
SG&A as a % of revenue ⁽¹⁾	17.9 %	20.2 %	18.3 %	20.1 %
Restructuring charges	\$ 111	\$ (7)	\$ 112	\$ 41
Operating income	\$ 561	\$ 395	\$ 1,358	\$ 1,042
Operating income as a % of revenue	4.7 %	4.0 %	4.5 %	3.7 %
Net earnings	\$ 391	\$ 293	\$ 982	\$ 796
Diluted earnings per share	\$ 1.48	\$ 1.10	\$ 3.74	\$ 2.96

(1) Because retailers vary in how they record costs of operating their supply chain between cost of sales and SG&A, our gross profit rate and SG&A rate may not be comparable to other retailers' corresponding rates. For additional information regarding costs classified in cost of sales and SG&A, refer to Note 1, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020.

In the third quarter and first nine months of fiscal 2021, we generated \$11.9 billion and \$30.3 billion in revenue and our comparable sales increased 23.0% and 8.1%, respectively. The impact of the pandemic continued to drive strong customer demand for products to help them work, learn, cook, entertain and connect in their homes. Our strong sales performance resulted in operating income rate expansion of 70 basis points and 80 basis points during the third quarter and first nine months of fiscal 2021, respectively, compared to prior year periods, allowing us to share our success with employees, the community and our shareholders. During the third quarter of fiscal 2021, we re-instated short-term incentive compensation and made a \$40 million donation to the Best Buy Foundation to accelerate the progress towards our goal to reach 100 Teen Tech Centers across the U.S.

Revenue, gross profit rate, SG&A and operating income rate changes in the third quarter and first nine months of fiscal 2021 were primarily driven by our Domestic segment. For further discussion of each segment's performance, see the *Segment Performance Summary* below.

Income Tax Expense

Income tax expense increased in the third quarter of fiscal 2021 due to an increase in pre-tax earnings. Our effective tax rate ("ETR") increased to 29.6% in the third quarter of fiscal 2021 compared to 24.8% in the third quarter of fiscal 2020, primarily due to an increase in losses for which tax benefits were not recognized.

Income tax expense increased in the first nine months of fiscal 2021 due to an increase in pre-tax earnings and a decrease in the tax benefit from stock-based compensation in the current year period. Our ETR increased to 26.4% in the first nine months of fiscal 2021 compared to 22.5% in the first nine months of fiscal 2020, primarily due to an increase in losses for which tax benefits were not recognized, a decrease in the tax benefit from stock-based compensation and the impact of higher pre-tax earnings.

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

Segment Performance Summary

Domestic

Selected financial data for the Domestic segment was as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Revenue	\$ 10,850	\$ 8,964	\$ 27,893	\$ 26,266
Revenue % change	21.0 %	2.4 %	6.2 %	1.8 %
Comparable sales % change ⁽¹⁾	22.6 %	2.0 %	7.5 %	1.8 %
Gross profit	\$ 2,604	\$ 2,181	\$ 6,509	\$ 6,303
Gross profit as a % of revenue	24.0 %	24.3 %	23.3 %	24.0 %
SG&A	\$ 1,948	\$ 1,800	\$ 5,087	\$ 5,233
SG&A as a % of revenue	18.0 %	20.1 %	18.2 %	19.9 %
Restructuring charges	\$ 44	\$ (7)	\$ 45	\$ 41
Operating income	\$ 612	\$ 388	\$ 1,377	\$ 1,029
Operating income as a % of revenue	5.6 %	4.3 %	4.9 %	3.9 %
Selected Online Revenue Data				
Total online revenue	\$ 3,823	\$ 1,397	\$ 12,014	\$ 4,122
Online revenue as a % of total segment revenue	35.2 %	15.6 %	43.1 %	15.7 %
Comparable online sales growth ⁽¹⁾	173.7 %	15.0 %	191.4 %	15.6 %

(1) Online sales are included in the comparable sales calculation.

The increases in revenue in the third quarter and first nine months of fiscal 2021 were primarily driven by comparable sales growth across most of our product categories, partially offset by the loss of revenue from permanent store closures in the past year. Online revenue of \$3.8 billion and \$12.0 billion in the third quarter and first nine months of fiscal 2021 increased 173.7% and 191.4%, respectively, on a comparable basis, primarily due to higher conversion rates and increased traffic as we continue to see a channel shift in our customer shopping behavior as a result of COVID-19.

Domestic segment stores open at the beginning and end of the third quarters of fiscal 2021 and fiscal 2020, excluding stores that were temporarily closed as a result of COVID-19, were as follows:

	Fiscal 2021			Fiscal 2020				
	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at End of Third Quarter
Best Buy	970	-	(14)	956	995	-	(17)	978
Outlet Centers	14	-	-	14	11	2	-	13
Pacific Sales	21	-	-	21	21	-	-	21
Total	1,005	-	(14)	991	1,027	2	(17)	1,012

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

Domestic segment revenue mix percentages and comparable sales percentage changes by revenue category were as follows:

	Revenue Mix		Comparable Sales	
	Three Months Ended		Three Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Computing and Mobile Phones	47 %	47 %	21.5 %	3.0 %
Consumer Electronics	29 %	30 %	21.1 %	-%
Appliances	14 %	12 %	39.3 %	12.5 %
Entertainment	5 %	5 %	17.5 %	(20.8)%
Services	5 %	6 %	12.7 %	12.9 %
Total	100 %	100 %	22.6 %	2.0 %

Continued strong demand in categories that help our customers work, learn, cook, entertain and connect from home contributed to our Domestic comparable sales changes across most of our categories. Notable comparable sales changes by revenue category were as follows:

- **Computing and Mobile Phones:** The 21.5% comparable sales gain was driven primarily by computing and tablets, partially offset by declines in mobile phones.
- **Consumer Electronics:** The 21.1% comparable sales gain was driven primarily by home theater and digital imaging.
- **Appliances:** The 39.3% comparable sales gain was driven by large and small appliances.
- **Entertainment:** The 17.5% comparable sales gain was driven primarily by gaming, virtual reality and drones, partially offset by declines in movies.
- **Services:** The 12.7% comparable sales gain was primarily due to our warranty and support services.

Our gross profit rate decreased in the third quarter and first nine months of fiscal 2021, primarily driven by higher supply chain costs as a result of the increased mix of online revenue and lower profit sharing revenue from our private label and co-branded credit card arrangement, partially offset by a more favorable promotional environment.

Our SG&A increased in the third quarter of fiscal 2021, primarily due to higher incentive compensation for corporate and field employees of approximately \$75 million, increased variable costs associated with higher sales volume and a \$40 million donation to the Best Buy Foundation. These increases were partially offset by lower store payroll expense, primarily from fewer labor hours as a result of lower store revenue, reduced store operating hours and efficiencies in our labor model. The decrease in labor hours was partially offset by higher hourly wage rates, as we raised our starting wage to \$15 per hour for all employees.

Our SG&A decreased in the first nine months of fiscal 2021, primarily due to lower store payroll expense, lower incentive compensation expense and lower advertising expense. These decreases were partially offset by increases in variable costs associated with higher sales volume and a \$40 million donation to the Best Buy Foundation. The decrease due to lower store payroll expense also included employee retention credits of \$81 million in the first nine months of fiscal 2021 as a result of the Federal Coronavirus Aid, Relief and Economic Security Act. The employee retention credit is a payroll credit for 50% of wages and health benefits paid to employees not providing services due to the COVID-19 pandemic.

Restructuring charges in the third quarter and first nine months of fiscal 2021 primarily related to termination benefits associated with actions taken to more broadly align our corporate organizational structure in support of our strategy. Restructuring charges in the third quarter and first nine months of fiscal 2020 related to termination benefits associated with our fiscal 2020 U.S. retail operating model changes. Refer to Note 2, *Restructuring Charges*, in the Notes to Condensed Consolidated Financial Statements for additional information.

Our operating income rate increased in the third quarter and first nine months of fiscal 2021, primarily driven by increased leverage from higher sales volume on our fixed expenses which resulted in favorable SG&A rates, partially offset by restructuring charges and the decreases in gross profit rates described above. The increase for the first nine months of fiscal 2021 was also driven by lower SG&A as described above.

International

Selected financial data for the International segment was as follows (\$ in millions):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Revenue	\$ 1,003	\$ 800	\$ 2,432	\$ 2,176
Revenue % change	25.4 %	(4.1)%	11.8 %	(4.2)%
Comparable sales % change	27.3 %	(1.9)%	15.1 %	(1.7)%
Gross profit	\$ 191	\$ 180	\$ 521	\$ 510
Gross profit as a % of revenue	19.0 %	22.5 %	21.4 %	23.4 %
SG&A	\$ 175	\$ 173	\$ 473	\$ 497
SG&A as a % of revenue	17.4 %	21.6 %	19.4 %	22.8 %
Restructuring charges	\$ 67	\$ -	\$ 67	\$ -
Operating income (loss)	\$ (51)	\$ 7	\$ (19)	\$ 13
Operating income (loss) as a % of revenue	(5.1)%	0.9 %	(0.8)%	0.6 %

The increases in revenue in the third quarter and first nine months of fiscal 2021 were primarily driven by comparable sales growth across most of our product categories, partially offset by the negative impact of foreign currency exchange rate fluctuations primarily related to our Mexico operations in the third quarter of fiscal 2021 and both our Canadian and Mexico operations in the first nine months of fiscal 2021.

International segment stores open at the beginning and end of the third quarters of fiscal 2021 and fiscal 2020, excluding stores that were temporarily closed as a result of COVID-19, were as follows:

	Fiscal 2021			Fiscal 2020			Total Stores at End of Third Quarter
	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	Total Stores at Beginning of Third Quarter	Stores Opened	Stores Closed	
Canada							
Best Buy	131	-	-	131	132	(1)	131
Best Buy Mobile	40	-	(3)	37	43	-	43
Mexico							
Best Buy	34	-	(3)	31	30	4	34
Best Buy Express	14	-	-	14	9	1	10
Total	219	-	(6)	213	214	(1)	218

International segment revenue mix percentages and comparable sales percentage changes by revenue category were as follows:

	Revenue Mix		Comparable Sales	
	Three Months Ended		Three Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Computing and Mobile Phones	53 %	51 %	35.7 %	(0.3)%
Consumer Electronics	27 %	29 %	13.3 %	1.2 %
Appliances	9 %	8 %	40.1 %	(1.5)%
Entertainment	5 %	5 %	35.6 %	(31.1)%
Services	5 %	6 %	4.3 %	11.5 %
Other	1 %	1 %	22.0 %	(28.2)%
Total	100 %	100 %	27.3 %	(1.9)%

Similar to the Domestic segment, strong demand in categories that help our customers work, learn, cook, entertain and connect from home contributed to our International comparable sales changes across most of our categories. Notable comparable sales changes by revenue category were as follows:

- **Computing and Mobile Phones:** The 35.7% comparable sales gain was driven primarily by computing and tablets.
- **Consumer Electronics:** The 13.3% comparable sales gain was driven primarily by home theater and health and fitness.
- **Appliances:** The 40.1% comparable sales gain was driven by large and small appliances.
- **Entertainment:** The 35.6% comparable sales gain was driven primarily by gaming, virtual reality and drones, partially offset by declines in movies.
- **Services:** The 4.3% comparable sales gain was primarily due to our warranty services.
- **Other:** The 22.0% comparable sales gain was driven primarily by baby products.

Our gross profit rate declined in the third quarter and first nine months of fiscal 2021, primarily due to \$36 million of inventory markdowns associated with our decision to exit our operations in Mexico. During the first nine months of fiscal 2021, our gross profit rate also decreased due to Canada, which was largely driven by a lower mix of higher margin services revenue and higher supply chain costs as a result of the increased mix of online revenue.

Our SG&A increased in the third quarter of fiscal 2021 primarily due to higher incentive compensation in Canada. During the first nine months of fiscal 2021, SG&A decreased primarily due to the favorable impact of foreign currency exchange rates and lower store payroll expense in Canada, similar to our Domestic segment. These decreases were partially offset by higher incentive compensation in Canada.

Restructuring charges in the third quarter and first nine months of fiscal 2021 related to asset impairments and termination benefits associated with our decision to exit our operations in Mexico. Refer to Note 2, *Restructuring Charges*, in the Notes to Condensed Consolidated Financial Statements for additional information.

Our operating loss rate in the third quarter and first nine months of fiscal 2021 was primarily driven by restructuring charges and lower gross profit rates described above, partially offset by favorable SG&A rates driven by increased leverage from higher sales volume on our fixed expenses.

Consolidated Non-GAAP Financial Measures

Reconciliations of operating income, effective tax rate and diluted EPS (GAAP financial measures) to non-GAAP operating income, non-GAAP effective tax rate and non-GAAP diluted EPS (non-GAAP financial measures) were as follows (\$ in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Operating income	\$ 561	\$ 395	\$ 1,358	\$ 1,042
% of revenue	4.7 %	4.0%	4.5 %	3.7 %
Restructuring - inventory markdowns ⁽¹⁾	36	-	36	-
Intangible asset amortization ⁽²⁾	20	18	60	53
Acquisition-related transaction costs ⁽²⁾	-	-	-	3
Restructuring charges ⁽³⁾	111	(7)	112	41
Non-GAAP operating income	\$ 728	\$ 406	\$ 1,566	\$ 1,139
% of revenue	6.1 %	4.2 %	5.2 %	4.0 %
Effective tax rate	29.6 %	24.8 %	26.4 %	22.5 %
Intangible asset amortization ⁽²⁾	(1.5)%	0.1 %	(1.1)%	0.1 %
Restructuring charges ⁽³⁾	(3.2)%	(0.1)%	(0.8)%	-%
Non-GAAP effective tax rate	24.9 %	24.8 %	24.5 %	22.6 %
Diluted EPS	\$ 1.48	\$ 1.10	\$ 3.74	\$ 2.96
Restructuring - inventory markdowns ⁽¹⁾	0.14	-	0.13	-
Intangible asset amortization ⁽²⁾	0.08	0.07	0.23	0.20
Acquisition-related transaction costs ⁽²⁾	-	-	-	0.01
Restructuring charges ⁽³⁾	0.42	(0.03)	0.43	0.15
Income tax impact of non-GAAP adjustments ⁽⁴⁾	(0.06)	(0.01)	(0.10)	(0.09)
Non-GAAP diluted EPS	\$ 2.06	\$ 1.13	\$ 4.43	\$ 3.23

- (1) Represents inventory markdowns recorded within cost of sales associated with the decision to exit operations in Mexico.
- (2) Represents charges associated with acquisitions, including: (1) the non-cash amortization of definite-lived intangible assets, including customer relationships, tradenames and developed technology; and (2) acquisition-related transaction costs primarily comprised of professional fees.
- (3) Represents charges related to asset impairments and termination benefits associated with the decision to exit operations in Mexico and other actions within our Domestic segment to more broadly align our corporate organizational structure in support of our strategy for the periods ended October 31, 2020. Represents charges and subsequent adjustments related to termination benefits associated with U.S. retail operating model changes for the periods ended November 2, 2019.
- (4) The non-GAAP adjustments relate to the U.S. and Mexico. As such, the income tax charge is calculated using the statutory tax rate of 24.5% for all U.S. non-GAAP items for all periods presented. There is no income tax charge for the Mexico non-GAAP items, as there was no tax benefit recognized on these expenses in the calculation of GAAP income tax expense.

Non-GAAP operating income rate increased in the third quarter and first nine months of fiscal 2021, primarily driven by increased leverage from higher sales volume on our fixed expenses, which resulted in favorable SG&A rates, partially offset by decreases in gross profit rates.

Our non-GAAP effective tax rate remained relatively unchanged in the third quarter of fiscal 2021. Our non-GAAP effective tax rate increased in the first nine months of fiscal 2021, primarily due to a decrease in the tax benefit from stock-based compensation and the impact of higher pre-tax earnings.

Non-GAAP diluted EPS increased in the third quarter and first nine months of fiscal 2021, primarily driven by increases in non-GAAP operating income and lower diluted weighted-average common shares outstanding from share repurchases.

Liquidity and Capital Resources

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

Cash, cash equivalents and short-term investments were as follows (\$ in millions):

	October 31, 2020	February 1, 2020	November 2, 2019
Cash and cash equivalents	\$ 5,136	\$ 2,229	\$ 1,205
Short-term investments	545	-	-
Total cash, cash equivalents and short-term investments	\$ 5,681	\$ 2,229	\$ 1,205

The increases in cash, cash equivalents and short-term investments from February 1, 2020, and November 2, 2019, were primarily driven by the increase in operating cash flows, the issuance of our \$650 million principal amount of notes due October 1, 2030 ("2030 Notes"), and a reduction in share repurchases, which were temporarily suspended from March to November of fiscal 2021. These increases were partially offset by increases in capital expenditures and dividends paid.

Cash Flows

Cash flows from total operations were as follows (\$ in millions):

	Nine Months Ended	
	October 31, 2020	November 2, 2019
Total cash provided by (used in):		
Operating activities	\$ 3,907	\$ 937
Investing activities	(1,153)	(727)
Financing activities	170	(1,060)
Effect of exchange rate changes on cash	(8)	(2)
Increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 2,916</u>	<u>\$ (852)</u>

Operating Activities

The increase in cash provided by operating activities in fiscal 2021 was primarily due to working capital improvement. This was primarily due to the timing of inventory purchasing and payments to meet higher demand while higher inventory turnover and supply chain constraints continued to impact inventory levels. Lower income tax payments also contributed to the increase.

Investing Activities

The increase in cash used in investing activities in fiscal 2021 was primarily due to the increase in purchases of short-term investments as a result of our strong cash position, partially offset by acquisitions in the prior year.

Financing Activities

The increase in cash provided by financing activities in fiscal 2021 was primarily due to the issuance of our 2030 Notes and lower share repurchases, which were temporarily suspended from March to November of fiscal 2021.

Sources of Liquidity

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

We have a \$1.25 billion five year senior unsecured revolving credit facility (the "Facility") with a syndicate of banks. In light of the uncertainty surrounding the impact of COVID-19 and to maximize liquidity, we executed a short-term draw on the full amount of the Facility on March 19, 2020, which remained outstanding until July 27, 2020, when the Facility was repaid in full. There were no borrowings outstanding under the Facility as of October 31, 2020, February 1, 2020, or November 2, 2019.

Our credit ratings and outlook as of November 25, 2020, are summarized below. On April 22, 2020, Moody's completed its periodic review and confirmed its current rating of Baa1 and outlook of Stable. Standard & Poor's rating and outlook remained unchanged from the prior year.

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

Credit rating agencies review their ratings periodically, and, therefore, the credit rating assigned to us by each agency may be subject to revision at any time. Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions in the retail and consumer electronics industries, our financial position and changes in our business strategy. If changes in our credit ratings were to occur, they could impact, among other things, interest costs for certain of our credit facilities, our future borrowing costs, access to capital markets, vendor financing terms and future new-store leasing costs.

Restricted Cash

Our liquidity is also affected by restricted cash balances that are pledged as collateral or restricted to use for workers' compensation and general liability insurance claims. Restricted cash, which is included in Other current assets on our Condensed Consolidated Balance Sheets, was \$135 million, \$126 million and \$127 million at October 31, 2020, February 1, 2020, and November 2, 2019, respectively.

Debt and Capital

As of October 31, 2020, we had \$650 million of principal amount of notes due March 15, 2021 ("2021 Notes"), \$500 million of principal amount of notes due October 1, 2028 ("2028 Notes") and \$650 million of our 2030 Notes. During the third quarter of fiscal 2021, we issued our 2030 Notes and cash settled the associated Treasury Rate Lock ("T-Lock") contracts entered into during the second quarter of fiscal 2021 to hedge the base interest rate variability on a portion of our then-expected refinancing of our maturing 2021 Notes. The net proceeds from the 2030 Notes will be used to replace our 2021 Notes that mature in March 2021, which we expect to retire during the fourth quarter of fiscal 2021 by exercising our option to redeem the 2021 Notes at par. Refer to Note 7, *Derivative Instruments*, for further information about our T-Lock contracts, and Note 5, *Debt*, of the Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q, and Note 6, *Debt*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, for further information about our outstanding debt.

Share Repurchases and Dividends

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

On February 23, 2019, our Board authorized a \$3.0 billion share repurchase program. As of October 31, 2020, \$1.9 billion of the \$3.0 billion share repurchase authorization was available. On March 21, 2020, we announced the suspension of all share repurchases to conserve liquidity in light of COVID-19-related uncertainties. We resumed repurchases in the fourth quarter of fiscal 2021.

Share repurchase and dividend activity was as follows (\$ and shares in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Total cost of shares repurchased	\$ -	\$ 371	\$ 56	\$ 707
Average price per share	\$ -	\$ 67.28	\$ 86.30	\$ 68.56
Number of shares repurchased	-	5.5	0.6	10.3
Regular quarterly cash dividends per share	\$ 0.55	\$ 0.50	\$ 1.65	\$ 1.50
Cash dividends declared and paid	\$ 142	\$ 131	\$ 426	\$ 398

Other Financial Measures

Our current ratio, calculated as current assets divided by current liabilities, remained unchanged at 1.1 as of October 31, 2020, and February 1, 2020, and was 1.0 as of November 2, 2019.

Our debt to earnings ratio, calculated as total debt (including current portion) divided by net earnings from continuing operations over the trailing twelve months grew to 1.1 as of October 31, 2020, primarily due to the issuance of our 2030 Notes, compared to 0.8 as of February 1, 2020, and November 2, 2019.

Off-Balance-Sheet Arrangements and Contractual Obligations

Our liquidity is not dependent on the use of off-balance-sheet financing arrangements. Other than the short-term draw on our Facility in the first quarter of fiscal 2021 and subsequent full repayment in the second quarter of fiscal 2021, and the issuance of our 2030 Notes in the third quarter of fiscal 2021, there has been no material change in our contractual obligations other than in the ordinary course of business since the end of fiscal 2020. See our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, for additional information regarding our off-balance-sheet arrangements and contractual obligations.

Significant Accounting Policies and Estimates

We describe our significant accounting policies in Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020. We discuss our critical accounting estimates in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020. There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of fiscal 2020.

New Accounting Pronouncements

We do not expect any recently issued accounting pronouncements to have a material effect on our financial statements.

Safe Harbor Statement Under the Private Securities Litigation Reform Act

Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Quarterly Report on Form 10-Q are forward-looking statements and may be identified by the use of words such as "anticipate," "assume," "believe," "estimate," "expect," "guidance," "intend," "outlook," "plan," "project" and other words and terms of similar meaning. Such statements reflect our current views and estimates with respect to future market conditions, company performance and financial results, operational investments, business prospects, new strategies, the competitive environment and other events. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the potential results discussed in such forward-looking statements. Readers should review Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, and Item 1A, *Risk Factors*, in this Quarterly Report on Form 10-Q for a description of important factors that could cause our actual results to differ materially from those contemplated by the forward-looking statements made in this Quarterly Report on Form 10-Q. Among the factors that could cause actual results and outcomes to differ materially from those contained in such forward-looking statements are the following: the duration and scope of the COVID-19 pandemic and its resurgence and the impact on demand for our products and services, levels of consumer confidence and our supply chain; the effects and duration of steps we have taken and will continue to take in response to the pandemic, including the implementation of our interim and evolving operating model; actions governments, businesses and individuals have taken and will continue to take in response to the pandemic and their impact on economic activity and consumer spending; the pace of recovery when the COVID-19 pandemic subsides; general economic uncertainty in key global markets and worsening of global economic conditions or low levels of economic growth; competition (including from multi-channel retailers, e-commerce business, technology service providers, traditional store-based retailers, vendors and mobile network carriers), our mix of products and services, our expansion strategies, our focus on services as a strategic priority, our reliance on key vendors and mobile network carriers (including product availability), pricing investments and promotional activity, our ability to attract and retain qualified employees, changes in market compensation rates, risks arising from statutory, regulatory and legal developments (including tax statutes and regulations), macroeconomic pressures in the markets in which we operate (including fluctuations in housing prices, energy markets and jobless rates), conditions in the industries and categories in which we operate, failure to effectively manage our costs, our reliance on our information technology systems, our ability to prevent or effectively respond to a privacy or security breach, our ability to effectively manage strategic ventures, alliances or acquisitions, our dependence on cash flows and net earnings generated during the fourth fiscal quarter, susceptibility of our products to technological advancements, product life cycles and launches, changes in consumer preferences, spending and debt, economic or regulatory developments that might affect our ability to provide attractive promotional financing, interruptions and other supply chain issues, catastrophic events, health crises, pandemics, our ability to maintain positive brand perception and recognition, product safety and quality concerns, changes to labor or employment laws or regulations, our ability to effectively manage our real estate portfolio, constraints in the capital markets, changes to our vendor credit terms, changes in our credit ratings, any material disruption in our relationship with or the services of third-party vendors, risks related to our exclusive brand products and risks associated with vendors that source products outside of the U.S., trade restrictions or changes in the costs of imports (including existing or new tariffs or duties and changes in the amount of any such tariffs or duties) and risks arising from our international activities. We caution that the foregoing list of important factors is not complete. Any forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statement that we may make.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As disclosed in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, in addition to the risks inherent in our operations, we are exposed to certain market risks.

Interest Rate Risk

We are exposed to changes in short-term market interest rates and these changes in rates will impact our net interest expense. Refer to Note 1, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, for further information regarding our interest rate swaps.

During the second quarter of fiscal 2021, we entered into Treasury Rate Lock ("T-Lock") contracts to hedge the base interest rate variability on a portion of our then-expected refinancing of our maturing 2021 Notes. The T-Lock contracts were cash settled during the third quarter of fiscal 2021 upon issuance of our 2030 Notes. The fair value of the T-lock contracts upon settlement was released from Accumulated other comprehensive income on our Condensed Consolidated Balance Sheets and will be recorded in Interest expense on our Condensed Consolidated Statements of Earnings as interest is accrued over the life of the 2030 Notes.

As of October 31, 2020, we had \$5.7 billion of cash, cash equivalents and short-term investments and \$1.2 billion of fixed-rate debt that was swapped to floating rate, resulting in a net balance exposed to interest rate changes of \$4.5 billion. As of October 31, 2020, a 50-basis point increase in short-term interest rates would have led to an estimated \$23 million reduction in net interest expense, and conversely a 50-basis point decrease in short-term interest rates would have led to an estimated \$23 million increase in net interest expense.

Foreign Currency Exchange Rate Risk

We have market risk arising from changes in foreign currency exchange rates related to our International segment operations. Refer to Note 1, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, for additional information regarding these instruments.

During the third quarter of fiscal 2021, foreign currency exchange rate fluctuations were primarily driven by the strength of the U.S. dollar compared to the Mexican peso compared to the prior-year period. During the first nine months of fiscal 2021, foreign currency exchange rate fluctuations were primarily driven by the strength of the U.S. dollar compared to the Canadian dollar and Mexican peso compared to the prior-year period. These fluctuations had a negative overall impact on our revenue during these periods as foreign currencies translated into fewer U.S. dollars. We estimate that foreign currency exchange rate fluctuations had a net unfavorable impact of \$11 million and \$67 million on our revenue in the third quarter and first nine months of fiscal 2021, respectively. The impact of foreign exchange rate fluctuations had a net favorable impact of \$11 million on earnings for the third quarter and first nine months of fiscal 2021.

Item 4. Controls and Procedures

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

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at October 31, 2020. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at October 31, 2020, our disclosure controls and procedures were effective.

There were no changes in internal control over financial reporting during the fiscal quarter ended October 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

For information about our legal proceedings, see Note 11, *Contingencies*, of the Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

The global COVID-19 pandemic has had a material impact on our business, financial results and liquidity, and such impact could worsen and last for an unknown period of time.

The COVID-19 pandemic has subjected our business, operations and financial condition to a number of risks, including, but not limited to, those discussed below:

Risks Related to Sales and Customer Demand: At various times during fiscal 2021, the pandemic and the operational changes we have made have resulted in significant reductions in customer visits to, and spending at, our stores. The extent to which the pandemic continues to impact our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict or assess, including the duration of the pandemic; the extent of the impact on global and regional economies and economic activity, including the duration and magnitude of its impact on unemployment rates, consumer discretionary spending and consumer confidence; actions governments, businesses and individuals take in their ongoing response to the pandemic, including the timing and nature of loosening of restrictions imposed in response to the pandemic and its resurgence; and our ability to successfully navigate those impacts. The pandemic has caused some products and services to be in high demand, and we may not be able to meet this demand in all of our categories due to product shortages or decisions by our vendors to allocate products to certain customers due to the circumstances resulting from the pandemic, and our vendors may increase prices, each of which may adversely impact our revenue and profitability. The pandemic has, and may continue to, negatively impact our products and services that historically have been more likely to be purchased in a physical store than online.

Risks Related to Operations: The pandemic has forced us to make a number of operational changes. Although since June 22, 2020, almost all of our stores were open for shopping, we continue to offer a contactless, curbside model for those who prefer to shop that way, and we could be required to return to a curbside-only model or close stores due to the current or future resurgence of the pandemic. Our ability to continue to sell our products and services is highly dependent on our ability to maintain the safety of our customers and those employees who are needed to work at our stores and distribution facilities. The ability of our employees to work may be significantly impacted by individuals contracting or being exposed to COVID-19. While we are following the requirements of governmental authorities and taking preventative and protective measures to prioritize the safety of our customers and employees, these measures may not be successful, and we may be required to temporarily close distribution centers or stores from time to time, halt certain services or take other measures. In addition, disruptions to our vendors' ability or desire to provide products and services to us due to the pandemic, or disruptions to our internal supply chain infrastructure (such as facility closures, governmental orders restricting movement, COVID-19 outbreaks, present and future restrictions or disruptions of transportation, such as reduced availability of air transport, port closures and increased border controls or closures), may materially adversely affect our ability to meet customer demand, other aspects of our operations and our financial results. Further, as our online sales have increased and have become critical to our growth, the risk of any interruption of our IT system capabilities is heightened, as well as the risk that customer demand exceeds the capacity of our online operations, and any such interruption or capacity constraint could result in a deterioration of our ability to process online sales, provide customer service or perform other necessary business functions. Having shifted to remote working arrangements for many employees, we also face a heightened risk of cybersecurity attacks or data security incidents and are more dependent on internet and telecommunications access and capabilities. Also, if we do not respond appropriately to the pandemic, or if customers do not perceive our response to be adequate for a particular region or our company as a whole, we could suffer damage to our reputation and our brand, which could adversely affect our business in the future. Additionally, while we have continued to prioritize the health and safety of our employees and customers as we continue to operate during the pandemic, we face an increased risk of litigation related to our operating environments. Preparing for and responding to the continuing pandemic could divert management's attention from our key strategic priorities, increase costs as we prioritize health and safety matters for our employees and customers, cause us to reduce, delay, alter or abandon initiatives that may otherwise increase our long-term value or otherwise disrupt our business operations.

Risks Related to Profitability: To the extent COVID-19 continues to cause fundamental shifts in the channels in which customers choose to engage us, our profitability and our profitability rate may be adversely impacted. For example, at various times during fiscal 2021, we continued to pay rent for a number of physical stores that were closed and not generating sales (and we may need to do so again in the future), our online mix of products and services generally produces lower gross profit rates than in-store sales, and we offer some products and services that historically are more likely to be purchased in a physical store than online. We also do not offer or have limited digital and online offerings for certain products and services, such as financing and services offerings, which have higher profitability rates. To the extent we are not able to maintain or increase the level of customer traffic in our stores or maintain or enable a more profitable mix of sales in our digital and online channels, our profitability and profitability rates may be materially negatively impacted. In addition, we may experience pressure from lower profit-sharing revenue related to our private label and co-branded credit card arrangement, as the economic ramifications of COVID-19 may lead to higher credit card defaults over time, which would have an adverse effect on our profitability. We have also incurred additional costs due to the operational changes we have made in response to the pandemic, and these costs have adversely impacted our profitability. As a result of disruptions to our supply chain, primarily due to mandatory shutdowns in locations where our products are manufactured, we are experiencing, and may continue to experience, increased costs for shipping and transportation resources. At the same time, we have continued to incur the majority of the costs to operate our stores, including rent and certain employee costs. Beginning August 2, 2020, we implemented a 4% increase in the hourly rate for hourly store employees below the leadership level, and, in addition, employees who were not yet at \$15 per hour had their pay increased to the \$15 per hour starting wage. If we are unable to manage these costs and supply chain disruptions, our profitability may be adversely impacted. Even after the COVID-19 pandemic subsides, we could experience a longer-term impact on our costs, for example, the need for enhanced health and hygiene requirements in one or more regions in attempts to counteract future outbreaks. In the event of decreased store traffic, certain of our stores may not generate revenue sufficient to meet operating expenses, which could adversely affect the value of our owned and leased properties, potentially requiring us to record more significant non-cash impairment charges in future periods.

Risks Related to Our Debt and Global Financing Markets: Although we repaid in full the amounts we had borrowed under our revolving credit facility, we may find it necessary to increase our cash position and our short-term debt in the future in response to further resurgences of COVID-19. In the event we are required to raise capital, our access to and cost of financing will depend on, among other things, global economic conditions, conditions in the global financing markets, the availability of sufficient amounts of financing, our prospects, our credit ratings, and our business and industry outlook. There is no guarantee that debt or equity financings will be available in the future to fund our obligations, or will be available on terms consistent with our expectations.

COVID-19, and the volatile regional and global economic conditions stemming from the pandemic, as well as reactions to future pandemics or resurgences of COVID-19, could also precipitate or aggravate the other risk factors that we identified in our Fiscal 2020 Form 10-K, which in turn could materially adversely affect our business, financial condition, liquidity, results of operations (including revenues and profitability) and/or stock price. Further, COVID-19 may also affect our operating and financial results in a manner that is not presently known to us or that we currently do not consider to present significant risks to our operations.

Item 6. Exhibits

3.1	Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Best Buy Co., Inc. on June 12, 2020)
3.2	Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Best Buy Co., Inc. on June 14, 2018)
4.1	Fourth Supplemental Indenture, dated as of October 1, 2020, to the Indenture, dated as of March 11, 2011, between Best Buy Co., Inc. and U.S. Bank National Association, as successor trustee (incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by Best Buy Co., Inc. on October 1, 2020)
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002⁽¹⁾
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002⁽¹⁾
101	The following financial information from our Quarterly Report on Form 10-Q for the third quarter of fiscal 2021, filed with the SEC on November 30, 2020, formatted in Inline Extensible Business Reporting Language (“iXBRL”): (i) the Condensed Consolidated Balance Sheets at October 31, 2020, February 1, 2020, and November 2, 2019, (ii) the Condensed Consolidated Statements of Earnings for the three and nine months ended October 31, 2020, and November 2, 2019, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended October 31, 2020, and November 2, 2019, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2020, and November 2, 2019, (v) the Condensed Consolidated Statements of Changes in Shareholders’ Equity for the three and nine months ended October 31, 2020, and November 2, 2019, and (vi) the Notes to Condensed Consolidated Financial Statements.
104	The cover page from our Quarterly Report on Form 10-Q for the third quarter of fiscal 2021, filed with the SEC on November 30, 2020, formatted in iXBRL (included as Exhibit 101).

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BEST BUY CO., INC.
(Registrant)

Date: November 30, 2020

By: /s/ CORIE BARRY
Corie Barry
Chief Executive Officer

Date: November 30, 2020

By: /s/ MATTHEW BILUNAS
Matthew Bilunas
Chief Financial Officer

Date: November 30, 2020

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

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Corie Barry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Best Buy Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 30, 2020

/s/ CORIE BARRY

Corie Barry
Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew Bilunas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Best Buy Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 30, 2020

/s/ MATTHEW BILUNAS

Matthew Bilunas
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chairman and Chief Executive Officer of Best Buy Co., Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 31, 2020 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 30, 2020

/s/ CORIE BARRY

Corie Barry

Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Financial Officer of Best Buy Co., Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 31, 2020 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 30, 2020

/s/ MATTHEW BILUNAS

Matthew Bilunas

Chief Financial Officer