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BBY.N - Q4 2024 Best Buy Co Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Best Buy's Fourth Quarter Fiscal 2024 Earnings Conference Call. (Operator Instructions)
This call is being recorded for playback and will be available at approximately 1:00 p.m. Eastern Time today. (Operator Instructions)

I will now turn the conference call over to Mollie O'Brien, Vice President of Investor Relations.

Mollie O'Brien - Best Buy Co., Inc. - VP of IR

Thank you, and good morning, everyone. Joining me on the call today are Corie Barry, our CEO; and Matt Bilunas, our CFO. During the call today, we will be discussing both GAAP and non-GAAP financial measures. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures and an explanation of why these non-GAAP financial measures are useful can be found in this morning's earnings release, which is available on our website, investors.bestbuy.com.

Some of the statements we will make today are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may address the financial condition, business initiatives, growth plans, investments and expected performance of the company and are subject to risks and uncertainties that could cause actual results to differ materially from such forward-looking statements.

Please refer to the company's current earnings release and our most recent 10-K and subsequent 10-Qs for more information on these risks and uncertainties. The company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call.

I will now turn the call over to Corie.

Corie Sue Barry - Best Buy Co., Inc. - CEO & Director

Good morning, everyone, and thank you for joining us. I'm proud of the performance of our teams across the company as they showed resourcefulness, passion and unwavering focus on our customers this past year. Throughout fiscal '24, we demonstrated strong operational execution as we navigated

a pressured CE sales environment. This allowed us to deliver annual profitability at the high end of our original guidance range even though sales came in below our original guidance range. Importantly, we grew our paid membership base and drove customer experience improvements in many areas of our business, particularly in services and delivery.

For Q4 specifically, we are reporting profitability at the high end of our expectations, with revenue near the middle of our guidance range. Our comparable sales declined 4.8% in the quarter. At the same time, we expanded our gross profit rate 50 basis points from last year due to profitability improvements in our membership program as well as Best Buy Health.

Excluding the impact of the extra week, we lowered our SG&A expense compared to last year as we tightly controlled expenses and adjusted our labor expense rate with sales fluctuations. As expected, customers were very deal-focused through the holiday season, and the promotional environment overall was in line with our expectations. While shopping patterns more closely resembled historical holiday periods and Black Friday and Cyber Week performances were in line with our expectations, the sales lull in December was even steeper than we had modeled. Then customer demand strengthened considerably and was higher than we expected during the 4 days before Christmas.

Our Q4 digital sales mix was flat to last year at 38% of total domestic sales. Customer in-store pickup of online orders was also consistent at 44%. We improved our delivery speeds, expanding the percent of ship-to-home online orders delivered in 2 days. We have been very focused on getting our app in the hands of customers. And I'm pleased to say that on Black Friday, it ranked #3 across shopping apps and #4 across all apps on Apple's App Store.

We ended the quarter and year with 7 million members across our 2-tiered My Best Buy paid memberships. Paid members consistently showed higher levels of interaction with comparatively higher levels of spend at Best Buy and a shift of spend away from competitors. From a financial perspective, membership delivered another quarter of higher-than-expected operating income rate contribution. When you include the changes we made to the free tier and the impact of the midyear changes we made to the paid program benefits, our membership program contributed approximately 45 basis points of enterprise year-over-year operating income rate expansion for the full year.

And our Best Buy Health business achieved its operating income contribution target of 10 basis points for the year. In addition, we announced strategic partnerships with Advocate Health, Geisinger Health and Mass General Brigham, and our care at home platform is now being used in 8 of the top 20 health systems in the U.S.

Now I would like to look forward to fiscal '25. We expect this to be a year of increasing industry stabilization. Our strategy is to focus on sharpening our customer experiences and industry positioning while maintaining, if not expanding, our operating income rate on a 52-week basis.

Therefore, our fiscal '25 priorities are as follows: one, invigorate and progress targeted customer experiences; two, drive operational effectiveness and efficiency; three, continue our disciplined approach to capital allocation; and four, explore, pilot and drive incremental revenue streams.

There's a lot to unpack. I'll start with a discussion about the macro environment, the CE industry and our sales expectations. At the highest level, there have been and continue to be macro pressures impacting retail overall and CE more specifically.

First, inflation has been slowing, but prices for the basics like food and lodging are still much higher and consumers have to prioritize and make trade-off spend decisions. Second, there is a consumer propensity to spend on services like concerts and vacations in lieu of goods, which has remained sticky even as the prices there too have inflated.

Third, we have a relatively stagnant housing market. Fourth, CE was a significant recipient of a pull forward of demand during the first 2 years of the pandemic. When consumers need to prioritize the basics that usually does not include the product purchases they recently pulled forward. And lastly, the level of CE product innovation has been lowered during the pandemic and supply chain challenged years.

It's not so much about each of these individually, but when you stack the five, it has been a heavy weight on the industry. On the positive side, experience tells us that these are all cyclical and transient in nature. And while they are ebbing and flowing, we are optimistic that several indicators

will continue to show favorability this year. These include decreasing inflation leading to the lowering of interest rates, continued low unemployment, encouraging trends in consumer confidence and the beginnings of a housing market rebound.

We remain confident that our industry will grow again after 2 years of declines. This is simply a matter of the timing. Our underlying thesis is consistent. First, we believe that much of the growth during the pandemic was incremental, creating a larger installed base of technology products in consumers' homes.

Second, we expect to see the benefit of the natural upgrade and replacement cycles for the tech bot early in the pandemic kick in this year and into the next few years. Third, we are returning to a more normalized pace of meaningful innovation after a pause during the pandemic.

Taking all these factors and considerations into account, we expect fiscal '25 comparable sales to be flat to last year on the high end of our guidance range, down in the first half and up in the second half of the year. The low end of our annual comp sales range is a decline of 3%, reflecting a scenario where the mix of the factors I just discussed results in lower customer demand.

From a category standpoint, we expect sales in our computing category to improve through the year and show growth for the full year as early replacement and upgrade cycles gain momentum and new products featuring even more AI capabilities are released as we move through the year. We are already beginning to see the improvement as year-over-year comparable sales for laptops turned slightly positive in the fourth quarter and are trending positively so far this quarter.

At this point in time, we expect revenue for the rest of our product categories to stabilize through the year and be flattish to slightly down for the full year, partially offset by the continued growth of our services revenue.

Even though overall, we are expecting flattish sales growth for the full year, there are many examples of innovation both already introduced and expected through the year that we believe will drive interest including the Samsung AI-enabled phone we are already seeing materially more demand than we expected, new emerging content for VR/AR devices, Ray-Ban smart glasses, Bose open year headphones, EV universal charging devices and a proliferation of 98-inch screen TVs, to name a few.

Also, the level of exciting and cool new tech at the Consumer Electronics Show in January felt back to normal. Of course, some of that cool new tech hits the market over the following year while some of it is still a few years from consumer launch.

Now I would like to provide more details on some of the key initiatives within each of our fiscal '25 priorities to capitalize on that industry stability. As I mentioned, our first priority is to invigorate and progress targeted customer experiences. Our first initiative is to materially elevate personalization. We are focused on providing increasingly personalized, highly relevant and motivational content for our known identified customers. We can attribute roughly 90% of our annual revenue to known customers.

Let's start with our efforts around our paid membership program. Here, we're creating seamless, tailored experiences for our members based on their unique preferences or context. Our app first member deals experience is a great example of this. Rather than bombarding our members with thousands of great member deals, we focus on the experience on the most relevant offers based on their preferences and observed member data.

Additionally, we're adding personalization across the membership journey, including in-store at POS, where later this year will include props to provide both sales associates and customers with relevant contextual information about their membership like their savings, rewards, protection plans and offers. We will also include personalized dynamic messaging in our communications to members about their upcoming program renewals. These efforts and more will serve to increase membership engagement and continue to improve retention.

As we think about our broader known customer base, we are fortunate to have a tremendous amount of first-party customer data for our advanced analytics capabilities to leverage. While we are elevating personalization across our customer interactions, I'm particularly excited about the work we are doing with our app. We are currently testing a personalization-centric version of the app homepage with the stories and actions that matter most to customers, along with critical content and plan to launch to all customers during the second quarter.

The second initiative is to invest back into our store experience. Our stores are crucial assets that provide customers with differentiated experiences, services and convenient multichannel fulfillment. Customer shopping behavior has evolved in the last 4 years. And this year, we are particularly focused on ensuring we provide the experience that customers expect to have when they take the time to come into our stores.

As a result, our capital investments for fiscal '25 are concentrated more on existing store updates and refreshes and less on major remodels or store openings. We plan to touch every single store in the chain in some fashion, improving both our merchandising and ease of shopping for customers.

This includes improving and livening the merchandising presentation given the shift to digital shopping and corresponding lower need to hold as much inventory on the sales floor. It also includes rightsizing a number of categories to ensure we're leveraging the space in the center of our stores in the most exciting, relevant and efficient way possible. For example, we will be removing physical media and updating our mobile digital imaging, computing, tablets and smart home departments.

We are also excited to partner even more with our vendors this year as it relates to their branded in-store merchandise experiences. The coming innovation, combined with our plan to refresh every store in our fleet, provides much more opportunity for vendor investments in our stores. A few examples I can share at this time include Tesla, LoveSac and Starlink.

Although we still see opportunities for additional large experienced store remodels, we believe we have a better opportunity to improve existing store experiences at scale in fiscal '25. At the same time, we are planning to open a few additional outlet centers and new formats to continue to test 2 important concepts.

First, we will open small locations in a couple of out state markets where we have no prior physical presence and our omnichannel sales penetration is low to measure our ability to capture untapped share. Second, we will test our ability to close a large format store and open a small format store nearby, thereby maximizing physical store retention through convenience. These learnings will collectively continue to help us refine our forward-looking store strategy.

In addition to a great physical experience, we want to ensure our customers receive the expert service interactions they want and Best Buy is known for when they come to our stores. During fiscal '25, we will continue to leverage our multiskilled store associates, but in hundreds of stores we will also add back fully dedicated expertise in key categories like major appliances, home theater and computing.

Our plan is to deploy some of our most skilled sellers against these categories and double down on category-specific training and certifications for these employees. We know that our selling certifications create a better experience for our customers as our certified employees on average drive nearly 15% higher revenue per transaction and garner higher Net Promoter Scores than a noncertified employee.

In fact, the third initiative under our drive targeted customer experiences priority is to make sure we are prepared to bring coming innovation to life for customers in ways no one else can. This means we need to be ready to leverage the unique strengths that make us the best place for customers to see new tech and the best partner for vendors to launch NewTek.

This includes everything from expertly trained associates who can explain the new technology and what it can do for you, the best merchandising presentation both in-store and online, all the way to great trade-in values for customers who use technology. This will be particularly important later this year when more computing products featuring AI are expected to launch.

As a reminder, we hold 1/3 of the retail market share in both the U.S. computing and television industries, roughly 20% in gaming and well over 10% share in other categories like major appliances. We intend to strengthen our position in these key categories through the initiatives I just outlined as well as pointed marketing spend and sharp pricing.

Our second key priority for the year is to drive operational effectiveness and efficiency. We have a longstanding commitment to identifying cost reductions and driving efficiencies to help offset inflationary pressures in our business and fund investment capacity for new and existing initiatives.

Our fiscal '25 initiatives are focused on driving further efficiencies across forward and reverse supply chain, our Geek Squad repair operations and our customer care experience. We will continue to lean heavily on analytics and technology to achieve these efficiencies. This includes leveraging AI safely and effectively.

Let me provide a few specific examples of how we are leveraging it. One, we're using AI to route our in-home delivery and installation trucks to drive more efficient scheduling and a better customer experience. Two, we are leveraging AI to summarize the main points and follow-ups from each of our customer service calls. It also improves the accuracy of the interaction and data collection while reducing average engagement time by almost 5%.

To help us enhance our overall tech development effectiveness we are leveraging gen AI code generation and shared resources for our engineers. We are also establishing a digital and technology hub in Bangalore, India, which will give us expanded, more economical access to talent and skills. The hub will open and begin the process of onboarding team members later this year.

In addition, in fiscal '25, we are taking actions to, one, ensure our resources are directed at the right strategic areas; and two, to rightsize our model based on current operations. These actions will allow us to do the following: balance field labor resources to make sure we are providing the optimal experience for customers where they want to shop, redirect corporate resources to make sure we have the necessary assets dedicated to areas like AI and other elements of our strategy and rightsize parts of the business where we expect to see lower volume than we envisioned a few years ago. Whether that is the result of lower industry sales or due to decisions we made like evolving our paid membership benefits.

While we made these decisions during the fourth quarter, which resulted in a restructuring charge that Matt will discuss later, many of the actions will be implemented through the first half of fiscal '25 and we will provide more details as we move through the year.

Our third key priority for the year is to continue our disciplined approach to capital allocation. This will include striking the appropriate balance of prioritizing areas that best position us for the future while prudently dealing with the near-term uncertainty in the CE industry. There are a few key points that I want to highlight.

First, as it relates to our capital allocation strategy, our overall approach isn't changing. We still plan to first fund operations and investments in areas necessary to grow our business, and next, return excess free cash flow to shareholders through dividends and share repurchases.

Second, while our enterprise capital expenditures for fiscal '25 are planned at a similar level to last year, our Domestic segment capital expenditures are expected to decline by approximately \$50 million due to the store portfolio investment approach I discussed earlier and lower technology-related expense. This is offset by a year-over-year planned increase in CapEx in Canada to reflect investments for new stores and necessary supply chain automation projects.

Third, and consistent with our practice over the past several years, we will continue to tightly manage our working capital. Our teams have done a tremendous job managing our inventory in a very uneven sales environment, keeping inventory aligned with our forward-looking sales projections while, at the same time, maintaining as much flexibility as possible. And lastly, this morning, we announced a 2% increase in our quarterly dividend. This represents the 11th straight year of dividend increases and puts our current dividend yield near 5%.

Our fourth key priority for fiscal '25 is longer term in focus. We will continue to explore opportunities that leverage our scale and capabilities to drive incremental profitable revenue streams over time. The most developed example of this is Best Buy Health, where we are leveraging our expertise and our Geek Squad agents to capitalize on the growing use of technology to help provide health care in the home.

While still very small in relation to our core business, our fiscal '25 Best Buy Health sales are expected to grow faster than the core business, which, combined with cost synergies from fully integrating acquired companies, are expected to drive another 10 basis points of enterprise operating income rate expansion.

Another example is our recently announced collaboration with Bell Canada to operate 165 small-format consumer electronics retail stores across Canada. These stores, previously known as The Source, which was a wholly owned subsidiary of Bell Canada, will be rebranded as Best Buy Express. We will provide the CE assortment as well as supply chain, marketing and e-commerce.

Bell will continue to be the exclusive telecommunication services provider and will also be responsible for the store operating costs and labor components of the partnership. This collaboration will allow us to expand our presence in malls and in smaller and mid-sized communities across Canada. Best Buy Express stores are expected to roll out during the second half of this year.

Other examples of opportunities we are pursuing include continuing to build out our business case for Geek Squad as a service and adding vendors to our supply chain partner plus program.

Before I close and turn the call over to Matt, I wanted to touch on a few of the ways we are being recognized for the support we provide to our employees and communities. From an employee standpoint, I'm proud to share that we continue to maintain industry low turnover rates and our fiscal '24 employee turnover was down on a year-over-year basis.

To that end, this is our second year as the #1 retailer on the Just Capital List, which evaluates and ranks the largest publicly traded companies in the U.S., in part on how a company invests in its workforce. This year will also mark the fifth anniversary of our caregiver pay benefit. During that time, we've supported 22,000 employees with almost 3 million hours of time away, so they could care for those who matter most.

We continue to be credited as a leader in sustainability. In Q4, for the 13th year, we were named to the annual Dow Jones Sustainability North America Index. We were also just named for the seventh consecutive year, to the CDP's prestigious Climate A List, which looks at how organizations demonstrate best practices associated with environmental leadership.

In summary, we are focused and energized about delivering on our purpose to Enrich Lives through Technology in a vibrant, always changing industry. We don't assort tech products just for the sake of technology. We see technology and service of humans. And as the largest CE specialty retailer with our unique range of product assortment and expert services, we deliver that human experience to millions of customers.

I want to reiterate our fiscal '25 strategy in what we expect to be a year of increasing industry stabilization we are focused on sharpening our customer experiences and industry positioning while maintaining, if not expanding our operating income rate on a 52-week basis. We are putting ourselves in the best position for fiscal '25 and beyond. As our industry returns to growth, we expect to grow our sales and expand our operating income rate.

I will now turn the call over to Matt for more details on Q4 financial performance and our outlook.

Matthew M. Bilunas - *Best Buy Co., Inc. - Senior Executive VP & Enterprise Strategy & CFO*

Good morning, everyone. Before getting into our quarterly results, let me start by sharing a few details on the extra week that occurred in the fourth quarter. We estimate that the extra week added approximately \$735 million in enterprise revenue and approximately \$0.30 in non-GAAP diluted earnings per share to the quarter. Also as a reminder, revenue from the extra week is excluded from our comparable sales calculation.

Next, I will share details on the fourth quarter results including the extra week. Enterprise revenue of \$14.6 billion declined 4.8% on a comparable basis. Our non-GAAP operating income rate of 5% improved 20 basis points compared to last year and included a 50 basis point improvement in our gross profit rate.

Non-GAAP SG&A dollars were \$30 million higher than last year and increased approximately 30 basis points as a percentage of revenue. Compared to last year, our non-GAAP diluted earnings per share increased 4% to \$2.72.

When viewing our performance compared to our expectations, revenue was near the midpoint of our guidance. As Corie mentioned, our comparable sales trends were not linear, with the more traditional holiday shopping days being our strongest from a growth perspective. Our comparable sales by month were November, down 5%; December, down 2%; and January, down 12%.

Although our sales were near the midpoint of our guidance, our non-GAAP operating income rate of 5% was at the high end. Our gross profit rate was higher than we expected, primarily driven by a more favorable gross profit rate in our services category, which includes our membership offerings. Our non-GAAP SG&A expense was near the high end of our expectations due to additional incentive compensation.

Next, I will walk through the details of our fourth quarter results compared to last year. In our Domestic segment, revenue decreased 0.9% to \$13.4 billion, driven by a comparable sales decline of 5.1% and was partially offset by approximately \$675 million in revenue from the extra week. From a category standpoint, the largest contributors to comparable sales decline in the quarter were home theater, appliances, mobile phones and tablets, which were partially offset by growth in gaming.

From organic's perspective, the overall blended average selling price of our products was slightly higher than last year. The growth was primarily due to an increased mix of units coming from higher ticket items such as notebooks and TVs, even though the individual ASPs for both of those categories were down year-over-year.

International revenue of \$1.2 billion increased 2.7%, primarily driven by approximately \$60 million of revenue from the extra week, which was partially offset by a comparable sales decline of 1.4%. Our domestic gross profit rate increased 60 basis points to 20.4%. The higher gross profit rate was primarily driven by improvements from our membership offerings, which included a higher gross profit rate in our services category.

In addition, the higher gross profit rate from our Best Buy Health initiatives also contributed to the improved rate. The previous items were partially offset by lower product margin rates.

Consistent with the third quarter, approximately \$20 million of vendor funding qualified to be recognized as an offset to SG&A, which was a reduction to cost of sales last year. We anticipate a similar recognition of this funding in the first half of fiscal '25 or approximately \$20 million a quarter.

Moving to SG&A. Our Domestic non-GAAP SG&A increased \$17 million, which was primarily driven by the extra week and higher incentive compensation, which were partially offset by lower store payroll costs and reduced advertising expense. Our International non-GAAP SG&A increased \$13 million, which was primarily driven by higher incentive compensation and the extra week.

In the fourth quarter, as Corie alluded to, we incurred \$169 million in restructuring costs. The related actions span multiple areas across our organization and include approximately \$65 million for actions that won't be implemented until fiscal '26.

Moving to the balance sheet. We ended the year with \$1.4 billion in cash. Our year-end inventory balance was approximately 4% lower than last year's comparable period, and we continue to feel good about our overall inventory position as well as the health of our inventory.

During fiscal '24, our total capital expenditures were \$795 million versus \$930 million in fiscal '23. The largest drivers of the year-over-year decline was a reduction in store-related investments. We also returned \$1.1 billion to shareholders through dividends and share repurchases.

Moving on to our full year fiscal '25 financial guidance, which is the following: Enterprise revenue in the range of \$41.3 billion to \$42.6 billion; Enterprise comparable sales of down 3% to flat; Enterprise non-GAAP operating income rate in the range of 3.9% to 4.1%, which compares to an estimated 4% non-GAAP operating income rate for fiscal '24 on a 52-week basis; a non-GAAP effective income tax rate of approximately 25%; non-GAAP diluted earnings per share of \$5.75 to \$6.20.

In addition, we expect capital expenditures of approximately \$750 million to \$800 million. And lastly, we expect to spend approximately \$350 million on share repurchases, which is similar to our fiscal '24 spend.

Next, I will cover some of the key working assumptions that support our guidance. As our ongoing practice, we will continue to close existing traditional stores during our rigorous review of stores as their leases come up for renewal. In fiscal '24, we closed 24 stores. And in fiscal '25, we expect to close 10 to 15 stores.

Earlier, Corie provided context on our fiscal '25 top line assumptions. Let me spend more time on the profitability outlook. We expect to drive gross profit rate expansion of 20 to 30 basis points compared to fiscal '24 due to the following actions and initiatives.

First, continued profitability improvements of our services and membership offerings is expected to provide approximately 45 basis points of gross profit rate expansion. The achievement of this improvement essentially recoups the original investment of our previous Total Tech offering that was scaled nationally in October of 2021.

The expected rate improvement is due to higher revenue from installation and delivery services, which were previously included benefits of paid membership and a lower cost to serve due to lower expected volume for in-home installation and other related services. The unit volume of these services is still expected to be above pre-pandemic levels but below the elevated levels we experienced when Total Tech members receive them as a benefit at no incremental cost. We also expect Best Buy Health to add a benefit of approximately 10 basis points to our enterprise profit -- gross profit rate on a year-over-year basis.

Partially offsetting the previous items is approximately 20 basis points expected pressure from a lower profit share on a credit card arrangement. In fiscal '24, our profit share was approximately 1.4% of domestic revenue, consistent with fiscal '23. The expected pressure in fiscal '25 is primarily due to expected increases in net credit losses. This estimate does not include implications from any proposed changes to late fee regulation. We also expect that our product margin rates will experience slight pressure.

Now moving to our SG&A expectations. The high end of our guidance assumes SG&A dollars are similar to fiscal '24, which includes the following puts and takes. We expect higher incentive compensation as we reset our performance targets for the new year with the high end of our guidance assuming an increase of \$40 million compared to fiscal '24. We expect advertising expense to increase by approximately \$50 million.

Partially offsetting previous items is the benefit of 1 less week, which is estimated at approximately \$90 million. Store payroll expense is expected to be approximately flat to fiscal '24 as a percentage of sales. Lastly, the low end of our guidance reflects our plans to further reduce our variable expenses to align with sales trends.

Before I close, let me share a couple of comments specific to the first quarter. We anticipate that our first quarter comparable sales will decline approximately 5%, which aligns with our estimated February performance. We expect our non-GAAP operating income rate to be approximately flat to fiscal '24 first quarter rate of 3.4%.

We expect our gross profit rate to improve compared to last year, in line with the 20 to 30 basis point improvement we are expecting for the full year. SG&A dollars are expected to decline as a percentage in the low single-digit range with the decrease primarily due to lower store payroll expense.

I will now turn the call over to operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question is from the line of Scot Ciccarelli with Truist Securities.

Scot Ciccarelli - *Truist Securities, Inc., Research Division - MD*

This is probably difficult to answer but I'd be interested in any color you might have. When you kind of look at the comp performance and the comp decline, how would you segment it between, let's call it, broader pressures on discretionary spending versus, let's call it, the pull forward of demand that happened during the pandemic? Because we're kind of getting into that kind of 4-year period since the pandemic. Typical life cycle of a lot of your products is 3 to 5 years. Just how are you guys kind of thinking about that? Or is it at all possible to segment that?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I wish there was an exact science to this one. That being said, we did try to give you in the prepared remarks a few indicators that we're seeing that say we might be starting to get into that replacement cycle. We talked specifically about laptop units returning to growth in Q4 and that trend continuing here as we head into Q1. That, to me, feels like an early indicator of at least some foray into that replacement cycle.

Because honestly, really, right now, there isn't any massive current innovation that would spur you to go buy a new laptop. There's a little bit but we're expecting more as the year goes on. And then obviously, that -- the laptop category would be kind of earlier in the realm of replacement cycles that we've talked about.

So I think you're starting to see some goodness there, Scot, which makes me think a little bit more of the overhang that we're seeing is that kind of combo batter of 5 macro factors that I talked about that continue to weigh on the industry and haven't abated nearly to the pace that I think anyone thought from a macro perspective.

Scot Ciccarelli - *Truist Securities, Inc., Research Division - MD*

That's helpful, Corie. And then one other quick one. Like, you guys talked a bit earlier in the script on personalization. I guess the question is for your kind of category, do you get enough frequency in terms of customer visits to really be able to little leverage that data and the personalization that you're targeting?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I think what's important is to differentiate purchase frequency from the frequency of interacting with the brand. And we have the luxury because we do know -- like I said, 90% of our purchasing customers we can identify, we can actually see many behaviors. And people don't just come to us because they want to make a purchase.

There's a lot of research done in the category. There are repairs done in the category. There are curiosity about upgrades done in the category. And so we do see enough frequency of visits and our ability to understand how the consumer is acting that do allow us to make those personalizations.

And that's why one of the things that we mentioned and why we try to get really specific examples is in the app, having that personalized front page means we're not just targeting you for what you might purchase next. We're literally trying to figure out your next best action, and that action might just be discovery.

You might just want to come and scroll through and take a look at what's new or what's coming and educate yourself. And we will gladly help you do that. And so I think the next realm of personalization -- I think personalization often gets lumped in with purchase. And it's for us, in particular, because we really deal with the full life cycle of how people use these products, it's a lot broader than that.

Operator

Your next question is from the line of Brian Nagel with Oppenheimer.

Brian William Nagel - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

So I want to start, Corie, bigger picture. You mentioned in your prepared comments, I know we've been talking a while about this AI. We talked about some of the products and then how Best Buy's utilizing AI in its own business model. The question I have is as you're talking now to your vendor partners, maybe going back to CES or before, how much excitement is starting to really build around AI as -- in terms of products that we could see in the relative near term for Best Buy, from a consumer base standpoint?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes. I will give you my very best qualitative answer here. I think if you followed what happened at the Consumer Electronics Show in January at all, it was, I would argue, the largest foray into how AI will impact our world going forward from here, particularly as it relates to consumer electronics.

And I think in the coming year, there's enough noise out there that you can get this feel that you're going to start to see the computing side of this really start to take light and make it easier and more seamless for everyone to be able to use tools that will help them be more efficient and effective.

But the horizon question, and that's how I like to think about it, I like to think about it as the kind of innovation horizon, I think, is really vibrant right now in terms of what AI technology might be able to do. Because it's not just compute. It gets into like how smart can I make the things around me.

And one of the other things that's really interesting about AI is it actually makes consumer electronics products more human. And so there's this question of how do I make these CE products interact with me more seamlessly?

How are the robots that are in my house even smarter because they can triangulate faster and they just get smarter on their own? So my little robot vacuum gets smarter every single time that I use it, right?

And so these aren't just innovations in the compute side of things. You're starting to see it in the phone side of things. You're starting to see it and how far can we kind of push the envelope on what consumer electronics can do for you in your home to just make your home life more seamless.

So I'm not saying it's going to be a revolution overnight, Brian, to be clear. But I do definitely see more excitement and kind of this unlock in how technology can fit even more seamlessly into your life.

Brian William Nagel - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

That's very, very helpful. I appreciate that. And then just a follow-up, unrelated. With regard to the (technical difficulty) normalization within the CE category, you talked about through the holiday promotions being, I guess, normal. But the question I have is, are you seeing more nonspecific CE retailers come back to the category now as the overall consumer backdrop normalizes post pandemic?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I wouldn't say there's more. I mean, I think when we were headed into holiday, we said this is typically a category that is promotional. It's typically a category that many different partners play in for the holiday because whether or not it blew the doors off, it is always a category that people look for as it relates to holiday. And so I think you always see some players come in and out of the space as it relates to gifting and CE as a gift. And I -- my personal point of view, didn't see more than we would have expected this holiday than any other.

Obviously, we're always watching the competitive landscape. But I think that's why we're really focused in the coming year on our unique positioning in the CE landscape and the both pre-purchase and then post-purchase offerings that we have that are pretty unique in the marketplace, no matter who enters it.

Operator

Your next question is from the line of Michael Lasser with UBS.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

It's on market share trends. Best Buy has always been very dynamic with its strategy. It's one of the factors that has led to its success that it's been able to change with the market, but it does seem like in the last several years the pace of change with the strategy has increased significantly, whether it comes to membership, store format, the composition of store associates. How do you think this is having an impact on Best Buy's market share especially in light of the fact that if we look at Best Buy sales in the Domestic segment for this year, it's likely that the company is going to be on pace to have sales that are about \$2 billion below where they were in 2019.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes. So let me start a little near term and then I'll work my way back to a little bit longer term. You're right, there have been a number of strategic pivots in the model. And to be clear, this is in service of bolstering our position in the market. That is why we are making the changes that we are, and it's also in service of a changing consumer who expects a different experience. So we've said it many times, Michael, and I know you're familiar. There isn't a great single source of share here for consumer electronics because nobody covers all the categories that we do.

But for the Circana track categories, which represent about 70% of our revenue, we held share in Q4 and for the full year, year-over-year. With the same caveats as I think about the last several years, and this is one we have to try to analyze multiple sources over a longer-term period. We believe we've actually largely held share in the key categories since the beginning of the pandemic.

Like I said, it is a difficult science because there are so many different sources. But you can imagine, as you started with the question, strategically, we are incredibly focused on those real key categories that are important and underline our strategy to really kind of own that home experience and that CE experience end-to-end for our consumers.

So we are tracking this carefully, and I can promise you that the changes to the model are not for the fun of it. The changes are definitely in service of different customer expectations and our commitment to hold position in this industry.

Michael Lasser - *UBS Investment Bank, Research Division - MD and Equity Research Analyst of Consumer Hardlines*

Got it. My follow-up question is, as we look at our model and make an assessment of what the recovery in consumer electronics retail looks like over the next few years, what is the rule of thumb that we should be using in regards to Best Buy sales versus its operating margin and the amount of leverage that the model will produce in light of all the changes that have been made in the last few years? Is there a rule of thumb that you can give us to guide us on how we should be projecting over the next couple of years?

Matthew M. Bilunas - *Best Buy Co., Inc. - Senior Executive VP & Enterprise Strategy & CFO*

Yes, Michael, I'll take that. I think if I look at just going forward in an ideal setting, when you get past the flat to slightly down year this year, we do expect when you look out into the next number of years that the industry will continue to grow and that we will grow along with it.

I think it is our expectation that we will continue to grow sales. It's our expectation that we will continue to expand our operating profit rate as we do that. And to your point, part of that is we expect to be able to leverage on SG&A and take advantage of not just all the initiatives that are adding to our improvements over this last year, but also just a good focus on cost control and efficiency.

And so I think by that center, I'm not going to give you a specific how much does rate improve by every point of comp. But it would be our expectation as we grow a few percentage points, we will be able to expand our rate.

And I think year-to-year, I think that takes on a little different color as you think about one given year and you move into next year with a different level of operating revenue with a consistent level of cost structure. You can imagine that it does help expand your rate a little bit more as you go from one year to the next.

Operator

Your next question is from the line of Seth Sigman with Barclays.

Seth Ian Sigman - Barclays Bank PLC, Research Division - Research Analyst

I wanted to follow up on the sales outlook. As you think about sales down in the first half, up in the second half, any more views on the role that housing and moving activity plays in that? I think some of our work has suggested that there is an impact, but obviously, it's not the only driver. Innovation and a lot of the other things you talked about makes sense. But I guess, how do you think about housing and what's embedded here in the outlook as you think about the opportunity for improvement?

Corie Sue Barry - Best Buy Co., Inc. - CEO & Director

You said it very well. It's not a perfect correlation with our business, the housing market, I mean. But there are definitely pieces of the business that tend to correlate more highly, particularly as you think about appliances, and then somewhat as you kind of creep into television. Those tend to be the areas that are most highly correlated. In the prepared remarks, I talked about that kind of stacked macro pressures on CE.

And then alluded to the fact that the high end of the range at a flat comp for the year, we're assuming that a few of these in particular start to abate. You're starting to see inflation pull back a bit, that one is important. And also, you are starting to at least see the -- what I'd like to call the green shoots of the housing market maybe start to turn in a bit more positive direction.

So I would assume that in that -- again, at that top end of the guide that we were talking about, we continue to maybe see a bit of that slow progression of improvement.

There is nothing that would say we expect changes overnight. There's nothing that would say we expect all of a sudden, it's all sunshine and roses in the housing market. But I think in general, we're starting to see enough of the green shoots that make you feel like, yes, there might be a bit of improvement there that helps buoy at least that part of the business.

That being said, we also said on the downside scenario at a down 3% comp maybe don't see the level of recovery in any of those macro factors that we talked about. So I think that's why we're prudently trying to create a range that acknowledges we're early in the year and early in, trying to see some of the recovery in some of these more cyclical macro items.

Seth Ian Sigman - Barclays Bank PLC, Research Division - Research Analyst

Got it. Okay. That's really helpful. And then my follow-up, as you think about online sales growth seem to outpace store comps very slightly but for the first time since 2020. And I appreciate the role that stores and online both play in driving a seamless transaction. But I'm just curious, anything notable that you're seeing as it relates to consumer behavior across the channels? And how does that tie in with your store closure plans?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I think we've had a pretty consistent view on the fact that we believe online penetration -- we kind of said we'll first stabilize because it went so high during the pandemic, we knew there'd be some level of pullback. And the last -- I'm going to call it like 18 months have been a little bit more around, where does it stabilize, particularly as a percent of our overall revenue.

And that, for the last year, has been a little bit more stable year-over-year in terms of penetration of digital sales. But our forward-looking hypothesis has been that at a more normalized pace, we probably continue to see online penetration continues to increase.

Now you led in with what I want to remind everyone, which is this is not a channel that is taken alone in and of itself. The other interesting fact that we laid out in the prepared remarks is that 44% of what we sell online is still picked up in a store. And that number was consistent year-over-year, even though we're shipping faster and we talked about our ability to ship in 2 days even faster than the year before.

And so for our model, in particular, there is this really important interplay between the digital sales, even as they keep penetrating, and the convenience and the ability to ubiquitously search online but also go into the store, if I would like to, regardless of where I choose to make the purchase, which is why we are moving at a methodical pace, I would say, in terms of the evolution of our store footprint.

And that's why I also believe this year, our focus is more on touching as many stores as we can and making sure that, that shopping experience feels good, carefully thinking about what the right portfolio looks like over the longer period. And I think Matt and the team have done a really nice job continuing to make sure we are in the right places at the right time and then testing our way into what we think the right footprint of the future is.

Because it's just not as easy as, is it stores or is it online? It really is the interplay between the 2 uniquely, I would argue, for us as a consumer electronic specialty retailer.

Operator

Your next question is from the line of Katharine McShane with Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

Just back to the comp range, I was wondering how we should think about traffic versus ticket when it comes to the down 3% to flat. It seems like there are some moving parts in ticket, and we just wanted to better understand the dynamic of maybe some pressure on prices versus mix.

Matthew M. Bilunas - *Best Buy Co., Inc. - Senior Executive VP & Enterprise Strategy & CFO*

Yes. Sure, Kate. When you think about it in the next year, I think what we've been seeing, if I look just back at last year, we saw our average selling prices be a little more pressured in the -- a little bit in the first part of the year and then it started to stabilize in Q3, and in Q4, in fact, our average selling price was up compared to last year. And some of that was this unit mix that we talked about. As well as we look to next year, we clearly are trying to see both -- some level of ASP stabilization, some unit growth, which is why we've seen such a promotional environment to kind of stimulate the unit side of this equation.

And so I think it all kind of obviously depends by category. And I think the carriers are at somewhat different phases in their -- where is the right ASP to drive the right type of unit velocity. And so I think probably somewhat, I would guess, next year similar to what we've seen this year. There could be quarters where you see a little ASP pressure, a little bit more coming from units and vice versa. So hard to know exactly by quarter, but it's probably nothing too dissimilar from what we've seen in the last year.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - MD & Retail Analyst*

Okay. And our second question was just on the usage of your credit cards, if you're seeing anything different. Or did you see anything change in the fourth quarter in terms of frequency or size of transaction?

Matthew M. Bilunas - *Best Buy Co., Inc. - Senior Executive VP & Enterprise Strategy & CFO*

No, nothing really different in terms of usage. It's still an amazing offering for us. We have about 25% of our sales transacted on our card, which has been pretty consistent for the past 5 years. Last year, it was still 1.4% of our domestic sales similar to FY '23. So nothing too different in terms of the usage. And in fact, we still see a continued level of our card being used for external purchases. That's been growing over the last number of years.

Operator

Your next question is from the line of Greg Melich with Evercore ISI.

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

I wanted to follow up on membership and services. Could you give us an update there in terms of either household or a number of members or what percentage of services revenues are there and what behavior you're seeing?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes. We haven't explicitly broken out the percent of services, that is, membership. But we did say we now have 7 million members, and that is compared to 5.8 million at the start of the year. During Q4, we actually signed up 35% more paid members compared to the fourth quarter of last year. So remember that we have a new tier in there. So we have the My Total and the My Best Buy Plus. And so that has driven some growth. And I think it's important to remember, our goal here is to drive engagement and increased share of wallet.

And what we do is we're doing that across 3 main aspects. You hit on acquisition. But there's also -- we talked on the call about engagement and retention. And I think we're happy because, right now, our paid members continue to interact with the brand more frequently compared to nonmembers.

And in addition, as we've been analyzing incremental spend that says -- based on data from Circana that indicates that our Total Tech members are shifting their share of wallet to us as well.

So it's not just about how many of them are using services but it's also about how frequently are they interacting with the brand? And are we keeping them loyal to the Best Buy brand. And I think we're happy, again, with what we're seeing so far there and making good progress. We haven't yet lapped the new rollout. So we still have a little bit of time to understand just how well we're doing in that vein. But right now, we're really happy with our ability to acquire members.

Matthew M. Bilunas - *Best Buy Co., Inc. - Senior Executive VP & Enterprise Strategy & CFO*

And maybe just for a little additional context, the services growth you see at 6% in Q4, that growth was driven more by increased revenue collected from our installation business. As Corie mentioned, we've shifted -- we've changed our membership program. So we're seeing more of that revenue growth now come off the installation revenue that we're now collecting because it's no longer part of the benefits of Total Tech.

And so although we're growing more members, the price point is changing a bit. So you see more growth coming from the insulation business from a dollar perspective than you would have seen in previous quarters.

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Great. And then my follow-up is on that is really -- I think you mentioned that ad expense or marketing expense will be up \$50 million this year. Could you just say what that's on? And I'm curious, are there any efforts to use all -- the data that you're getting, whether it's from your members or just customers in general, to maybe get some revenue from all that data and insight?

Matthew M. Bilunas - *Best Buy Co., Inc. - Senior Executive VP & Enterprise Strategy & CFO*

Sure. I'll start, and then Corie can jump on the last part of the question. I think overall, we're adding about \$50 million of advertising expense this year. It's for a number of different things, and I'll give you a couple of items. First, we are expecting a brand relaunch in the back half of this year. So some of this money is used for some additional branding spend that we have. I would say also this is a very unique year in terms of we have things like the Olympics and presidential election. So the inflation on marketing actually comes up in these periods of time, which is part of that increase.

We are also trying to ensure that we are positioned right across our key categories and making sure we have the right amount of low funnel marketing spend pointed at growing our categories when we need to. So I think it's a collection of those things that I would explain. It all adds up to that \$50 million. So again, positioning ourselves for a great stabilization and growth in the future and making sure we're in the market in the right spots.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

And I love the question about data. It's one of the most powerful tools we have in terms of how we reach our customers. And so we have a Best Buy Ads business. That continues to grow top line collections and profitability and it's been outpacing our core business, I think, as you would expect.

And I think it's important to know, this isn't new for us. I mean, at Best Buy we've had very close partnerships with our vendors for a very long time in terms of our advertising. It has gotten more scientific. It has gotten a lot more personalized. And I think that first-party data that we have is much more powerful than it has ever been historically.

And obviously, we can also leverage our strong share position in places like even smart TV where we do have established relationships and partnerships with both Amazon on Fire TV and Roku. And so we also have partnerships that allow us to partner on those leading streaming platforms, and we can grow that advertising business and deliver even more value to our vendor partners through some of the partnerships we have uniquely there. So you're right, the data that we have stretches, not only on our own platforms like the app, but stretches into how uniquely we can serve those customers.

Operator

Today's final question will come from the line of Joe Feldman with Telsey Advisory Group.

Joseph Isaac Feldman - *Telsey Advisory Group LLC - Senior MD, Assistant Director of Research & Senior Research Analyst*

I want to follow up, can you share a little more color on the store refreshes and what we should expect to see over the course of the year as you do touch up the stores and maybe make them a little more engaging from a merchandising standpoint?

Corie Sue Barry - Best Buy Co., Inc. - CEO & Director

Yes, absolutely. Let me start with, to be clear, we're not remodeling every store in the fleet. So I have to be clear there. But what we are doing is taking, I would argue, kind of a stronger position than we ever have to ensure that the shopping experience reflects that kind of excitement and that sparkle that technology brings to life.

So we've given examples before like some of the investments that we are making in our end caps and those vendor experiences that you see throughout the store, super important positions in the store because they tend to be the most customer facing. And so you're going to see us continue to bring those to life.

I think you're also going to see us rightsize a number of the categories and that's particular emphasis on that center of the store area because we want that excitement. We want that relevancy. We also want to be efficient for our associates. And so we're moving physical media, updating mobile, digital imaging, computing, tablets and smart home, things that allows us to make that center of the store really feel a bit more vibrant and exciting.

And so the goal here is not that every single store is going to look like an experience store. The goal though is that every single one has a bit of a refreshed look and feel, has more of those vendor partnership opportunities and has a better ability for our associates to merchandise in a way that makes everything feel kind of full and exciting.

And with that -- do you have a follow-up, Joe, sorry?

Joseph Isaac Feldman - Telsey Advisory Group LLC - Senior MD, Assistant Director of Research & Senior Research Analyst

No, no, no, that's good. We can end it there.

Corie Sue Barry - Best Buy Co., Inc. - CEO & Director

No, no problem. Thanks for the question. And with that, that was our last question. I want to thank everyone for joining us today during what I know is a very busy earnings season. We look forward to updating you on our results and progress during our next call in May. Have a great day.

Operator

Thank you all for joining today's conference call. You may now disconnect.

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