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BBY.N - Q1 2025 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, and welcome to Best Buy's you first quarter fiscal 2025 earnings conference call. (Operator Instructions) I'll now turn the conference call over to Mollie O'Brien, Head of Investor Relations. You may now begin.

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

Thank you and good morning to everyone. Joining me on the call today are Corie Barry, our CEO; and Matt Bilunas as 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, investment and expected performance of the company and are subject to risks and uncertainties that could cause actual results of 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 for 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 Barry - Best Buy Co., Inc. - CEO

Good morning, everyone, and thank you for joining us today. We are reporting better than expected Q1 profitability. Through strong execution we continue to manage our profitability while at the same time preparing for future growth. We progressed again since our fiscal '25 priorities, grew our paid membership base, implemented various restructuring actions and drove improvements in our relationship Net Promoter Score and in our operational metrics for most of our prioritized customer experiences.

The mix of macro factors continue to create a challenging sales environment for our category during the quarter and our sales were slightly softer than our expectations. Our Q1 comparable sales decreased 6.1% compared to last year, with the largest impacts coming from appliances, home theater, gaming, and phones, services and laptops were areas of growth for the quarter. The Q1 digital sales mix was 31% of domestic sales similar to last year.

Our omnichannel fulfillment experience continues to improve, with almost 60% of our packages delivered or available for pickup within one day and 40% of our digital sales are picked up in stores by our customers with more than 90% of these orders available within just 30 minutes. From a profitability standpoint, our non-GAAP operating income rate of 3.8% expanded 40 basis points compared to last year. This was above our expectations due largely to gross profit rate improvement in our membership and services offers.

Customers remained very deal focused and attracted to more predictable sales moments. Our Q1 product margins were relatively stable, even though the environment overall was more promotional than our expectations in terms of both breadth and depth of promotions. We did see variability by category. For example, the major appliances category was materially more promotional in pursuit of stimulating interest and sales. As has been our practice, we were targeted and thoughtful regarding where and when we made our promotional investments. Throughout the quarter, our teams were driven and diligent, and I continue to be proud of their performance.

I believe it is a testament to our strong culture that our people remain engaged, motivated, and passionate about technology and serving our customers while navigating what has been an extended period of dampened demand. Our Q1 retail turnover trended down versus last year and remains lower than industry averages. And our recent employee engagement survey shows our people have strong levels of connection, engagement, and belonging that are at or above global benchmark.

As we look to the rest of the year, we are focused on our strategic plan and priorities while being mindful about the state of the consumer. In February, we said we expect 2024 to be a year of increasing industry stabilization, and we continue to believe that. That being said, clearly, macro factors continue to fluctuate and put pressure on consumer spending.

Three months ago, there were several indicators showing some favorability, including decreasing inflation, continued low unemployment, encouraging trends and consumer confidence and the beginnings of a housing market rebound. Since then, inflation is still high, mortgage rates are high and consumer confidence scores are trending lower. Consumers continue to make tough choices with their budgets trading down in some areas while still prioritizing spend and others like services and experiences like travel.

This in combination with the pull forward of tech purchases into the early years of the pandemic and lower levels of material innovation has led to continued lower demand for higher tech consumer electronics and a focus on value and deals for current purchasers. We are not changing our original full year guidance as it is early in the year. The first quarter is a relatively quiet quarter and we have yet to see the impact of innovation. However, at this point in time, it is likely we are trending toward the midpoint of our original comparable sales guidance of flat to down 3%.

We are strategically operating our business balancing our response to the pressured sales environment. Therefore, even at the midpoint of the comparable sales guidance, we expect to deliver profitability toward the high end of our non-GAAP operating income rate guidance. At the same time, we are taking action and investing to sharpen our customer experiences and industry positioning. We know more of our key categories will return to growth and historically, we outperform when there is more technology innovation, and we leverage our competitive differentiation to provide the best experience for customers.

From a major category standpoint, we continue to expect sales in our computing category to show growth for the full year. We expect revenue for the rest of our product categories as a whole to be down partially offset by growth of our services revenue. As we plan for the next three quarters, we expect our comparable sales performance to sequentially improve. For the second quarter specifically, we expect comparable sales to decline approximately 3% compared to the 6% decline we saw in Q1.

Based on month to date sales and results are estimated comparable sales for May are expected to be better than our Q2 guidance. We are encouraged by these results. But from a timing perspective, we don't fully lap last year's Memorial Day sales until our June fiscal week one and we continue to be very thoughtful about the time periods between sales events.

Let's talk about computing and the exciting things happening there. We expect the category to benefit as early replacement and upgrade cycles gain momentum and new products featuring even more AI capabilities are at least as we move through the year. We have seen early signs of improvement as a year-over-year comparable sales for laptops turned slightly positive in the fourth quarter and that trend continued in Q1.

Last week, Microsoft announced copilot plus and laptops from Microsoft, Dell, HP, Lenovo and Samsung are available for preorder on our website right now and will be available until June 18. These devices have faster speed, better battery life, greater efficiency. They are much cooler and baseline copilot features like summarization that can quickly recap pages of documents are linked to the e-mail threads. They also have exciting new use cases. For example, there is a recall function that makes it very easy to find signed documents based on visual cues or help users easily navigate back to a website to find a specific item they shopped for three weeks ago.

They also have a live language translation functions that works real time on videos without requiring a connection to the Internet. And the CoCreate capability can take your rough sketches and turn them into works part to support these launches. We have built a comprehensive go-to-market plan. At roughly 40 skews in total, we expect to have the largest assortment at launch with more than 40% of the assortment retail exclusive to Best Buy. Working in coordination with our vendor partners we will have inspirational merchandising and demos of the products in our stores and unique educational and interconnected digital shopping journey.

And of course, we have an extensive training program to ensure we leverage our sales associates and Geek Squad agents to ensure Best Buy as the destination for unbiased advice and inspiration around how this new tech can enrich their lives. There is additional innovation to drive excitement and interest, including the recently launched Apple iPads featuring their M4 chips that are already contributing to improved sales trends this quarter.

Additionally, we have the new both open your headphones and [photos] has just announced. They are entering the headphone space as well. All these launches are coming just in time for back-to-school, and we expect this drive time to be an important part of the computing story. From July through mid-September, we will have a series of sales events focused on students and their parents that will feature our new brand positioning. We also plan to offer specific deals to our members to drive acquisition and engagement.

As I mentioned earlier, we are taking action to sharpen our customer experiences and industry positioning while also maintaining our profitability in this environment. Last quarter, 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 a pilot and drive incremental revenue stream.

I would like to provide some updates on our progress. We are focused on providing increasingly personalized, highly relevant and motivational content as we can attribute roughly 90% of our annual revenue to known customers. I'm particularly excited about the work we are doing with our app as we grow the number of users. Customers who use our app spend more than non app users. During Q1, we went live with a personalized home screen powered by AI that has now rolled out to 50% of our app users.

Each of these users, home screens look different based on their personal preferences and a number of other factors like current locations, shopping history, membership status and what we know they care about the most based on their activity. This could include the newest and hottest deals, latest gadgets from favorite brands recommendations on products, services, or accessories, or even a prompt to shop with one of our experts to help them save time.

Thus far, customer to receive our personalized homepage are engaging at higher rates than we expected. We are excited to roll the new features to all app users this summer. Over the past year, we've also been focused on driving speed improvement on the product pages and in checkout in the mobile experience to drive customer experience and sales performance. For example, since starting this work in February, we have driven a 50% reduction in mobile product detail page load times. Of course, we are also focused on the customer experience in our stores.

From a physical standpoint, we plan to touch every store in the chain in some fashion throughout Q2 and Q3, improving both our merchandising and ease of shopping for customers. This includes improving and [lighting] 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 are 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 excited to partner even more with our vendors to this year as it relates to their branded in-store merchandise experiences. Of course, we will see updates in the computing department as we already discussed. We will also so see new and enhanced in-store experiences for others, including GoPro, Tesla, Lovesac, and StarLink.

As we mentioned on our last call, we plan to close 10 to 15 stores for our ongoing review process while opening a few new stores to test concept. For example, in Kansas City, we are replacing a large store with a small format store close by to maximize store retention through convenience. Also later this year to capture untapped share we are opening a store in and out state area where we have no prior physical presence and our omnichannel sales penetration is currently low.

We want to ensure our customers receive the [experts] service interactions they want and Best Buy is known for when they come to our stores. Extensive training is imperative to that experience. For example, as we prepare for the new launches and computing, we have and will continue to partner with our vendors to train and certify thousands of computing experts and Geek Squad AI pros. In addition, this month, we added fully dedicated labor expertise doors plan to add back fully dedicated expertise in major appliances and home theater departments in stores this summer.

These changes are in addition to the actions taken throughout the past year to streamline our leadership model, allowing us to invest in materially more customer facing sales associate hours in our stores compared to last year. We also continue to partner with our vendors around expert labor. In fact, we have just expanded our vendor partnership with Samsung to include vendor provided expert labor in appliances departments across hundreds of stores.

This appliance labor will be incremental to our own existing labor plan. We are making good progress against our second key priority to drive operational effectiveness and efficiency. Our long-standing commitment to identifying cost reductions and driving efficiencies is paramount to help offset inflationary pressures in our business and fund investment capacity. 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.

For example, in supply chain, you made enhancements to our systems and process guidelines that reduced [PV] damage in Q1, and we expect the savings to build throughout the year. We also developed a statistical model to identify high return rate products that we leveraged with our major vendors to reduce open box products in the quarter. We will continue to lean heavily on analytics and technology to achieve these efficiencies. We have already shared how we are leveraging AI to route 95% of our in-home delivery and installation and trucks to drive more efficient scheduling and a better customer experience, and how we have begun using AI tools to improve the accuracy and efficiency of our customer service calls.

During Q1, we announced a partnership with Google Cloud and Accenture to help us further improve the customer and employee experiences in a seamless and human way. Expected to launch late this summer our enhanced self-service support, we will leverage 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 membership.

This year, we are also taking larger actions to one ensure our resources are directed at the right strategic areas and to right-size our model based on current operations. While we made most of these decisions and book the associated restructuring charge in the fourth quarter, we are implementing most of the actions in the first half of the year with some not being implemented until fiscal '26. These actions will allow us to do the following.

Balanced 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 right-sized 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 are due to decisions we made like evolving our paid membership benefits.

For example, last year, we made the decision to remove free installation services from our membership program. This as expected, led to reduced services fulfillment volume. As a result, during the first quarter, we reduced the number of Geek Squad team members to align our headcount to our forecasted demand.

This will improve the experience for our remaining employees ways and allow them to rely on a more consistent schedule and pay. Our third key priority for the year is to continue our disciplined approach to capital allocation. In this environment, we now expect our enterprise capital expenditures for fiscal '25 to be approximately \$750 million, \$50 million lower than last year. This decline is largely due to our decision to concentrate our store capital investments more on existing store updates and refreshes unless some major remodels.

Our share repurchases are expected to be similar to last year at approximately \$350 million. Our annual dividend expense is expected to be approximately \$800 million with our current dividend yield over 5%. As mentioned last quarter, our fourth key priority for fiscal 25, longer-term and focus, we will continue to explore opportunities that leverage our scale and capabilities to drive incremental profitable revenue streams over time.

This includes endeavors like our Best Buy health business, our collaboration with Bell Canada to operate 165 small format consumer electronics retail stores across Canada, our Geek Squad as a service pilots and our supply chain partner plus program. It also includes continuing to build out our Best Buy ads capabilities. We have had a robust retail media network business for a long time and ship with our vendors. And we are expanding our available ad products and improving the advertiser user experience.

For example, we recently announced a collaboration with [See Net] share inventory across both ad platforms, editing reach and frequency for our brand advertisers, along with closed loop reporting. In addition, customers will see curated content and editorial advice from seen that's experts across various Best Buy channels and compassion. We have a variety of product reviews and expert picks that align with their shopping experiences. We also rolled out new self-service reporting capabilities to all vendor ad partners. This will make it even easier for add customers to engage with us and will provide valuable closed loop insights on the effectiveness of on-site ad product.

Before I close and turn the call over to Matt, I want to take a moment to recognize our employees for their content continued work to support the communities we serve. I'm proud to share that we recently opened up two new Best Buy Teen Tech Centers in Los Angeles and St. Cloud, Minnesota, and have several more set to open later this year. These centers during the Best Buy foundations, growing network of use centered community hubs where teams have access to the latest technology, learn real world career skills, and interact with supportive mentors.

We continue to be recognized as an industry leader in sustainability. For the 11th year in a row, we were named as Energy Star Partner of the Year. This award reflects our ongoing commitment to help our customers reduce their carbon emissions from energy star products. And during this [month], we partnered with Microsoft and junket tour to help raise awareness about the importance of responsibly recycling old tech.

In summary, we executed well in the first quarter and remain focused on our fiscal '25 priorities. The stickiness of certain macro factors and the ensuing impact on consumer demand for our category has been uneven, but we remain undeterred. We will continue to navigate the environment as we have the last few years, while remaining focused and energized about our purpose to enrich lives through technology.

There are a lot of time left of the year with exciting new innovations. We hold roughly one-third of the US retail sales market share in both computing and televisions, and we intend to strengthen our position in key categories like computing, home theater, and major appliances through elevated experiences, pointed marketing spend, and sharp pricing. We're the largest [sees] specialty retailer with the unique range of product assortment and expert services to help humanize tech for every stage of our customers' lives.

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 rate. I will now turn the call over to Matt for more details on Q1 financial performance and our outlook.

Matt Bilunas - Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy

Good morning, everyone. Let me start by sharing a few details of first quarter results. Enterprise revenue of \$8.8 billion declined 6.1% on a comparable basis. Our non-GAAP operating income rate of 3.8% improved 40 basis points compared to last year and included a 60 basis point improvement in our gross profit rate. Non-GAAP SG&A dollars were \$97 million lower than last year and increased approximately 30 basis points as a percentage of revenue.

Non-GAAP diluted earnings per share increased 4% to \$1.20. Our comparable sales decreased 4.5% in February and decreased approximately 7% in both March and April. As a reminder, our comparable sales are computed on a like for like fiscal weeks and are not shifted to more closely align calendar weeks following last year's 53rd year -- for 53rd week year.

Although our sales were softer than we had planned for non-GAAP operating income rate of 3.8% was 40 basis points higher than expected. Our gross profit rate was higher than expected primarily due to a more favorable gross profit rate in our services category, which includes our membership offerings. Our non-GAAP SG&A expense was also favorable to our expectations, which was driven by lower store payroll and advertising expense.

So next, I will walk through the details on our first quarter results compared to last year. In our domestic segment, revenue decreased 6.8% to \$8.2 billion, driven by a comparable sales decline of 6.3%. From an organic perspective, the overall blended average selling price or ASPs of our products was higher than last year. The growth was entirely due to an increase nice mix of units from higher ticket items such as laptops and TVs. Even though the individual ASPs for both categories were down to last year, international revenue of \$644 million decreased 3.3% of our domestic gross profit rate increased 80 basis points to 23.4%.

The higher gross profit rate was primarily driven by improvements within our misses category, which includes our membership offerings. This was partially offset by lower product margin rates and lower credit card profit sharing revenue. Consistent with previous two quarters, 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 similar recognition of this funding in the second quarter of approximately \$20 million and beginning in the third quarter of this year, we fully lap the recognition change.

Our international gross profit rate decreased 90 basis points to 22.8%. Lower gross profit rate was primarily driven by lower product margin rates. Moving to SG&A, our Domestic non-GAAP SG&A decreased \$98 million, which was driven by, one, lower employee compensation expense, which was primarily store payroll, two, reduce vehicle rental costs, and three, lower expenses across multiple other areas such as advertising and credit card fees. These decreases were partially offset by higher technology expense.

During the first quarter, we returned \$250 million to shareholders through dividends and share repurchases. Moving on to our full year of fiscal '25 financial guidance, which remains unchanged from the start of the year and is the following. Enterprise revenue of 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 I have 3.9% to 4.1%, and non-GAAP effective income tax rate of approximately 25%. Non-GAAP diluted earnings per share of \$5.75 to \$6.20.

As Corie mentioned, we now believe revenue is trending more towards the midpoint of our annual guidance range, whereas profitability more closely aligns with the high end of our non-GAAP operating income rate guidance. This is due to our expectation for further gross profit rate improvement. We now believe our gross profit rate compared to fiscal '24 will slightly exceed our original outlook of 20 to 30 basis points of expansion. There are two key areas that have changed since the start of the year, which are the following.

First, the continued profitability improvement of our services membership offering is now expected to provide more than 45 basis points of gross profit rate expansion we expected at the beginning of the year. This is primarily due to a lower cost to serve to lower expected volume for in-home installation and other related services. Second, we now are expecting additional pressure on our product margin rate for the year, which was primarily driven by pricing investments. As I mentioned, that the net impact of these two items is expected to result in gross profit rate improvement compared to our original guidance.

The other gross profit rate drivers of our annual guidance remote remain unchanged from last quarter and they are the following. We still expect Best Buy health to add a benefit of approximately 10 basis points to our enterprise gross profit rate. On a year-over-year basis, we still expect

approximately 20 basis points of pressure from a lower profit share on our credit card arrangements. The expected pressure in fiscal '25 is primarily due to an expected increase in net credit losses. Estimate does not include the potential implications from the proposed late fee regulation changes.

Now moving to our annual SG&A expectations, which remain unchanged from the start of the year. 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 a high end of our guidance, assuming an increase of \$40 million compared to fiscal '24 weeks. Still expect advertising expense to increase by approximately \$50 million. Partially offsetting the previous items, the benefit of one less week, which is estimated at \$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 expense line.

Before I close, let me share a couple of comments specific to the second quarter. As Corie mentioned, we anticipate better second quarter comparable sales will decline by approximately [3%]. We expect our non-GAAP operating income rate to be approximately 3.5% or 30 basis points lower than the prior year comparable period. The lower year-over-year operating income rate is driven by SG&A deleverage as SG&A dollars are expected to be very similar to fiscal '24 second quarter.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Steven Forbes, Guggenheim Securities.

Unidentified Participant

Good morning. This is [Huey Markeznon] for Steven Forbes. (technical difficulty) maybe we could get a little bit more detail on product roadmap post Labor Day? I mean, if you could maybe remind us of annual revenues that come from some of these new products. And a quick follow-up on [clients'] market share. Any insights you can give and where are the -- was there [a market share] and how your performance relative to that and if you see any visibility of that flipping? Thank you.

Corie Barry - Best Buy Co., Inc. - CEO

Maybe I'll start on some of that product roadmap side of things, and then Matt can maybe move into some of the market share. The product road maps, we've got a few things right now that are happening. We had a new suite of iPads that came out in about the middle of May here, and those are available for purchase now. And we're already starting to see some of that new innovation contributed to what's been a bit of a change in trajectory on the growth rate even as we have been in May here.

And then obviously, as we noted in the prepared remarks, Microsoft has announced a full line of pilot plus product. As we said, that 40 SKUs, about 40% of which are exclusive to Best Buy. Those are available for preorder but don't actually get delivered until June 18. And then we talked about a few of the others that have been announced that well at various stages within the next call it one month be ready for purchase, which are some of the new open your headphones for both and some of the new Google Chromecast notebooks that we're also seeing that have some AI enabled features that well.

So all of these kind of -- those that we can see right now on the road map. Likely some other products coming out as we continue into the back-to-school kind of timeframe. Most of that you're going to see flow through and all of it, you're going to flow through that kind of computing area for us. One thing that I would note actually as well as that at the iPads that came out in the pro side are incredibly powerful and are actually really close to the laptop side of the business as well.

So we're watching customers can choose between all those things as they think about how they want to maximize their productivity go forward. So you're going to see a lot of that hit here in the kind of middle of Q2 and really becomes relevant, I think, mostly as we head into back-to-school. And like I said, as part of that larger computing category that you can see us breakout.

Matt Bilunas - *Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy*

Sure. In terms of appliances, I think I just step back, appliances is the great category for us, Q1 specifically. You saw appliance category that was materially more promotional in pursuit of stimulating interest and sales within the industry. It has been our practice, we are very targeted thought about when and where to make our promotional investments. So in Q1, I think if we looked at it, we probably did lose share in Q1. It was a very promotional category in Q1. Q1 is somewhat quiet quarter for us. April is the smallest quarter in the month. I think the industry is also shifting towards a [rest] type of purchase -- of a single item purchased non-premium package purchases, which has historically been our biggest part of the category.

So still feel really good about the category in total. I think where you'll also see us do is we look into Q2, Q3 and Q4, you're seeing in our comments that we are now investing in pricing and marketing and labor in the future to help support that category, which seems more appropriate for the rest of this year versus what we saw happening in Q1. So still feel great about the appliance category in total and our position as well as we look out to the remaining part of the year.

Corie Barry - *Best Buy Co., Inc. - CEO*

And the last thing I would say just to add on, I think we're very targeted in the drive times and we talked about that trend in May and proving and a part of what drove some of that trend improvement was an improvement in this particular part of the business where we made some targeted moves as it relates to the bigger drivetime of Memorial Day.

Unidentified Participant

Great. Thank you.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley - Analyst*

Hey, good morning, everyone. Connected to appliances, you mentioned I think Corie is quoted in the press release talking about the strengthening your positioning in certain places and you mentioned pricing on appliances. So can you talk about where the position or -- I don't know if it's market share has weakened. Can you talk about why? And then you mentioned pricing in terms of appliances. Are you using pricing any place else? And is it because the industry got more promotional? And then I guess how far do you have to move on price? I guess it's all back to the guidance, but what's the risk with this pricing keeps getting -- I guess more promotional as the year goes on?

Corie Barry - *Best Buy Co., Inc. - CEO*

I think if you we think about the promotional environment -- and I said it in the prepared remarks, it's definitely higher in aggregates than what we saw last year and even with our own expectations. And that's both breadth and depth. And I think that reflects the consumer who we've said is very value oriented. You said it yourself, I wouldn't reinforce. Implied in the guide is our planned investments to continue to strengthen our

positioning in key areas. And we're going to do it in our own way, right? We're going to do this partially with some of the specialized labor, partially with some vendors special [size] labor that we talked about, partially with marketing.

And we had talked a little bit more about spending more in marketing year over year that was included in the guide and then, of course, partially in pricing. But I think what you've seen us do and there were a lot of questions out there, I've seen in various calls where people are asking, is it about the revenue or is it about the profit? And my team hates me because I only use one word, and that is [and].

And so I think that the team is constantly navigating, when in the right time is can we get the best eyeballs, those bigger drive times that's not going to be in a month like April. That's going to be in places like Memorial Day or the Fourth of July. And then how do we use that suite of assets that we have a Best Buy, including installation and delivery and membership to help deliver the best value in a way that balances the outcomes as best we can.

Simeon Gutman - *Morgan Stanley - Analyst*

Fair enough. Can I ask maybe one follow-up to exactly the word you said the and? The business is being moved incredibly well. It's very efficient right now. And you said it yourself, you're going to be adding some expenses back in the second half of the industry turns. Thinking about the operating leverage on the turn, is there a scenario where you get both the -- and you get the typical Best Buy operating leverage when the cycle turns? Or do you have to spend back into given how efficient the businesses today?

Matt Bilunas - *Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy*

Yes. I mean, I think without guiding next year, I think as we start to see our business improves, see the industry improve and our sales grow along with the industry growth as well, we would expect, along with that growth, we would be able to manage our business in a way to continue to get operating rate expansion as we look forward. Now, exactly what quarter and it doesn't show up exactly?

Perfectly I think overall, we're seeing we're going to manage our business to increasingly improve our efficiency as well as grow our sales. And we will do that through the means of making the right investments in our business, still continuing to drive efficiency in our business where we see it and also making sure that our initiatives are progressing in the way that also help bolster our profitability as we look forward.

Simeon Gutman - *Morgan Stanley - Analyst*

Thank you. Okay. Good luck.

Operator

Peter Keith, Piper Sandler.

Peter Keith - *Piper Sandler - Analyst*

Thanks. Good morning. I want to ask about the AI enabled laptop. Certainly seems kind of exciting. What's the preorder interest right now? And also, Corie, what you think about the \$1,000 plus price points? Do you think that's a little high right now to drive mass adoption?

Corie Barry - Best Buy Co., Inc. - CEO

So in terms of preorders, let me start by saying, to your point, exactly this price point does not usually represent a huge amount of preorders. It tends to be something people want to come in and see or want to spend a little bit of time researching. That being said already the preorders are outpacing I'd call at, our early expectations. Just a bit, not massively, but just a bit. So that's good.

What we're looking for here is early indicators that there is at least interest in learning more. And I think where we're really working hard, as I talked about, all the investments we're making is really helping the consumer understand what is the value there I get here, and that's why we started with some of the distributors like longer battery life -- materially longer battery life, or it just runs cooler and your fans are not going all the time. Like these are actually consumer attributes that people find interesting.

You're right, it is more premium computing at this point, as are the new iPads and iPad Pros that just came out in the middle of the month, which we saw pretty much immediately stimulate some really interesting demand, Peter. So I wouldn't call that, and we've been pretty clear on this from day one. This is not -- everyone is lined up at the front door, waiting to run in and grab the new computer.

But it is enough at -- like most things in [CE] where it starts a little bit more premium, has some of the attributes, drive some of the interest and allows us the chance to partner with our vendors to really thinking differently about how we go to market with a new generation of computing. And then again in a timeframe that's, let's call it about 4.5 years post pandemic and should be a very ripe timeframe for replacing almost a generation of computing that probably is nearing its end of its lifecycle.

Peter Keith - Piper Sandler - Analyst

Okay, sounds good. Certainly some innovations better than what we've done that. Maybe just sticking on the AI theme as you're incorporating AI capabilities into your own business, it sounds like it's more focused on the customer support experience. The heart of the question is, do you think that drives both a better experience in cost savings? Or where do you prioritize one versus the other through our cost saving and is there any way to kind of frame that up for us?

Corie Barry - Best Buy Co., Inc. - CEO

This is another and topic. We highlighted one example. It's hard because we can't highlight every single example in the script. But I really think about -- there's kind of four buckets as we think about using AI in our business. One is more what I would call on the strategic offense. That is more about how do we -- we talked about knowing 90% of our customers when they come to us that personalized. Home page in the app is an exceptional example of how we're using AI in a way that is all geared around the customer experience. And we can easily see in the data. There are customers who are engaging with us substantially more when they have that personalized experience.

One other simple example, if you go out right now and you look at our customer reviews, you will see themes of customer reviews and then you can refine those reviews based on a thing you want to learn more about. Meaning, someone may complain because the battery life isn't long enough and then filter quickly to see all of the reviews based on that. That is all AI enabled and that is all about customer experience. And we know when people interact with reviews, they're much more likely to follow that transaction all the way through.

So there is a lot that is on just flat-out customer experience side of things that will drive incremental engagement and ultimately revenue. Then yes, we also highlighted the expense reduction side of thing, things. But you asked about -- I love how you ask the question. Because it started with -- and I will use our call center example. It started with an experience that we felt was suboptimal for both customers and employees. And it started with a complete journey and we can show you that the entire journey we're trying to create for our customers that will vastly improve their experience.

And then AI and generative AI is a tool that we are plugging into that experience in certain places so that it can be more efficient. An example there is that -- we've talked about this before -- our agents don't need to summarize calls now. Those calls are automatically summarized, which means

the agent can concentrate a lot more on the person there talking to. It's also quicker transaction. And it helps with that end to end customer experience all the way through.

And yes, at the end of the day, that is allowing us to be more efficient and double down on using the agents' time most effectively, which was with a customer who wants a problem solved. And then finally, we're also working on making sure we're doing this in a responsible way and that we are very clear about our customers' data. And then all of us just are continuing our kind of usage here of these tools. So we're trying to highlight different examples and all of it in service of a customer and employee strategy.

Peter Keith - *Piper Sandler - Analyst*

Okay. Thank you very much and good luck.

Operator

Robert Ohmes, Bank of America.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Oh hey, Corie. Actually two questions. One is just I wanted to get a clarification on the made-a-date comps, can you just remind us what -- explain the impact of the Memorial Day shift? Are you running above the [minus three] view exclude the benefit of Memorial Day May to date or -- just wanted to clarify them. And then I had a follow-up question.

Corie Barry - *Best Buy Co., Inc. - CEO*

Yes, I'll start with that. So what we said precisely is based on the month-to-date results, the estimated comparable sales for May right now are better than the Q2 guide. And that doesn't include a full lab of Memorial. It's tricky because with the Memorial, we can follow like half in May fiscal and have in June fiscal. So it includes a chunk of it, not quite all of it. All that being said, it's still -- even if we tried to do all the adjustments all put together, you're still, if not right in line with the guide, maybe just a little bit better. So you're right in there, even with the jets, as best I can tell. So couch that.

I would want to say, though, just since we're on the topic, we're also thoughtful about those periods between those main drive time. So that's a bit of why we gave you the guide for the quarter. They'll be some puts and takes in there. But we're liking at least what we're seeing in some of the drive time and in some of the innovation. Because where the trend really change changed from what we were seeing in April is two main players.

One, we saw a trend change in tablets. So as we saw both the new launches, the Pro and the new Air as well as some of the deals on the older generations -- because I think sometimes people forget is sometimes when you get the new innovation that allows you to cycle through some of the older reps or product as well as we get that broad set of price points that makes it accessible for everyone. Tablets in general is better. And then the second back to our point that we made about using these key drive times, both major appliances and TVs started seeing some initial positive impact from some of the intentionality that we're putting into those categories. So what we like it that even as we continue to go through the lapping question, the overall change in trajectory and underscores the thesis that we've been talking about now for some time.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Thank you. That's helpful. And then just quick follow-up, can you remind under speed advantages of you're doing more refreshes versus store remodels?

Corie Barry - *Best Buy Co., Inc. - CEO*

Yes, there are a few. So you think about a full on remodel, typically there are you're going to take one store and top-to-bottom, you're going to move the ball to all the things. It is a capital intensive process. It does definitely result at the end of the day and held luckily store experience. But you are more limited in the quantity of stores you can do because it requires obviously a little bit more capital intensive process.

On the way we're looking at it this year is the store updates allow us -- and refreshes allows to touch every single store in the chain. So instead of remodeling 30, we get the chance to go touch 900. And we gave some examples within the script where we're going to rightsize some of the categories. We're going to make sure the center of the store is exciting relevant, and we're going to make sure that for some of these new product launches are going to see really interesting displays.

But importantly, it also gives us a more scaled chance to work with our vendors on their experiences in our stores. Because we're going to go out and touch all the stores anyway, we get the chance then to partner with our vendors on where they might also want to update some of their store experience. So you almost get out little bit more reach, not because it's not just us doing it. We get the chance to go into those stores and maybe refresh our experiences as well as some of those vendor experiences. And so I think the advantage as you get a chance more at scale to be able to kind of do a refresh and in tandem with some of the innovation that we're talking about.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Got a really helpful. Thank you.

Operator

Chris Horvers from JPMorgan.

Chris Horvers - *JPMorgan - Analyst*

Thanks and thanks and thanks for putting me back in some tech problems from JPMorgan. So my first question is, can you talk about the unit trend momentum sequentially from the fourth quarter to the first quarter in computing and TVs? And presumably you have a good view of what ASPs could look like in those categories this as you think about the rest of the year and acknowledging the prior question, you talked about some high price points, but was there any deterioration in new trends and should be ASPs actually just net-net accelerated not dampen that unit demand?

Matt Bilunas - *Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy*

Yes. And overall, I think we've been seeing a similar type of units as we progress through to Q4 to Q1 and you get into Q2, I think probably nothing too dissimilar there. I think we are seeing the potential for ASPD improvements as you look towards the back half of the year with the innovation that's coming in typically with processing -- when you transition your product from the old to the new you carry on a higher ASP. Then if you're higher than the old product the old products down in price and then out of it is either the same, if not typically higher.

I think the way our capabilities are going to probably drive a level of innovation and excitement in product features that are going to continue to probably push ASPs a little bit. Now again It's only in part of our computing category. We're talking about laptops right now. AI hasn't necessarily filtered its way into desktops and some other areas. So still potential as you look beyond this year.

Chris Horvers - *JPMorgan - Analyst*

And then just to clarify that and then I guess on a home theater side, [we're] TV units positive. And then my follow-up question, this is really on the services growth. I mean, I believe it caused by 9% a year in the first quarter. So I guess how much of that is -- what's changing there? Or is it renewal rates? Is it attach rates? Is it changes that you made to the program that's driving that growth? Any detail there would be great. Thanks very much.

Matt Bilunas - *Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy*

Sure. On the TV side, you had both units and ASPs were both down. So I'm not saying that the unit growth there on the TV side, again. [Very] TVs is a very low price point, low tier type of environment. And so we're obviously navigating the overall part of that industry.

The second part of the question was? Services. Services growth was driven by some charging for installation services that were previously part of the membership programs. So back in June of last year, we removed installations part of the free membership offering and started charging for that service going forward. And so that's what's driving most of that services revenue growth. There's also a little bit of growth coming from standalone warranty that's improved this year compared to last year.

Chris Horvers - *JPMorgan - Analyst*

Got it. Thanks very much.

Operator

Anthony Chukumba, Loop Capital.

Anthony Chukumba - *Loop Capital - Analyst*

Good morning and thanks for taking my question. Pretty quick one. In terms of the reef store refreshes, two-part question. I guess how quickly can you execute those? And then what's the -- I know it's built into your some of the \$50 million CapEx guidance, but what's the sort of rough cost on them? I know there are obviously a lot cheaper than a full refresh, but we'll just look good for some perspective on that. Thanks.

Corie Barry - *Best Buy Co., Inc. - CEO*

Absolutely. I can start with the [how] fast question. We said in the prepared remarks, we're going to be doing this throughout Q2 and Q3. So you're going to see us pretty quickly here start to move and obviously, a piece that needs to go right away is that computing presentation and how we're making some updates to the computing at the store. So you're going to see these roll throughout Q2 and Q3 with the objective being asset as possible as we head into holiday. The team does a really nice job being able to move. Though there's probably one other advantage of doing more refresh model is you can do these overnight. You can get a refresh and get out, get it ready.

Matt Bilunas - *Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy*

From a cost perspective, we never really given the total -- I mean from a remodel you're talking -- sometimes of \$1 million in some cases. If you look at a refreshing ranges, depending on what you want to do, it can be \$50,000 up to a few hundred thousand dollars. I would add that our partners also participated in some of these remodels because we're changing some of their own -- their presentation, which they like to see, their product presentation change that when we make these changes. So it really depends on store and what you're changing in terms of the scope of any individual store. But it's significantly less than a new store build.

Corie Barry - *Best Buy Co., Inc. - CEO*

And Andy, just to refine it just a little bit. There's a bunch of things that kind of work in concert here over the next couple of quarters. Innovation, that kind of drives us to want to highlight both vendor spaces and our own spaces in our stores. So you get the store refreshes, you're going to see us do a brand refresh here. At Best Buy we'll yield some of that new branding as we head into back-to-school. That also brings through a little bit of refresh us from a store perspective.

We've talked about the dedicated labor zones that we're bringing into hundreds of stores, the dedicated labor in appliances and home theater and computing, and we're augmenting that with incremental vendor labor that's new in a couple of spots. We used at this Samsung appliance example explicitly, and then we wrap around that some of them are personalized approaches to trade in or to membership. I think as you look into Q2 and Q3 we're kind of trying to bring all of this together are in a way that both physically and digitally and shows up as being kind of new and exciting for our call customers and our employees.

Anthony Chukumba - *Loop Capital - Analyst*

That's very helpful. Thank you.

Operator

Seth Basham, Wedbush Securities.

Seth Basham - *Wedbush Securities - Analyst*

Thanks a lot. My question is on the membership program. Can you provide some more insight into how that's growing on a paid basis and the key drivers of your [very] expected margin performance from it? That would be helpful.

Corie Barry - *Best Buy Co., Inc. - CEO*

I'll start maybe on that topic on acquisition, and Matt can talk a little bit about some of the drivers. We're not going to update our overall acquisition numbers every quarter. But as a reminder, we ended fiscal '24 was 7 million members across the two tiers of paid membership, and that was compared to 5.8 million members at the store part of the year. And if I take a big step back, our whole goal here is to drive customer engagement and increased share of wallet. All the more important in a world where people are a little less brand loyal than they were certainly at pre-pandemic.

And so there's like three things we're always watching. You hit on acquisition, but we're also always watching engagement, and we're watching retention and all of those that factor into kind of the financial outcomes that Matt will talk about. So we continue to grow our new customers in Q1 and add more to both tiers of membership. We still are seeing that paid members consistently are showing higher levels of interaction and comparatively higher levels of spend at Best Buy and a shift away from competitors.

And it still is really early. I don't lap the rollout of particularly plus, but even the new revamp of total until June, but even on the early renewals for total, retention rates are performing some of our expectations. So I give the team a great deal of (technical difficulty) both for kind of tweaking these offers in a way that resonates more with customers, but also for continuing to refine the way we reach out to those customers to make sure we optimize their interactions and that resulting financial.

Matt Bilunas - *Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy*

Sure and it's just a reminder, as we started the year, we expect to have membership and services to improve our gross profit rate by 45 basis points. And now what we're saying, it's more than 40 -- is a little bit more than 45 basis points. And so what we're seeing a little bit better is essentially a

little bit lower cost to serve come through in Q1, which we would expect to continue as the year progresses. That's what's driving it. Those are just lower volumes coming through. Some of our categories is driving some improved profit rate. We're also actually seeing a little bit more stable and warranty sales, which is helping our overall membership flat services gross profit rate for the year as well.

Seth Basham - *Wedbush Securities - Analyst*

Thank you very much.

Operator

Jonathan Matuszewski from Jefferies.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

Great. Thanks for taking my question. So on spend across demographics, I imagine the initial debut of AIPC may resonate with certain demographics until it becomes more mainstream, maybe a little bit higher income will be a little bit younger in age, perhaps. So are the spending trends for those customer cohorts outperforming that broader customer base?

Corie Barry - *Best Buy Co., Inc. - CEO*

Well, just to be explicit, we haven't launched the new AIPCs yet. They don't actually start shipping and getting out there until June 18. So everything has been announced and there are preorders available, but we haven't had a chance yet to see what the impact will be. I think in general the interesting part about this is because we're seeing innovation across both computing and tablets, I think it's going to create broad opportunity because we had on this just a little bit in one of the earlier questions, it's not just about the newest generation of product, which [SharePoint] might resonate to a certain cohort.

It also sometimes makes the older generations of product to more approachable because those tend to be at a different price point because now you have the new innovations. And as Matt talked about, that's what kind of props up some of the higher ASPs. So typically, it's not just about this will only resonate with one demographic. It is actually a question of how do you create that kind of good, better, best assortment that we're always creating, which then can make -- it might not be only the new stuff that someone gravitates to, but it might give them a better entry point and more value-based entry point to that new refreshed product, at least for them versus what they had for the last four or five years.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

That's helpful. And my second question just on discounting. So it sounds like promos were materially deeper in appliances. So just to be clear, I guess the midpoint of the 2024 comp guide, does that assume the promo activity in that category stays stable as the year moves on? Does that embed any improvement or deterioration in discounting levels? Any more color there would be great. Thanks.

Matt Bilunas - *Best Buy Co., Inc. - CFO, SEVP, Enterprise Strategy*

Yes, I think of what our guide assumes is that there's actually more promotion having for the remaining part of the year. Our prepared remarks, we talked about how we're product [margin] rates will be slightly lower than our expectations as we started the year. That was driven by the expectation that we'll be more pricing investments because of the promotionality as the year progresses. Although that was included in our guidance, still included in the fact that we still feel like the profit rate is trending towards the higher end of the original guide that we gave. But I'd say it's beyond just the major appliances that is certainly a category has been very promotional. I would say there's also increased promotionality across other categories as well, notably TVs or the other place where it would go up.

Corie Barry - Best Buy Co., Inc. - CEO

And I think that is our last question. Thank you all for joining us today. And I hope that many of our investors who might be listening today will be able to join us at our Annual Shareholder Meeting, which will be held virtually on June 12. Thank you all and have a wonderful day.

Operator

Thank you for attending today's call. We hope you have a wonderful day. You may now disconnect.

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