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BBY.N - Q2 2025 Best Buy Co Inc Earnings Call

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**OVERVIEW:**

Company Summary

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**Matthew Bilunas** *Best Buy Co Inc - Chief Financial Officer*

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**Michael Lasser** *UBS Investment Bank - Analyst*

**Mike Baker** *D.A. Davidson - Analyst*

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**Chris Horvers** *JPMorgan - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to Best Buy's second quarter fiscal 2025 earnings conference call. (Operator Instructions)

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

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### Mollie Obrien - Best Buy Co Inc - IR Contact Officer

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](https://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-Q's 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.

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### Corie Barry - Best Buy Co Inc - Chief Executive Officer, Director

Good morning, everyone, and thank you for joining us. Today, we are reporting better than expected results for the second quarter. Our comparable sales performance sequentially improved to a decline of 2.3% compared to our guidance of down 3% and last quarter's decline of 6.1%.

At the same time, we do delivered a non-GAAP operating income rate of 4.1%, which was higher than our guide of 3.5% due to lower than expected SG&A expense. On a year-over-year basis, our non-GAAP OI rate expanded 30 basis points, largely due to gross profit rate expansion in our membership and services offers.

From a category perspective, we drove comparable sales growth in tablets, computing, and services. This growth was more than offset by declines in appliances, home theater and gaming. We delivered strong results in our domestic tablet and computing categories, which together posted comparable sales growth of 6% versus last year. With our market position, expert sales associates, and compelling merchandising, we capitalized on demand driven by our customers' desire to replace or upgrade their products combined with new innovations.

Overall, customers remained field focused and attracted to more predictable sales moments. With July 4, Black Friday in July, and the beginning of back-to-school sales events. July comps were the best of the quarter.

In this environment, many categories, including major appliances and TVs, continued to be very promotional in pursuit of stimulating interest and sales. We were targeted and thoughtful regarding where and when we made our promotional investments, strategically balancing profitability, and sales.

Our omnichannel operations provided strong support for our Q2 online sales, which remained consistent at 32% of domestic revenue. Almost 60% of our packages are delivered or available for pickup within one day, and more than 40% of our digital sales are picked up in stores by our customers with more than 90% of these orders available with in just 30 minutes.

Our paid membership program continued to drive positive contributions to our results as we grew the base of members and the impacts from the changes we made program last year once again delivered better than expected profitability.

As always, I am grateful for the hard work, dedication and drive our team members across the company show code to deliver these Q2 results. As we look to the back half of the year, we expect our industry to continue to show increasing stabilization.

Last quarter, we said we were likely trending toward the midpoint of our original comparable sales guidance of flat to down 3%. Today, we are updating our annual sales guidance to a decline in the range of 1.5% to 3%. At the same time, we are raising our earnings per share guidance range as we largely flow through better than expect results of the first half of the year.

From a major category standpoint, we continue to expect sales in our computing category and services to show growth for the year. While most other categories are expected to be down for the year, we expect ongoing improvement in their trends at the high end of our annual comp sales guidance.

For the third quarter specifically, we expect comparable sales to be down approximately 1% versus last year. Based on our month to-date performance, we estimate August comparable sales will be approximately flat to last year.

We are encouraged by these results and continue to be very thoughtful about the time period between sales events as well as possible election related impact to demand in October. Our strategic plan and priorities for the year have been built to sharpen our customer experiences and industry positioning while also maintaining our profitability in this still uneven environment.

At the beginning of the year, we laid out our fiscal '25 priorities. They are, 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.

I would like to provide some highlights of our progress. We have initiatives targeting customer experiences across our digital and store channels. We are encouraged by the material sequential and year-over-year improvement in our relationship and NPS, which tracks consumer's likelihood to recommend Best Buy. In our app, are increasingly personalized relevant and motivational content is driving increased engagement with our customers.

Testing has shown that customers receiving our personalized homepage or engaging and content, product, and tools in our app, almost 70% more than customers who didn't receive it. During the quarter, we completed the rollout of this personalization to all our app users.

We also scaled other new app experiences, including a digital wallet that provides easy access to payment methods, coupons and offers and deal alerts that allow customers to be notified when their favorite products go on sale.

Outside of the app, we continue to focus on making the mobile shopping experience even better with faster browsing, more sophisticated search and enriched content. During the quarter, we launched a market-leading new experience for our in-home delivery and installation customers.

On the day of their appointment, customers can now digitally track live to the minute ETA of their in-home delivery and installation. Already 60% of customers are engaging with the tracking and the feedback has been overwhelmingly positive.

Not only is this a great experience for customers, but it should also lower costs by reducing calls to our customer service team. We are able to offer this new customer experience because of the work we did last year to more efficiently and effectively route all of our in-home delivery and installation trucks using AI technology.

In our stores, we are refreshing the fleet to update merchandising presentations across multiple categories. We began in Q2 and will finish in Q3 ahead of the holiday season. Not every store will be touched in the same way, of course, but our plans include optimizing and refreshing mobile phones, headphones, smart home, and digital imaging and creating new experiences in tablets and gaming and computing monitors.

In the areas completed in Q2, we already can see related sales improvements, particularly in monitors and digital imaging. At the same time, we are updating or creating new branded in-store experiences with our vendor partners, including GoPro, Tesla, Lovesac, DreamWorks and StarLink.

We are adding a new merchandising solution in hundreds of stores. This is a modular experience that will transition more frequently to provide vendors the opportunity to create a branded stage for new technology solutions and innovations. And of course, we continue to update departments as new products come up.

For example, computing looks different than it did six months ago as we [risk] the department around copilot plus. To support the expected growth in customer demand, during the quarter, we added fully dedicated expert labor to our computing department in hundreds of stores. Toward the end of the quarter, we began the process to do the same in our home theater and major appliance department.

We have continued the focus on certifications and training for all store employees. Our certifications are earned by department. So if an associate is certified in home theater, for example, it validates his or her ability to effectively utilize the knowledge and skills necessary to deliver an outstanding customer experience. In place practice with their leader, each other or specialty coaches to role-play receive feedback and ultimately become certified.

We continue to see our certified employees on average drive higher revenue per transaction and stronger overall customer experience ratings compared to non-certified employees. We are ahead of plan with more than 60% of our sales associates certified in at least two categories. Our training program provides continuous learning to keep employees updated on new products and technologies.

For example, we trained 30,000 sales associates and Geek Squad agents on the new AI technology. Our vendor partnerships are also an important part of the expertise we provide customers in our stores. Last quarter, we announced an expansion of our vendor partnership with Samsung to include vendor provided expert labor in appliance departments across hundreds of stores. More recently, Verizon, AT&T, TCL, LG, and others have all increased their labor investments in Best Buy store locations.

Across our business, we are reinforcing our unique experiences to capitalize on demand. We expect for the confluence of replacement, upgrade, and innovation in the coming year. In Q2, we believe the growth in laptop sales continued to be largely driven by customers' desire to replace and upgrade their products.

The performance of copilot plus in the quarter was in line with our expectations. But at this early point, a small part of the total revenue. We believe we are just at the beginning of the impact of AI on tech innovation and customer demand.

For example, the June introduction of the copilot plus laptops was one of the first launches with an important AI capabilities still to be released. In addition, Apple intelligence has been announced with capabilities and features expected to be released over time that will be available across devices. We believe AI inspired capabilities and innovations will continue to spread across categories and devices over the next few years.

We also believe the role our customers want us to play in their lives has evolved. To bring this to life and to highlight our tech and our unique positioning, we recently kicked off our new branding as we entered back-to-school. The new branding is centered on creating customer experiences that inspire curiosity and enable discovery and includes asking our customers what if as well as a new tag line, Imagine that.

This branding reflects the role that Best Buy and our amazing associates play in our customers' research and purchase journey, and our training is also focused on bringing these experiences to life. Additionally, along with our new tag line, we're giving our brand, a modern look and feel with new colors and a new creative construct, which will be phased in over time.

We are making good progress on the second key priority of our fiscal '25 strategy, which is to drive operational effectiveness and efficiency. As is often the case, much of what we are doing to improve the effectiveness of our customer and employee experiences also generates efficiencies. The evolution of our store model is a great example.

As you may recall, we decreased the store staff and labor hours during the pandemic, when we saw more of our revenue structurally shift to our digital channel. We have been iterating ever since to support the ever-changing customer, balancing our need to react to the sales environment with our desire to provide the experienced customers expect.

Last year, we took actions to streamline our leadership structure, which has allowed us to shift dollars into more customer-facing sales associate hours in our stores. More recently, during the second quarter, we made changes to our dedicated in-home sales team that helped fund the investments into our home theater and appliances store labor, while in-home consultations continue to be an important competitive advantage, the volumes are not at the level envisioned a few years ago when we expanded the dedicated in-house team.

Therefore, we both reduce the overall number of employees and brought the home theater and appliances experts back into the stores to better balance field labor resources and make sure we are providing the optimal experience for customers where they want to shop.

We are continuing to enhance our labor strategy as some store customers prefer a self-service sales experience, while others want a more guided sales experience. We will continue to leverage the flexible workforce we established during the pandemic with associates that can work across the store, the checkout lanes, and the front door, for example.

These employees drive efficiencies by flexing where the customer is across categories and functions. Based on customer feedback, we know there is an appetite for even more expert labor, and that is why we are also focused on certifications and adding back zoned labor in key categories. These are just a few examples of how we are constantly driving customer experience improvements as well as effectiveness in our labor model. It is how we have kept our labor rate flat as a percent of sales through the last few years as we experienced revenue declines. And it is how we expect to hold that rate as revenue grows over time.

We also continue to lean heavily on analytics and technology to achieve efficiencies. For example, in partnership with Google, this quarter, we rolled out enhanced self-service support that leverages a Gen AI-powered virtual assistant to help our customers quickly troubleshoot product issues make changes to their order delivery and scheduling and even manage their software, Geek Squad subscriptions and memberships.

We can now hold 60% of our chat users solely with this technology without the need for a live customer support process. We are in the early stages of rolling this capability to our IVR phone system. So customers can get their questions answered without having to wait for a live agent. We are, of course, closely observing feedback as we implement these capabilities to ensure we are maintaining a good customer experience.

As I take a step back, the technology enhancements and process improvements we have made in our customer service capability in the last three years have decreased our cost per customer contact by more than 20%, while improving the customer experience.

Within this work, we are very proud to have recently been named a recipient and Forrester's 2024 technology strategy Impact Award. This award recognizes our work to use AI to create better more human experiences for both our customers and employees.

Our third key priority for the year is to continue our disciplined approach to capital allocation in this environment. We expect our enterprise capital expenditures for fiscal '25 will be about \$50 million lower than last year at approximately \$750 million. We are raising our expectation for share repurchases from \$350 million to \$500 million for the year.

As we previously discussed, our fourth key priority for fiscal '25 is longer-term in nature. We will explore opportunities that leverage our scale and capabilities to drive incremental profitable revenue streams overseas. This includes our collaboration with Bell Canada to operate 167 small-format consumer electronics retail stores across Canada. These stores previously known as the source, which was a wholly owned subsidiary of Bell Canada, are being rebranded as Best Buy Express.

We opened the first store in June and as of today, we have completed more than 70 implementations. We expect to roll out the rest of the stores by the end of the year. We are providing a curated CE assortment and Geek Squad services as well as supply chain, marketing, and e-commerce.

Bell is the exclusive telecommunications services provider and is also responsible for the store operating costs of the partnership. This collaboration allows us to expand our presence in malls and in smaller and mid-sized communities, reaching 61 brand new markets for Best Buy Canada. We are very encouraged by the results of the two pilot stores and proud of the rapid pace with which our teams are implementing locations.

Switching to the US, we have a team branded Best Buy business that is focused on providing tech products and solutions for businesses in specific industries, including education, health care and hospitality. This business generates more than \$1 billion per year in sales and delivered low single digit growth in the first half of the year. We have a dedicated online website for business customers, leading to a 60% digital mix of revenue.

In addition, we expect to increasingly leverage our unique Geek Squad capabilities to provide services like device lifecycle management to other businesses on top of the meaningful growth we have already seen in the services part of this business.

In addition, we continue to partner with our vendors in ways that drive incremental revenue streams. We are growing our partner plus program, leveraging our supply chain and fulfillment capabilities, vendor partners can offer their own online customers, the option to conveniently pick up their products at a local Best Buy store, where we will ship the product to their customer's home.

In addition to our current partners like Samsung, Lenovo, Therabody and Aura, we are adding incremental partners to further drive both units and profit growth. In another example, during the quarter, we expanded our multiyear agreement with Amazon to build Insignia and Toshiba branded televisions with the Fire TV operating system.

We're excited Fire TV will be available on all Insignia TVs ranging from the 24 inch model to our largest 85 inch model as well as new screen sizes in the future with more inventory availability across all price points, customers can also purchase these TVs from us on Amazon.com with the option to conveniently pick up their products at a local Best Buy store.

We also have an agreement with Roku to sell their Roku branded TVs. With this agreement, advertisers can leverage our first-party audiences when buying Roku media with improved targeting and closed-loop reporting. This gives advertisers -- gives advertisers a unique opportunity to reach in-market consumers with greater precision within the leading streaming platform.

Before I close and turn the call over to Matt, I want to take a moment to recognize our employees for their continued work to support the communities we serve. This summer, we welcomed more than 3,000 kids and 10s at Geek Squad Academy camps across the country. These camps provide the opportunity to learn skills on everything from coding, game design, digital music and more.

The response within these communities has been incredible. And I continue to be inspired and amazed every summer by the work of our Geek Squad agents, employees, and volunteers to inspire young minds. We are proud to be named to the 2024 best places for high school graduates to start a career left. A first-of-a-kind ranking released by the American opportunity index. And I'm also proud to share that for the tenth consecutive year, Best Buy has been named a Best Place to Work for Disability Inclusion, earning a top score of 100% on the 2024 Disability Equality.

In summary, we executed well in the first half of the year. And the sequential improvement in sales supports our belief that this will be a year of increasing stabilization. As we all observe, the broader macro narrative can change often and sometimes quickly. We see a consumer who is seeking value and sales events and one who is also willing to spend on high price point products when they need to or when there is new compelling technology.

We don't believe anything in our data signals that customer behavior has changed in a way that would make us increasingly cautious. Thus, we are balancing our optimism in both the industry and our positioning with a pragmatic approach to likely uneven customer behavior going forward.

As I said earlier, this year we are focused on continuing to sharpen our customer experiences and industry positioning while expanding our operating margin on a 52-week basis. We intend to strengthen our position in key categories like computing, home theater and major appliances through elevated experiences that capitalize on innovation, oriented marketing spend and sharper pricing.

We are the largest CE specialty retailer with unique range of product assortment and expert services help our customers discover how unexpected technology solutions can bring to life what matters to them. We believe 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.

I will now turn the call over to Matt for more details on Q2 financial performance and our outlook.

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**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Good, everyone. Let me start by sharing a few details on our second quarter results. Enterprise morning revenue of \$9.3 billion, declined 2.3% on a comparable basis. Our non-GAAP operating income rate of 4.1% improved 30 basis points compared to last year, which was driven by improvement in our gross profit rate. Non-GAAP SG&A dollars were \$53 million lower than last year and were flat as a percentage of revenue. Our non-GAAP diluted earnings per share increased 10% to \$1.34.

By month, our comparable sales decreased 2% in May, and 4% in June, before improving to be approximately flat in July. As a reminder, our comparable sales are not -- are computed on a like-for-like fiscal weeks and are not shifted to more closely aligned calendar weeks following last year's 53 week year.

For the year, we estimate the impact to be immaterial. In the second quarter, the calendar shift benefited our reported comparable sales by approximately 90 basis points. The shift negatively impacted our first quarter comparable sales by approximately 30 basis points. We expect it to negatively impact our comparable sales by approximately 20 basis points in the third quarter and 60 basis points in the fourth quarter.

Back to our Q2 results. Compared to the outlook we shared and during the quarter, our non-GAAP operating income rate of 4.1% was 60 basis points higher, was primarily driven by lower non-GAAP SG&A. The favorable SG&A was primarily due to lower employee benefit expense, which included medical claims, lower technology expense and a favorable legal settlement.

Our overall gross profit rate aligned very closely to our expectations with better than expected performance in our services category offering, offsetting -- better performance in our service category offsetting lower product margins. Next, I will walk through the details on our second quarter results compared to last year.

In our Domestic segment, revenue decreased 3% to \$8.6 billion, driven by a comparable sales decline of 2.3%. The overall blended average selling price or ASPs of our products was higher than last year. The growth was primarily due to an increased mix of units coming from higher ticket items such as laptops, and a lower mix of units coming from lower ticket categories such as movies and gaming software.



International revenue of \$665 million decreased 4% driven by the negative impact of foreign exchange rates and a comparable sales decline of 1.8%. Our domestic gross profit rate increased 40 basis points to 23.5%. The higher gross profit rate was primarily driven by improvement within our services category, which includes our membership offerings. This was partially offset by lower product margin rates and lower credit card profit sharing revenue. Consistent with the past three quarters, approximately \$20 million of our vendor funding qualified to be recognized as an offset to SG&A, which was a reduction to cost of sales in the first half of last year.

We have now fully lapped the recognition change. Our international gross profit rate decreased 30 basis points to 23.9%. The lower gross profit rate was primarily due to lower product margin rates and higher supply chain costs, which were partially offset by growth in the higher margin services category.

Moving to SG&A, our domestic non-GAAP SG&A decreased \$46 million, which was driven by lower employee compensation expense and reduced expenses across multiple areas such as vehicle rental costs and credit card fees. These decreases were partially offset by higher advertising expense.

Moving on to our updated full year fiscal '25 guidance for the enterprise, which is the following. Revenue in the range of \$41.3 billion to \$41.9 billion, comparable sales decline of 1.5% to 3%, non-GAAP operating income rate in the range of 4.1% to 4.2%, a non-GAAP effective income tax rate of approximately 24% and non-GAAP diluted earnings per share of \$6.10 to \$6.35.

As Corie mentioned, we are raising our profitability outlook to largely flow through the favorable performance in the first half of the year. The overall drivers of our annual profitability outlook are consistent with our prior guidance. We believe our gross profit rate will expand approximately 35 basis points compared to last year, which aligns with our previous guidance of more than 20 basis points to 30 basis points of expansion.

The main drivers are still the following. First, we expect profitability improvement from our services and membership offerings, which is primarily due to the following factors. Higher revenue from installation and delivery services, which were previously included benefits of paid membership, reduced cost to serve due to lower planned volumes for in-home installation and other related services, and higher standalone warranty revenue.

Second, we expect lower product margin rates for the year, which is primarily driven by price investments and the \$40 million vendor support geography item, the first half of the year that I previously mentioned. Third, we still expect approximately 20 basis points of pressure from a lower profit share on our credit card arrangement, which is unchanged since the start of the year.

We expect to see gross profit rate expansion in the second half of the year, but not as much as we saw in the first half of the year. This is largely because the benefit from our services and membership offerings will be smaller as we lap the major changes to the program at the end of June.

Next, I will share details on our annual SG&A expectations. The high end of our annual guidance now assumes non-GAAP SG&A dollars declined by approximately 2% compared to last year, which includes the following puts and takes.

The benefit of having one less week this fiscal year is estimated at \$90 million. Store payroll expense is expected to be approximately flat to fiscal '24 as a percentage of sales, which results in lower SG&A dollars compared to last year. Vendor support geography lowers SG&A by approximately \$40 million in the first half of this year. Incentive compensation is now expected to be very similar to fiscal '24 at the high end of our guidance range.

Partially offsetting the previous items, our advertising expense is still expected to increase by approximately \$50 million versus last year, with increased weighted more in the second half of the year. The low end of our guidance reflects our plans to further reduce our variable expenses, which includes incentive compensation to align with sales trends.

Before I close, let me share a couple of comments specific to the third quarter. We expect a modest sequential improvement in our comparable sales compared to the second quarter. With our Q3 comparable sales plan down approximately 1%. We expect our non-GAAP operating income rate to be approximately 3.7%.

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



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Scot Ciccarelli, Truist Securities.

### Scot Ciccarelli - Truist Securities, Inc. - Analyst

Good morning, guys. Two quick ones, hopefully. First, can you remind us of the comparisons you faced for the balance of the quarter given your comments that you're running -- you ran around flat for August. And then secondly, can you help us better understand the mix that you're seeing in the laptops, obviously, kind of later quarter where you got to roll out a lot of the AI enabled chip devices. But just how quick are consumers kind of adopting to that? Thank you.

### Matthew Bilunas - Best Buy Co Inc - Chief Financial Officer

Yeah. So in terms of the comparative, I think it was the first part of the question, last year, our August was down about -- I think we talked about this down 6%, September I think it was down around 7% and October was down about 8%. So pretty similar across the quarters last year.

And the second part related to --

### Corie Barry - Best Buy Co Inc - Chief Executive Officer, Director

Yeah. As it relates to the laptop mix, for the quarter, Copilot plus was still a relatively small percentage of the sales. And we've said it before, like most new and emerging technology, these are higher price points, ASPs, more fully featured devices. So that's why in the prepared comments, we kind of tried to make it clear. We continue to see people just want to replace and upgrade not dependent on just the Copilot plus computing, but just broadly, in general, continuing that trend we've been talking about basically since Q4 of last year where we started saying those laptop units were growing year-over-year. We continue to see that.

So while Copilot plus was a relatively small percentage, we like what we're seeing in terms of consumer behavior. The last thing that I would say is it's not just about Copilot plus per se. It creates a nice halo effect on the entire department, right? We've talked about adding in more expertise. We've talked about updating and upgrading the displays in the stores. We've put a lot into the kind of the discovery work that we're doing in our app and all of those things have a nice halo effect across the category.

### Scot Ciccarelli - Truist Securities, Inc. - Analyst

Got it. Thanks guys.

### Operator

Michael Lasser, UBS.

**Michael Lasser** - UBS Investment Bank - Analyst

Good morning. Thank you so much for taking my question. So the second quarter came in a little bit better than you were expecting. August is flat so far. You have easier comparisons in September and October, yet you took down the comp guidance for the rest of the year. So what motivated that change?

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**Corie Barry** - Best Buy Co Inc - Chief Executive Officer, Director

I think -- well, good morning. I think in general, what we are acknowledging is, it is still an unpredictable and uneven consumer environment. And while we made it explicit to say we haven't seen anything so far this year that changes behavior. I think we're acknowledging there will be an election impact, and there always is, historically, no matter what kind of election we're entering into. So we know that, that is likely coming.

And you're entering into the holiday season, which often can also create some unpredictable consumer behaviors, probably consumers who might even wait for some of the more values that they -- I would guess, assume that they're going to see over holiday.

And so I think we're looking at consumer indicators that continue to be uneven, resilient consumers so far but acknowledging into the back half, there especially at the tail end of Q3, there's probably an even greater risk that the consumer is a little bit unsettled.

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**Michael Lasser** - UBS Investment Bank - Analyst

Understood. My follow-up question is, so you're seeing signs of stabilization in the category. It would appear that your market share is also stabilizing. So A, is that a fair assessment on your market share? And, B, if we make the assumption that this continues into next year, ultimately resulting in positive sales growth in 2025, what are going to be the critical puts and takes in your profitability that are going to influence the incremental margins as you do experience an upturn in sales? Thank you very much.

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**Corie Barry** - Best Buy Co Inc - Chief Executive Officer, Director

I will take part one and then hand it over to Matt for part two. So as it relates to share, I think the perception of rough stabilization feels right. Now let me start by saying, I like you talking about next year, share is a long game for us. It's not exactly a perfect science quarter-by-quarter. And we've been pretty clear to say this is a really hard industry to measure because there isn't a great source that's going to walk you through everything as it relates to share.

So we talked about in some categories, we absolutely feel like we've had a strong and good share gain position. Think about things like the computing conversation we were having or even year-to-date, what we've been seeing in gaming, I think we've had some really strong positioning. I think there are some other categories, we're back to your point about stabilization, we're starting to see at least a little bit better stabilization.

TVs is one that's been uneven depending on the quarter. But it feels like, I think the team has done a really nice job leaning into the spaces where we play best, our exclusive brands, our large, large, extra-large screens, think 92 inches plus, and I think that is helping.

I think there are still some spaces where, again, we saw maybe slightly sequentially better results, but still not where we want to be. And in that, I would talk about major appliances as an example, where we've been pretty transparent. That's an incredibly promotional category right now. It is also a category that is skewing almost 80% to direct sales right now based on the data that we can see, which is, again, not exactly the place where we tend to play best for a little bit more of a complete solutions and so the housing slowdown definitely disproportionately hurts us.

So Michael, I think at the highest level, this idea of moderation feels right, but we're really targeting kind of at the category level where and how we want to play with a consumer who's very either value-oriented or innovation replacement-oriented.

**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Yeah. And so how it relates to next year, I think obviously, we're not going to provide long-term guidance today. But as we think about the next few years as that industry continues to grow as we expect it to and we continue to try to drive our market share with it, we would also expect to be able to expand our OI rate over that time as well.

It's a little early to talk entirely about the puts and takes for next year. I think what we've been able to do is be very thoughtful about our cost reductions and efficiencies to drive improved profitability from that regard. And then there's a layering in of the other initiatives that we would hope to contribute also positively to the OI rate over time.

I think the other parts of the business, supply chain, at this point, as much as we can see somewhat neutral as it relates to a year-over-year perspective next year. But again, obviously, we'll know more as we get towards the end of this year and provide more updates.

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

One last thing that I can't resist adding, Michael, on the share conversation, I just want to make it clear, we do tend to outperform when there's innovation and when we can leverage our competitive differentiation. And we absolutely, even though the Copilot plus side of things is small right now, it definitely underscores kind of that part of our thesis, that is the space where we tend to outperform.

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**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Thank you very much, and good luck.

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

Thank you.

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**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Thank you.

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**Operator**

Mike Baker, D.A. Davidson.

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**Mike Baker** - *D.A. Davidson - Analyst*

Okay, thanks. Two questions for me. One, just -- so laptops, computers doing well even without the Copilot plus, and that feels like about the right timing in terms of product cycles, four years after everyone upgraded around COVID, and that's usually the product cycle for laptops. I guess, I'm interested in what's next. What's the next product cycle that you think starts to show an improvement for you?

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

So I want to make sure that I clarify. Laptops were strong. We also made it a point to say tablets were strong and we're kind of looking at those things together because the newest lineups of tablets that we're seeing, particularly from Apple, are at the same processing power and same price points as some of the most premium laptops that we sell.

So I think that's -- the reason I bring that up is because both are lovely examples of not massive innovation, but enough innovation in terms of the strengths of these devices, the look and feel of the devices. We also talked just briefly in our comments about desktops, particularly gaming desktops have been incredibly strong.

Again, higher price point, innovation in terms of processing power, and kind of a new way to game even as the console side of the business has been a little bit softer. I can see us heading into based on what's out there and has been announced. Obviously, Apple will make larger announcements here in about a week and a half, but they have made it clear Apple Intelligence is important to them.

And again, that's important because it's not just about a phone launch, Apple Intelligence will stretch across devices, it will be on your tablet, it will be on your Mac, it's going to be on your phone. And so the way I characterize this is -- it's not so much a revolution, it's an evolution.

And I think you're going to see AI capabilities bleed into my point of view, everything with a screen, I think the first realms will be computing, whether that's laptop, ultimately desktop, tablets, and phones, and in most of those cases you're going to want that higher processing power in those devices, obviously potentially proliferating further from there as you think about smart home capabilities or even televisions and the processing and smarts that you might need to stream effectively.

So I think that's why we think it's this longer cycle for us, and we've been really clear in saying we never expected everyone to be lined up at the door waiting for their AI devices. It's more that this continues to proliferate across screens.

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**Mike Baker** - D.A. Davidson - Analyst

Yeah, okay. Fair enough. Appreciate that. If I could just ask one clarification question. The monthly trends, May, June, July, July being flat, how much of that was impacted by the calendar shift? In other words, so the way you talked about, July was the best month of the quarter. Was that because of the calendar shift or anyway to sort of quantify that impact?

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**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Yeah, we're not going to try to parse out the overall quarterly impact of the week shift by month. But in Q2, more, I would say generally more -- most of that impact was in May versus July. So July relatively not impacted by that week shift.

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**Mike Baker** - D.A. Davidson - Analyst

Got it. Perfect. Thank you.

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**Corie Barry** - Best Buy Co Inc - Chief Executive Officer, Director

Thank you.

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**Operator**

Greg Melich, Evercore ISI.

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**Gregory Melich** - Evercore ISI Institutional Equities - Analyst

Hi, thanks. I wanted to dig a little bit deeper into gross margin. I know that the membership program is getting more profitable. I'd love to hear an update on how the membership program is developing in and of itself and how those folks are behaving as consumers.

**Corie Barry** - Best Buy Co Inc - Chief Executive Officer, Director

Sure. So as I always will do, rewind the tape, and just talk first, what do we want our membership program to do? You have a membership program because consumers are less brand loyal than they've really ever been historically. And in our case, the goal of membership is to drive both customer engagement and increased share of wallet. So this idea that every time I want to buy CE, why would I go anywhere else? Because Best Buy is the place for me.

And we look at really three main areas of engagement. One is acquisition, the second is engagement, and the third is retention. So to your question about like how's it performing, well across those things what can we see? One, we continue to grow our new customers in Q2 compared to Q2 of last year, our new paid customers.

Now, again, part of that is we have a new tier in the plus tier along with the total tier, but we like what we're seeing because the whole objective there was to make membership available to a broader population of people. And so we do see materially -- material growth in those numbers year-over-year for the quarter.

The second thing we are seeing is, for sure our paid members consistently show higher levels of engagement and interaction with comparatively higher levels of spend at Best Buy. So again, back to that original thesis, when people do purchase a membership, it is doing what we want it to do. They're engaging more with us and they're spending more. So we like what we're seeing there.

It's still super early. We just lapped the launch of the new tiers and new construct in June. But at this point, our retention rates are also outperforming our expectations for both total and plus. So the early, early indicators, and again, this is, I know I always say this, but we need a little bit of time because our frequency is comparatively lower than other retailers, so it takes us a bit longer to understand our customer behaviors. But on the whole, we are very pleased with what we're seeing in our membership program. And you can imagine we will continue to think through how do we iterate or add potentially different offers into that mix as we go forward.

**Gregory Melich** - Evercore ISI Institutional Equities - Analyst

Great. I'd love to follow up on that. I think you guys mentioned that some of the promotional environment was bad in appliances. In your guidance for the second half, do you expect that to get better or worse and maybe highlight any other categories where that could get better or worse?

**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Yeah, I think generally we probably expect the promotional -- promotionality we saw in both Q1 and Q2 to continue on for the rest of the year. It's quite promotional in many of our categories. Appliances we talked about, televisions is still pretty competitive and promotional with that trade of tearing down of purchasing. Computing is always promotional as you get in and so I think we're just -- and we've prepared our guidance reflect our need to be competitive as we look out to Q3 and Q4.

**Gregory Melich** - Evercore ISI Institutional Equities - Analyst

That's great. And then just one housekeeping. Did I hear something in SG&A, a legal settlement? Did I --

**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Yeah, we had a one-time legal settlement within the credit card processing area. It should not recur. It was just a one-time benefit to SG&A in the second quarter.

**Gregory Melich** - *Evercore ISI Institutional Equities - Analyst*

Could you quantify it?

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**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

It's around \$10 million.

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**Gregory Melich** - *Evercore ISI Institutional Equities - Analyst*

Got it. All right. Well, good luck and thanks, guys.

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

Thank you.

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**Operator**

Steve Zaccone, Citi.

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**Steve Zaccone** - *Citigroup - Analyst*

Great. Good morning. Thanks for taking my question. I wanted to double click on the second half outlook. So with August flat, can you just help us understand how back-to-school is performing overall relative to plan? Presumably there'll be some more newness as we get into September.

And then can you just help us think through the implied outlook in the fourth quarter, just given the guidance reduction on same-store sales, maybe what can help you get to the high-end of the range versus the low-end of the range, specifically in that fourth quarter, since holiday is so important?

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

Good morning, Steve. As it relates to back-to-school performance, I would say it's performing basically in line with our expectations. Now to your point about September, what's a little tricky is over the last many years, we've actually seen back-to-school kind of push further into September. It almost seems like people are weighing what it is exactly they're going to need to go back to school with.

So we still have a chunk of the season in front of us. But so far, I would say it is playing to our expectations, which again, sits under our whole point of view that we're not seeing a lot right now in customer behavior that's saying they're behaving incredibly differently.

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**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Yeah, as it relates to Q4, I think obviously our range reflects something that's anywhere from down 3% to up 2%. I think obviously we're planning for a lot of different outcomes. On the high end, I think we would expect, obviously computing and tablets to continue to be strong as we look at the back half of the year. I think generally there's an improvement in most of our categories, maybe not positive, but the declines would improve.

We are also cognizant of, we have continued price investments, increased marketing in the back half even more than the first half of the year, and dedicated labor will start to be actually more fulsome in the back half as we're still ramping up the televisions and appliance areas.

So all those things should help us improve. I also know that TVs would be an area we would expect to improve as the quarters Q3 and Q4 progresses. In that area I think there's an expectation that the very large televisions, the 97 inches and above, are able to help us improve the trend of performance there, amongst other things.

So at the high end, those are the things that would support the top end. Obviously at the bottom end, we would expect in an industry and a performance that's more in line with where we saw comps in Q2, just a general non-improvement or just a more stagnant level within the industry than what we've been seeing more recently.

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**Steve Zaccone** - Citigroup - Analyst

Okay, thanks for that. The follow-up I had is just on the growth in tablets and computers, can you talk through how ASPs performed relative to units? And as we think about the path forward, where we go from replacement cycle to maybe more newness sprinkling into the assortment, is there potential for ASPs to increase as we get into next year, specifically in that category?

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**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Yeah, generally, we're not going to go through organics in too much detail. It's not how we plan our business, but in Q2 when you look at mobile computing or the notebooks area, I would say ASPs were actually slightly flat to down a little bit within the notebook category. Tablets, they would be up with the new innovation.

As you go forward, those mixes can change a little bit based on the -- with the notebooks you see, we'll see more AI enabled computers, which should generally probably drive the price points up a little bit. And so ASPs could potentially move up. Tablets could depend upon when you get into the holidays. It's also a very promotional idea. So you can see ASPs maybe come down a little bit. But generally, again, we don't really plan our business on those organics. We reflect more of like what are the launches and where are the categories at in their cycles.

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**Corie Barry** - Best Buy Co Inc - Chief Executive Officer, Director

In general, the concept that the proliferation of innovation across the category tends to drive in the early stages of the innovation, higher ASPs, that does tend to be the case. So I think the hypothesis that as we see innovation in these kinds of categories, you start to -- and as it gets large enough as a part of the category, it definitely can help support some of the greater ASPs.

That being said, I really want to underscore what Matt said, which is we are an environment that is highly promotional and price sensitive and a consumer who is as much as they're interested in the innovation, also looking for great deals and value. And so this for us, the objective is not ASP expansion. The objective is meeting the customer where they are across the full range of products that we have.

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**Steve Zaccone** - Citigroup - Analyst

Understood. Best of luck in the second half.

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**Corie Barry** - Best Buy Co Inc - Chief Executive Officer, Director

Thank you.

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**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Thank you.



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**Operator**

Steven Forbes, Guggenheim.

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**Steven Forbes** - *Guggenheim Securities - Analyst*

Good morning, Corie, Matt.

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

Good morning.

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**Steven Forbes** - *Guggenheim Securities - Analyst*

I was hoping maybe we could explore how you were thinking about and/or planning for the potential of wallet cannibalization within the category. Sort of -- as you think about the impact of innovation, is it -- should we view it or do you view it as net incremental to wallet share spend or do you see the risk of cannibalization within the CE industry? Just trying to really gauge your overall confidence that the CE category as a whole, right, can get back to gaining share of total PCE spend.

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

For the category, we've been pretty explicit that there is this stacked layer of pressures on the category, which to your point, have overarchingly for the industry, made it difficult for the industry to grow. And we've talked about kind of five things.

One, inflation, not on our stuff, but on the basics. You're starting to see that ease a little bit, though housing still is a real concern there. And that's going to take a little bit longer to ease. You have spent on experiences. People are continuing to want to spend on experiences versus goods. That's kind of a broad statement, but it's been true and that has remained relatively sticky, although you're starting to see that pull back just a little bit in some of the early indicators. You got a stagnant housing market. You're just not seeing the turnover. That has continued, and I think it's going to take us a little bit of time to get out of that.

Then there were kind of two other specifics that are more about our industry. There was a very large pull forward in COVID, where people spent a lot on these categories. And then secondarily, we have not seen innovation within the category.

So what gives me some confidence going forward and why we've talked about moderation into the back half and why industry forecasts that tend to look at least a little bit positive for next year is particularly these last two things.

Innovation proliferating throughout the categories and starting to lap, and we talked about it earlier, at 4.5 years out from the pandemic, starting to get into real replacement cycle timing where people are just going to want new devices. And that's why we keep our eyes on those indicators in particular. Because if you have those two indicators and you start to see a little bit of easing of inflation, in particular, that to us feels like you're starting to get the right combination of things for the total industry to your point about the share of the total, like, wallet with the big W.

I think you start to see the total industry then rebound. So we'll keep our eye on those indicators. We'll continue to try to update you on what we're seeing. But I think what we've seen, even as we came out of Q1 and into Q2, is reinforcing our thesis on some of these things.

**Steven Forbes** - *Guggenheim Securities - Analyst*

That's great to hear. And then just a quick follow-up. Tablets and computing up 6%. Any way to frame the percentage of the business today that those two categories represent, or maybe the percentage of the segment disclosure of computing mobile phones that those two categories represent?

**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

I'd say notebooks or computing, part of that equation is considerably higher than the tablet side although tablet is a fairly sizable category. We've definitely broken those two out but notebook still is the bigger part of those two within the 6% in terms of the weight of the dollars.

**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

And the two are definitely the bigger part of the overarching category as we break it.

**Steven Forbes** - *Guggenheim Securities - Analyst*

Thank you.

**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

Thank you.

**Operator**

Simeon Gutman, Morgan Stanley.

**Simeon Gutman** - *Morgan Stanley - Analyst*

Good morning, everyone, and nice job, managing the year so far. I wanted to ask, this was touched on, I wanted to get maybe some more texture, Matt, first on the gross margin between Q3, Q4, I know you talked about what you're planning in terms of promotion, but any texture between the two quarters and the back half of the year?

**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Generally speaking, the back half gross profit rate expansion for Q3 and Q4 are pretty similar. We do have the nuance that there is an extra week in Q4, which does have an impact on the gross profit rate a little bit. When you take that out, the two quarters are similar.

Now those two quarters are likely a bit lower than the first half of the year where we saw we were still lapping the membership program changes that we made. So the net of the year should be 35 basis points of expansion, probably a little bit lower in the back half, a little bit higher in the first half, the drivers are very similar. There's product margin rate, pressure as you get into each Q3 and Q4.

And I would say credit card profit share is probably more of a little bit pressure in Q3 than it would be in Q4. Those are probably the biggest items. But again, the drivers are really dissimilar. It's just more of us lapping that program change after Q2.

**Simeon Gutman** - Morgan Stanley - Analyst

Okay. And then just a follow-up in the gross margin. This particular quarter, there was a benefit from higher services and then product margin was a little weaker. Can you quantify that and then thinking about product margin going forward, I guess as cycles come through, especially in mobile and computing.

Is there a premise that product margin can't be higher because of promotion or is promotion the biggest dictator of product margin going forward or should product margin start to lift as some of this new technology goes through the mix?

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**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Yeah, I think in terms of the quantification, we haven't quantified it. I would say that the benefit from membership and services is significantly more than the overall expansion that we saw in Q1 and Q2. In terms of the broad dynamics of a promotion, I mean, for product margins you've got a number of items. You've got the promotionality level, so to the extent that the industry starts to stabilize and there's less promos needed to drive units, you could see that being a little bit of a relief or continued pressure depending on the environment we're sitting in.

You always have a level of mix of categories, so there's some categories that have a little bit higher gross profit rate and some that are a little bit lower and that can sometimes have an impact. Those are the biggest items in terms of product margin rates. Assuming you're managing inventory well and you don't see excessive write-off markdowns, which we have not seen, I think those are usually the biggest things to think about.

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**Simeon Gutman** - Morgan Stanley - Analyst

Okay, thanks. Well done. Good luck in the back half.

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**Corie Barry** - Best Buy Co Inc - Chief Executive Officer, Director

Thank you.

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**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Thank you.

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**Operator**

Christopher Horvers, JPMorgan.

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**Chris Horvers** - JPMorgan - Analyst

Thanks, good morning. So a couple of nuts and bolts questions. On the quarter-to-date being approximately flat, is that like you disclosed in May, like, your estimate of what the shift is impacting, so it's X any maybe shift benefit from the back-to-school timing? And then as you think about the headwind, does that essentially occur in October as a net headwind to the quarter?

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**Matthew Bilunas** - Best Buy Co Inc - Chief Financial Officer

Yeah, as I said, we're not going to get into the specifics of weekly impacts by month. I think if I step all the way back and think about, July was about flat in terms of comp sales. August we're estimating to be approximately flat. The two quarters combined are approximately flat, which is an improvement in trend from what we saw in Q1 and even from what we saw in Q2.

It's really difficult to estimate weekly shift impacts by month because it's not just the shift, you also have changes to the promotional calendar, you have different promotions in different weeks that can also impact it, so it's really difficult to break those down much beyond just a quarterly impact.

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**Chris Horvers** - *JPMorgan - Analyst*

Got it. And then on the SG&A front, I know that you talked about adding back labor and you're adding back labor sort of at an increasing rate as you reset more departments. But then with the cost savings plan from the end of last year, I think the cost savings built over the year because not all the sort of strategies were put in place. So is that fair and does that make SG&A dollars in the second quarter the right level to build from? Thank you.

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**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Yeah, I think as it relates to SG&A, I think in the first half of the year, our SG&A was down about 4%. If you think about the back half of the year, the SG&A, when you remove the extra week, is anywhere from up 2% to flat on the low end for the second half.

And so I think the S&A favorability in the first half isn't necessarily going to translate to the favorability we see in the back half. And there are a number of reasons that are driving that. The first one is just, to your point, the store payroll. We saw a lot of favorability in store payroll in the first half of the year. We had yet to cycle those operating model changes, which we did in Q1 the last year. So that will drive some favorability in the first half, but not in the back half.

We also have a better sales outlook in the back half of the year, so we're adding sales to support that as well. In the first half, we also had the \$40 million of geography change for offsetting SG&A versus cost of sales. That does not occur in the back half of this year.

And then also in the first half of the year we saw medical claims costs come in much lower than we saw the year before. So that was a favorability in the first half of the year. So there's a noticeable change in SG&A trajectory as you go from the first half to back half of the year for those very reasons. And those are largely included in many cases in how we already guided, so.

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**Chris Horvers** - *JPMorgan - Analyst*

Got it. Thanks very much. Have a great rest of back-to-school.

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**Matthew Bilunas** - *Best Buy Co Inc - Chief Financial Officer*

Thank you.

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**Corie Barry** - *Best Buy Co Inc - Chief Executive Officer, Director*

Thank you. And that is our last question. Thank you so much for taking the time to join us today and we look forward to speaking to you after Q3.

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**Operator**

This will conclude Best Buy's second quarter fiscal 2025 earnings call. Thank you for your participation. You may now disconnect.

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