

PALI RESEARCH

December 1, 2008

Best Buy

Strong Thanksgiving Weekend for Retail Doesn't Necessarily Portend Grinchless Holiday for Best Buy

The early numbers have been better than expected across retail. ShopperTrak reported Friday that retail sales were better than expected for Black Friday, up 3% over last year. Last night, we got numbers from the National Retail Federation indicating that the solid showing lasted into the weekend. The NRF reported a 17% increase in the number of shoppers this Thanksgiving weekend over last, with the average shopper spending 7.2% more than last year. However, these results do not change our outlook for Best Buy this holiday season - where we believe we will see double digit declines over last year.

We do not believe that a strong opening weekend in retail means a strong holiday season for retail. We believe that a confluence of factors produced an outsized weekend compared to the rest of the holiday season. For one, there are five fewer shopping days between Thanksgiving and Christmas this year versus last. Next, we believe that shoppers were looking for the deepest possible discounts this year, given the state of the economy. Traditionally that occurs on Black Friday (though we believe this won't be the case this year).

Our store checks showed mixed results for Best Buy's holiday weekend. Some of the stores showed solid traffic, especially on Friday. At a few of the stores we visited, BBY traffic was above plan to the point consumers were put at risk waiting in long line and steep stairways (20 min wait check out lines). However, from what we understand, traffic was still actually down at some of the locations we visited, versus last year. One store employee pointed to the point where the "doorbuster" line was at opening this year. We thought it was impressive until he showed us where the doorbuster line was last year - several stores further away. And, big traffic did not necessarily mean big sales. We noticed several people come into Best Buy over the weekend and walk out without bags. We were also told by one employee on Saturday that in that particular "district" only a few stores had made budget on Friday.

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BBY: Neutral

Price \$20.71

52 Week Range: BBY	\$16.42 - \$53.90
Market Cap. (mm):	\$8,540
Avg. Daily Volume (100 day):	10,315,100
3-Yr. Est. Growth Rate:	0%

	2008A	2009E	2010E
Q1	\$0.39A	\$0.43A	
Q2	\$0.55A	\$0.48A	
Q3	\$0.53A	\$0.28	
Q4	\$1.71A	\$1.16	
FY	\$3.11	\$2.35	\$2.40
P/E	6.7x	8.8x	8.6x

Source: Pali Research Estimates and Company Documents
FQ4 2007 excludes one time gains and charges

Please Read: Important disclosures and analyst's certification appear in Appendix

Competition from WMT and CC was certainly a question going into holiday. We spent time in BBY, CC and WMT stores. We believe that BBY was not hurt by CC and probably gained share. We compared BBY stores versus CC stores (liquidation and non-liquidation). BBY traffic was chaotic versus CC in the same regions. While CC offered deeper values, it seems to hold true that consumers are hesitant to shop a retailer in bankruptcy. In terms of the all important financing, BBY was offering no interest for 18 months above \$499 while CC is offering no interest for only 3 months \$249 up. Not a surprise, as CC is in dire straits and consumers know that, hence the lower traffic and short-term financing.

Still, we believe that WMT traffic handedly beat that at BBY, as the trend to shop discounter deals continues. We have all heard about the Valley Stream NY employee who was killed as bargain hunting vultures broke down the door and trampled the staff. Similar reports from several other WMT and BBY stores in NY continue to highlight the new level of desperation. We also believe that the CE team at WMT was better prepared than BBY for this holiday season. WMT really emphasized smaller gift items such as cameras and video games, which we believe did very well this past weekend.

In the end, it is hard to predict an entire holiday season based on one weekend of data points and some store checks. However, the data and stores we have seen do not change our thesis that 2008 will be a rough holiday season for BBY. We would continue to avoid the stock, even at historically cheap levels.

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I, Brandon Ross, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

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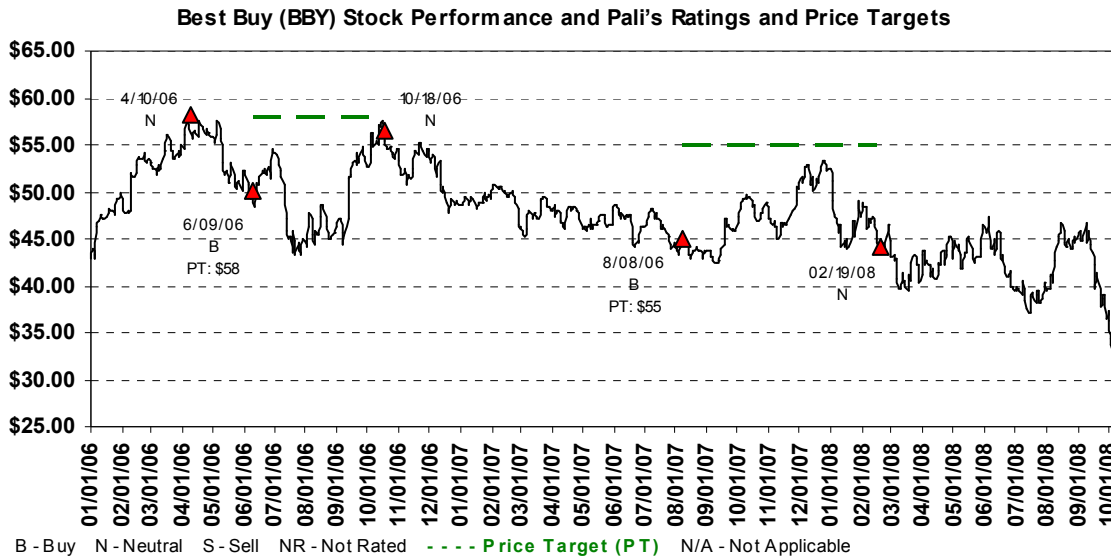
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