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PRESENTATION

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

Good morning, everyone. My name is Mollie O'Brien, and I'm Head of Investor Relations at Best Buy. We are very happy to welcome you all this morning. Thank you for joining us. Hopefully, you were able to review our earnings press release from this morning. This press release and the downloadable PDF of today's slide presentation can be found on our IR website, investors.bestbuy.com.

Today, you will hear from several Best Buy executives, including Corie Barry, our CEO; Matt Bilunas, our CFO; Jason Bonfig, our Chief Merchant; Damien Harmon, our EVP of Omnichannel; and Deborah DiSanzo, our President of Best Buy Health. Here is our agenda for the morning. First, Corie and Matt will recap our Q4 and fiscal '22 financial results as well as our fiscal '23 outlook. Then we will begin the strategic update portion of the event.

Corie will start with the strategic setup and discuss our membership program. As part of the strategic setup, Jason will talk about technology innovation and merchandising. Damien will follow them with a review of our omnichannel initiatives. Then Deborah will provide an update on Best Buy Health. After that, Matt will come back to the stage for the financial discussion.

Corie will provide a quick wrap-up before we break. We expect to take a 10-minute break at approximately 9:20 A.M. Eastern time. After the break, we will start our Q&A session.

Before we begin, I would like to note that our presentation today contains non-GAAP financial measures that exclude the impact of certain business events. GAAP to non-GAAP explanations and reconciliations can be found in our earnings release and our presentation materials available on our website. Today's presentation includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and the company undertakes no obligation to update or revise such statements to reflect events or circumstances that may arise after today's event.

Again, thank you so much for joining us. We are looking forward to a great meeting. And now I could not be more excited to turn the meeting over to Corie Barry, CEO of Best Buy.

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

Thank you so much, Mollie. Good morning, everyone. We are so pleased you could join us today as we report our fiscal '22 results and take this opportunity to update our longer-term strategy and our multiyear financial outlook.

Today, we will discuss how our business has evolved and how we are planning to drive value over the next few years. We're not planning to cover all our initiatives or all our business units. We've tried to be as succinct as possible to focus on the topics and initiatives that we believe are most important for you to understand about our business, our plans and where we believe we're headed, both for fiscal '23 and for the longer term.

First, let's discuss our fiscal '22 results. Fiscal '22 was another record year. In addition to record revenue and earnings, our leaders continue to drive new ways of operating and our employees continue to do amazing things in the face of unprecedented challenge and change to support our customers' technology needs in knowledgeable, fast and convenient ways. As we discussed when we entered the year, we anchored on 3 concepts we believe to be permanent and structural implications of the pandemic that were and are shaping our strategic priorities and investments.

One, customer shopping behavior will be permanently changed in a way that is even more digital and puts customers entirely in control to shop how they want. Our strategy is to embrace that reality and to lead, not follow. Two, our workforce will need to evolve in a way that meets the needs of customers while still providing more flexible opportunities for our employees. And three, technology is a need and is playing an even more crucial role in people's lives. And as a result, our purpose to enrich lives through technology has never been more important.

With these concepts in mind, we piloted numerous store formats to test and learn in the past year. We advanced our flexible workforce initiative and invested in our employees' well-being. We introduced new technology tools designed to support both our customers and also our employees. And we also launched a bold new membership program called Best Buy Totaltech, designed to significantly elevate our customer experience and drive incremental sales. We will be talking more about all these topics today.

All of this was against a constantly evolving backdrop. During the year, we navigated supply chain and transportation challenges, uncertainty as virus peaks rolled across the country and then most recently, the disruption from the Omicron wave. Our teams did an amazing job against that backdrop, expertly managing supply chain challenges since the beginning of the pandemic to bring in products our customers needed.

During the year, we continued serving our customers digitally at much higher rates. Our online revenue was 34% of our domestic revenue, and while it declined versus last year, it was up 115% or \$8.8 billion compared to 2 years ago. At the same time, we also reached our fastest package delivery speeds ever.

We are an industry leader in fast and convenient product fulfillment for our customers. In fact, the percent of online orders we delivered in 1 day was twice as high as pre-pandemic levels despite the significant increase in volume during that same time frame. These record results are driven by the investment decisions we have made in the last several years in supply chain, store operations, our people and technology, many of which we discussed at our investor updates both in 2017 and 2019.

More importantly, these results are driven by our amazing associates across the company. Over the past 24 months, they have flexibly dealt with rapidly changing store operations as we responded to impacts of the pandemic. They created safe environments for our customers, and they worked tirelessly to provide excellent service. In fact, despite all the changes we went through in the last year, we delivered NPS improvements

both online and in our stores. I am truly grateful for and continue to be impressed by our associates' dedication, resourcefulness and flat-out determination.

From a financial perspective, we delivered record revenue and earnings per share. Our comparable sales growth was 10.4% on top of a very strong 9.7% last year, growing \$8 billion over the past 2 years. Our non-GAAP earnings per share was just over \$10, up 27% compared to last year. And compared to 2 years ago, we expanded our non-GAAP operating income rate by 110 basis points. Our non-GAAP return on investment improved 840 basis points compared to 2 years ago, and we drove more than \$6.5 billion of free cash flow in the last 2 years. In fiscal '22, we returned \$4.2 billion of that to shareholders in the form of dividends and share repurchases.

We also continued to deepen our commitment to the community and the environment. Many of you may have had the opportunity to view the video that was playing before the event started. We continue to believe that our ESG efforts are directly tied to long-term value creation. And I am proud of all our initiatives but we only have time for me to cover a few examples today. We committed to spend at least \$1.2 billion with BIPOC and diverse businesses by 2025. The goal is to create a stronger community of diverse suppliers and to help increase BIPOC representation in the tech industry.

We also committed to opening 100 Teen Tech Centers by fiscal '25. During fiscal '22, we opened 9 to end the year with a total of 44. These provide teens in disinvested communities access to the training, tools and mentorship needed to succeed in post-secondary opportunities and careers. In addition, we're building a diverse talent pipeline for jobs of the future.

In terms of the environment, in fiscal '22, we were a founding member of the Race to Zero initiative, committing to accelerate climate action within the retail industry. We are also driving sustainability through the unique consumer electronic circular economy. We help keep devices in use longer and out of landfills by leveraging our customer trade-in program, Geek Squad repair services, responsible recycling and Best Buy outlets. These are initiatives our customers and vendors value and capabilities no one else has at our scale and breadth, and we are honored to be recognized for our work.

Notably, we have placed in the top 5 on Barron's Most Sustainable Companies list for the past 5 years in a row. This ranking recognizes our strong performance across all aspects of ESG. In addition, we are on the CDP Climate A List for the fifth year, which recognizes leadership in making a positive impact on the environment.

Now let's move on to our Q4 results. I am extremely proud of what we accomplished during the fourth quarter. Our team showed remarkable execution and dedication to serving our customers throughout the important gift-giving season. This was evidenced by the fact that we drove improvement in year-over-year customer NPS metrics across almost all areas, particularly for in-store, online and chat experiences.

In fact, we saw our best ever customer satisfaction scores for our in-store pickup experience. Online sales were almost 40% of domestic revenue compared to 43% last year and 25% in Q4 of fiscal '20. We reached our fastest holiday delivery times ever, shipping products to customer homes more than 25% faster than last year and 2 years ago. We also completed the purchase of 2 companies that aligned with our strategy, which Jason and Deborah will talk about later this morning.

We are deliberately investing in our future and furthering our competitive differentiation. This, as we expected, is temporarily impacting our profitability. The biggest areas of investment in Q4 were our new membership program, technology and Best Buy Health, all core to our future growth potential. In the face of unexpected change, I remain inspired by the way our teams across the enterprise remain flexible to ensure our customers were able to find the perfect gift. We remain well positioned as we head into fiscal '23 as the unique technology provider for the home.

I'll turn the meeting over to Matt to cover more details on our Q4 results and fiscal '23 outlook. Matt?

Matthew M. Bilunas - Best Buy Co., Inc. - CFO

Thank you, Corie, and good morning, everyone. Hopefully, you were all able to view our press release this morning with our detailed financial results.

Our Q4 revenue was \$16.4 billion. Our domestic comparable sales declined 2.1%, and our enterprise comp sales declined 2.3%. Revenue grew 8% versus 2 years ago. It was only slightly below the low end of our revenue guidance for the quarter due to a few factors.

The first factor was inventory availability. We expected to have pockets of inventory constraints as we entered the quarter and called out a few areas, including appliances, gaming and mobile phones. As the quarter progressed, inventory was more constrained than we anticipated within a few categories and brands. These constraints included some high-demand holiday items, and the categories most impacted were mobile phones and computing.

The second factor impacting our results was Omicron. The Omicron wave and the resulting high levels of employee call-outs led to a temporary reduction in our store hours in January and to start fiscal '23. In mid-February, our staffing levels started to improve, and we increased store operating hours for the majority of our stores.

Excluding these 2 factors, our revenue would have been comfortably in the guidance range we provided for the quarter. From a category standpoint, on a weighted basis, the top areas with positive comparable sales growth included appliances, virtual reality, home theater and headphones. We saw comparable sales declines in gaming, mobile phones, tablets and services.

Turning now to gross profit. Our non-GAAP gross profit rate decreased 50 basis points to 20.2%. This was about 20 basis points lower than we expected primarily due to increased promotionality. When comparing to last year, the largest driver was our services category, primarily driven by Totaltech.

Our product margins were largely flat to last year as the benefit from category sales mix was offset by increased promotions. Higher profit sharing revenue from our credit card arrangement was a benefit to gross profit rate compared to last year. Lastly, our International gross profit rate improved 210 basis points to last year, which provided a weighted benefit of approximately 20 basis points to our enterprise results.

Our enterprise non-GAAP SG&A dollars grew 5% versus last year, less than our guide of 8% growth primarily due to lower-than-anticipated incentive compensation. Within our Domestic segment, our SG&A dollars increased \$139 million. The largest drivers were: one, advertising, which included campaigns for both holiday and to drive awareness for our new membership offering; two, technology; three, increased store and call center labor that helped drive the record customer satisfaction scores Corie shared; and four, Best Buy Health, which includes the impact associated with our acquisition.

Before I discuss the fiscal '23 financial outlook, let me spend some time on our new Totaltech membership program. Corie will provide a more holistic overview later in her presentation, but I will add some color on the impacts to our Q4 results and for next year.

Totaltech is a near-term investment to drive long-term value. The thesis is that over time, we will capture incremental product sales from our members that will lead to higher operating income, but as we discussed in prior earnings calls, it does come with near-term profitability impacts. First, at \$199, the stand-alone membership is profitable. It just isn't as profitable as legacy service memberships due to the breadth of benefits and the cost to fulfill them.

Second, there's a loss of revenue and profit from existing revenue streams that are now included as benefits in the program. For example, previously stand-alone services like extended warranties and products installations are now included within our Totaltech membership. We still offer these services on a stand-alone basis or to nonmembers, but you can imagine there's an aspect of cannibalization as members are no longer paying incrementally for these items.

So what does all this mean? We expect that the gross profit rate of our services category will reset to a new level going forward that is lower than it was prior to launching Totaltech. The way to drive more operating income despite this lower services gross profit rate is to add far more members than we thought was possible under our previous membership offerings. The key to increased profit will be through increased volume through a combination of more recurring membership revenue and incremental product purchases of our members.

The number of memberships grew very nicely in Q4, and our plans for fiscal '23 assume continued growth. But it will take some time to reach the scale necessary to offset the lower gross profit rate I just described. Therefore, Totaltech remains a pressure in fiscal '23 but we expect it to be a meaningful driver of both higher sales and operating income dollars in fiscal '25 targets.

Now let's talk about our overall fiscal '23 outlook. Our guide is anchored around a comparable sales decline in the range of 1% to 4% and a 5.4% non-GAAP operating income rate. Our non-GAAP diluted EPS outlook is \$8.85 to \$9.15.

Before we discuss the broader assumptions driving our guide, I want to touch on our expected tax rate. Our non-GAAP effective tax rate is planned at a more normalized level of 24.5% in fiscal '23 compared to 19% rate in fiscal '22. As you may recall, our Q2 results this past year included a \$0.47 diluted EPS benefit from the resolution of certain discrete matters.

Now I would like to share a few important assumptions underpinning our guidance. First, we anticipate the traditional CE industry to decline in the low to mid-single digits next year as we lap the high levels of growth in stimulus actions from this past year. In addition, we anticipate the number of store closures to be in the range of 20 to 30, which is consistent with the trend over the past 5 years.

As I mentioned, our fiscal '23 guidance assumes non-GAAP operating income rate of approximately 5.4% compared to 6% in fiscal '22. To be clear, the biggest driver of the lower operating income rate in fiscal '23 is our investment in Totaltech. As I just described, this near-term pressure will drive long-term value for our shareholders.

There are, of course, other factors that we expect to impact our results that for the most part offset each other in fiscal '23. We do expect higher levels of promotional activity to pressure our gross profit rate, which is partially offset by the favorable impact of expected growth and our monetization of our advertising business or Best Buy Ads. We expect our full year SG&A expense to be lower than fiscal '22 levels. The largest year-over-year variance is lower incentive compensation expense as we reset our plans after paying out at higher levels in fiscal '22 due to the overachieving of our performance targets.

We expect a lower incentive comp to be partially offset by a few areas. The first area is higher technology cost primarily due to annualizing spend in fiscal '22. The second area is higher depreciation and store remodel expense, as Damien will discuss later. And lastly, we expect to see higher SG&A dollars in support of our Best Buy Ads business.

Finally, as you may have noticed, we are not providing quarterly guidance, but I would like to provide some insight on the assumed phasing for fiscal '23. Due to the strong first half comps last year, we expect our full year comparable sales decline to be weighted more heavily in the first half of the year. In addition, we expect to see significantly more year-over-year operating income rate pressure in the first half of the year compared to the back half.

To summarize, the 2 largest variables for fiscal '23 financial results are the short-term industry declines as we lap high growth in government stimulus and the investment in our new membership program that will drive long-term value. As we look to fiscal '25, we expect the CE industry will return to the high levels we saw in fiscal '22 and that Totaltech will drive meaningful growth.

I will now turn the meeting back over to Corie to begin our strategic update.

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

Thank you so much, Matt. As I noted closing out my Q4 summary, we remain well positioned as we head into fiscal '23. I'd like to expand on this a bit as we highlight our strategic positioning.

There are 3 key points you should take away from this morning. First, technology is a necessity and we are the unique tech solutions provider for the home. Second, we have built an ecosystem of customer-centric assets, delivering experiences no one else can. And third, we believe our differentiated abilities and ongoing investments in our business will drive compelling financial returns over time.

We believe we have the right strategy to deliver growth and value for all stakeholders, and we are excited to go into more detail about our plans. But first, let's do some level setting. Our purpose is unchanged, and more relevant today, this minute than ever, our purpose to enrich lives through technology is enduring. And we have honed our 5-year vision.

We personalize and humanize technology solutions for every stage of life. Technology is no longer a nice to have, it is a necessity and it is expanding into all parts of our lives and homes. Working has forever changed. Streaming content has exponentially grown. The metaverse is coming to life.

We can power our homes with connected solar panels. Cars are connected. And we can monitor our health, including connecting with the physician, from our living room. Every aspect of our lives has changed with technology, and we uniquely know how to make it human in our customers' homes, right for their lives.

For example, we will send a consultant to your home for free to optimize the tech you have or add the tech you want. We can repair your phone's screen and you can try VR headsets while you wait. You can meet with a fitness consultant in our virtual store, who will match your fitness goals with our fitness products or you can use our Lively device to connect with a caring center agent who can help you schedule a lift. These are just some examples, and you'll see this come to life in many more ways throughout our presentation this morning.

From a financial perspective, we delivered remarkable results over the past 2 years, and we are far ahead of where we expected to be when we set our long-term financial targets back in 2019. As I mentioned earlier, in the past 2 years, we have delivered more than \$8 billion of revenue growth and improved our operating income rate by 110 basis points to 6%. We are in a strong position to drive the business forward and deliver growth.

We do not for 1 minute believe we hit our peak revenue and margin this past year. As Matt outlined, we do expect fiscal '23 to look different as the industry cycles the last 2 years of unusually strong demand and we leverage our position of strength to continue to invest in our future. But in fiscal '25, we expect to deliver revenue growth and expand our operating income rate beyond what we reported in fiscal '22. As we have always said, in order to deliver these financial results, it is paramount that we stay focused on our goal to remain a best place to work and we continue to deepen relationships with our customers.

As you can see, our new fiscal '25 targets are materially higher than what we thought just back in 2019. We now expect to generate approximately \$1 billion more in operating income than our original targets. Given our margin rate, this is considerable growth in operating income dollars.

So what's changed since 2019? Well, the CE industry is larger than we expected. Our online mix has nearly doubled. We have found ways to make our operating model more flexible and efficient while also investing in wages and benefits. We are accelerating our category expansion, and we have launched an entirely new membership program.

On the flip side, the financial contribution from Best Buy Health is clearer but also a bit longer term than we had originally modeled. This is based on primarily 2 things. First, demand in the active aging business and product constraints were impacted by the pandemic. Additionally, based on our internal learnings and insights from consumer behavior changes over the past 2 years, we tuned our strategy to focus on the growing virtual care opportunity, which Deborah will discuss in more detail later.

As we think about our strategy going forward, it is important to look at how dramatically our business has evolved over the past several years. Here, we use fiscal '15 to give a longer-term view to what a different business we have become. Most of these changes were already in motion before the pandemic and then accelerated significantly in the past 2 years. Let me expand on a few points here.

I already mentioned our fiscal '22 online business was 34% of our Domestic sales. That is more than \$16 billion in sales compared to just \$3.5 billion in fiscal '15. When you look at how we use our stores for fulfillment, the increase in the sheer number of products customers are picking up in our stores is impressive. This is even more meaningful when you consider the fact that our delivery speed is industry leading and we cut delivery speed essentially in half over the past several years. Clearly, customers value our stores and the convenience and choice they provide. As Damien is going to discuss, we are increasingly interacting with customers via digital channels like chats and video and in their homes.

And finally, membership is incredibly important, both now and into our future. Our Totaltech membership is a big theme of today's presentation, but don't lose sight of the fact that we were a pioneer in loyalty programs. And our My Best Buy program now has more than 100 million total members.

So with all of that as background, I'd like to tap back to our first key takeaway. Technology is a necessity and we are the unique tech solutions provider for the home. So let's start with some industry context.

The traditional CE industry is large and growing. There's no perfect external source that tracks our business, so here, we're showing a historical view based on selected government PCE category data. Our outlook is based on multiple industry forecasts and internal data. As you can see on this chart, the industry was growing for several years and then accelerated during the last 2 years. As Matt mentioned, we expect it to step back this year as the industry absorbs the very high growth of the past 2 years. By fiscal '25, we believe it can be back to fiscal '22 levels, which is materially higher than it was pre pandemic.

In addition, we're expanding our addressable market by entering new categories in areas like health and electric bikes that are being disrupted by technology in a good way as well as areas where we can really complete solutions for customers like indoor and outdoor living. Jason will provide a bit more detail on these in a few minutes.

As a reminder, this is also a stable industry. Contrary to some sentiment, technology is no more volatile or cyclical than other large durable goods categories over time, and the last 2 years have significantly underscored the importance of technology in day-to-day life. What historically was seen as a want has become a need. 40% of Americans use digital technology or the Internet in new or different ways compared with before the pandemic, and the use of telemedicine is triple what it was in just Q1 of 2020.

The majority of people who started or increased activities like online fitness, telemedicine, videoconferencing and connecting socially with others virtually say they plan to continue this increased usage even after the pandemic. Terms like home nesting and virtual care have been invented to describe what all of us know so well, that where we work, entertain, receive health care and connect has changed and our homes are now central to our lives more than ever before and they're also more tech connected than they ever had been before.

As a result, there is an overall larger installed base of consumers using technology. People own more tech devices than ever before. This combination of more devices and more activities also means customers need their tech to work seamlessly every day. True tech support when the customer wants it underpins living this way and is our unique asset across all these devices.

And technology is extending into all aspects of our home, and we've all grown to depend on it. This is not a heat-driven category. It is an industry that is need-based, stable and has been growing. We firmly believe people will continue to use technology more and both need and want to replace or upgrade their products. Billions of dollars of R&D spend by some of the world's largest companies and likely some we haven't even heard of yet means innovation is constant, and that innovation drives interest, upgrades and experimentation into the future. This is not a static industry.

So to talk about this exciting world of technology innovation, I'm honored to welcome Jason Bonfig, our Chief Merchandising Officer.

Jason J. Bonfig - Best Buy Co., Inc. - Chief Merchandising Officer

Thanks, Corie. Good morning. We continue to lead the tech industry with significant high share in high-consideration categories. What I mean by a high-consideration category, generally higher ASPs and a longer period of time from when you start to think about purchasing to when you actually purchase.

Continuing to grow our share in these large categories like television and computing will always be a cornerstone of our strategy, but to be truly there for our customers and all their technology needs, we need to accelerate our share across other areas of technology as well and also some new spaces. This is where Totaltech comes in. On products with lower ASPs and shorter upgrade and consideration cycles, our share is generally lower. Totaltech creates a new value proposition that benefits customers when they consolidate their technology shopping at Best Buy.

I want to give 3 examples of a customer journey that illustrate this point. Let's start with a customer that actually wants to upgrade their kitchen. They want to buy an entirely new kitchen suite with 3 pieces. That customer that has Totaltech does not have to worry about delivery and install. It's included in the price. That could be between a \$400 and \$500 value.

A little bit later in the year, the same customer hypothetically breaks their phone. They want to get a new iPhone. When they purchase that iPhone at Best Buy, AppleCare is included. Just in the first year, that's just under \$120 of value. Then a little bit later in the year, they want to get a new pair of wireless headphones. If you purchase those headphones at Best Buy, the warranty is also included if you're a Totaltech member. That's a \$30 value. Examples like these is where Totaltech benefits come to life for our customers and create a reason to make a considered visit to our app, our website, our store and increases Best Buy share across all of the categories on the slide behind me.

Technology innovation never stops. And even when you look over the past 3 years, you can see value of the new technology and what it creates for our customers. During the pandemic, the majority of the focus was around creating products to meet customer demand. This was a distraction, but even with that, there was significant innovation and value created by our vendors.

The slide behind me highlights an upgrade over a 3-year period of similar price points across laptops and televisions. While I won't hit on every new feature and advancement that happened, I'll highlight a few. For televisions, you get a full 10 inches more in screen size, almost no Bezel and the ability to navigate your TV with voice if you'd like to. On the laptop side, you can log in with your face. It's faster, thinner, lighter and has significantly longer battery life.

These continued evolutionary innovation cycles are never ending, and they drive growth. They create reasons to upgrade and unlock new and better experiences for our customers each and every year. In fact, when we look at our customers' behavior, we're seeing a 7% to 15% reduction in the amount of time it takes a customer to get back into a category. They're coming back to categories faster because of these innovations by our vendors.

I've highlighted how Totaltech and our vendor innovations will drive growth. Now I'd like to highlight some macro trends that will also drive opportunities in our business. I'll start with 5G and fiber. The expansion of speed and networks in general are really, really good for customers and technology. You can download a movie in minutes, collaborate with others instantly, access a video game or video content anywhere you want without latency. These are things that will drive new experiences and growth for our customers.

The next trend is the metaverse and cloud. Have virtual experiences, play golf with friends or family members virtually, travel to places that you actually can't and have a full experience in the virtual world. In addition to that, when you look at the virtual world and cloud, there are new experiences that are created. Previously, you could just play a game on a gaming system and your television. Now you can take that same game seamlessly from the system to your phone to your tablet. In fact, if some of you have children like I do, you're constantly battling the ability for them to play anywhere they want, anytime they want.

The cloud also solves a significant customer pain points. Previously, our customers would tell us when they wanted to upgrade a computing product, it would take them 60 minutes to get it the exact way they'd want to that would be moving their icons, their data, just getting it the way the old one was and having the features of the new. Today, with cloud, you simply put in your credentials and in 10 to 15 minutes, it's actually exactly the way you want. You get all the benefits of the new technology and you get all of the placement and all the setup of your old product instantly. That does drive upgrade and it drives interest in customers in upgrading more frequently.

The next trend I would like to talk about is automation and support. The connected home has been around for years, and it's now moving into automation and support more specifically. Single-function devices like robot vacuums today; tomorrow, they'll move into security of the entire home, communication and assistance for individuals. This is very, very important as our population ages and people want to stay in their homes longer. Automation and support is one of the ways where technology can enable people to just do that and accomplish their goals and solve that pain point.

Next, I'd like to talk about customization and personalization. Customers have always wanted to express themselves, and technology is not excluded from that. But there has been significant advancement in manufacturing from appliances to cellphones where customers can express themselves with a touch of color, a family photo or any other type of personal expression that they'd like to integrate into the products.

Sustainability is also a significant trend that's important to customers but also very important to Best Buy. I'll start with a vendor example. Samsung televisions that we sell in our stores today have what is called Samsung solar cell technology in their remote controls. This eliminates the need for batteries, which is obviously very beneficial to the environment. But it also charges off of not only solar but ambient light in the home, and it means that you're never going to have a remote that's out of power. That solves a significant customer pain point. Technology like this will expand to more and more categories and drive upgrade cycles.

In addition to that, we want to make sure that we're supporting customers that want to upgrade more frequently. Today, you see that come to life with our recycling and trade-in programs which are a very important part of our value proposition to customers. Over time, that will start to move into new usage models that may actually be upfront conversations about exactly how long a customer wants to use a product and when that next upgrade will happen. Will it be 1 year? Will it be 2 years? Or will it be 3 years as we move forward?

Let's watch a video highlighting many of the areas I've talked about and even some new additional areas that will drive growth.

(presentation)

Jason J. Bonfig - Best Buy Co., Inc. - Chief Merchandising Officer

I'd like to thank our friends at Samsung for that assist and that demo. As we look over the past decade, we've had over \$12 billion in sales growth with the vast majority coming from large categories like TVs, computing and appliances and 1/3 coming from new categories like wearables and VR, just to name a few. As we move forward, that innovation will continue, and there will continue to be new categories that don't even exist today.

We're also looking to accelerate that expansion by entering new categories that are aligned with where our customers want us to be and places where Best Buy can solve real customer pain points. For the next 12 to 24 months, we'll continue to focus on these 5 areas of expansion. I'll go a bit deeper on 3 of these, fitness and wellness, outdoor living and personal electric transportation, in the next few minutes.

I'll start with fitness and wellness. This is a \$34 billion industry that we are uniquely positioned to compete in with our Blue Shirts but also our large product fulfillment network that was built for televisions and appliances. Our assortment has grown by 650% in the last 12 months, and we are implementing a larger, more premium experience in 90 stores over the next 18 months with dedicated zones for vendors. Damien will touch on the virtual store a little bit later, but customers today actually have the ability to have a virtual chat or video consultation with a fitness expert.

The next area I'd like to talk about is personal electric transportation. This is a \$3 billion industry with rapid growth. We've introduced 250 new products this holiday with 500 additional accessories around those products. We'll be adding physical assortment to 900 stores and a more premium experience in 90 stores over the next 18 months. We currently offer assembly, and we're in the pilot stages of service and support and repair for our customers.

The last category I'd like to highlight is outdoor living. This is over a \$30 billion industry, and our acquisition of Yardbird, a leading premium outdoor furniture company, provides the ability for us to accelerate this business across a nationwide network. That acquisition, combined with our strength in outdoor television and audio and new partnerships with leading brands like Traeger, Weber and Bromic, create a comprehensive solution for our customers. When we couple that assortment with our home consultants and the physical and digital experiences that we've developed for customers, this is a really, really fast-moving category that has the ability to grow. You'll start to see Yardbird products as fast as this spring in Southern California market, and we're very excited about that.

To reiterate, we expect growth from Totaltech, consistent innovation from our vendors, macro trends that I've mentioned, new product categories that we don't even know about yet and 5 new areas of expansion to move our business forward. Thank you. I'll hand it back to you, Corie.

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

Thanks so much, Jason. Obviously, you are the expert. Back to our second key takeaway. We have built a unique ecosystem of customer-centric assets delivering experiences that no one else can.

Consumer electronics is a distinctive industry. The products are constantly evolving, they're connected to networks that are constantly evolving, they all use different operating systems and they range from small and powerful to large and breakable, often at high price points. And customers are more comfortable using tech than they have ever been yet. They also admit it's likely not doing all it could to make their lives better.

Against that backdrop, we have built a unique ecosystem of assets that all work together to create a stickier and more valuable relationship with the customer. And we're investing in this ecosystem as we pivot against a backdrop of even higher customer expectations. We'll provide more depth on a number of these assets through the rest of the presentation.

So anchoring this ecosystem is our expert advice and service. Customers are excited about tech and want to be confident in their purchase. We provide that in ways literally no one else can, from our expertly curated assortment to in-home consultations all the way to tech support when your tech isn't working the way you want or trade in and recycling when you want to upgrade. And then building on that strength, our Totaltech membership ties these experiences together and provides unique benefits that customers value and no one else can provide. We then combine those unique experiences with our strength in omnichannel retailing, industry-leading and seamless shopping experiences and services across all channels, including in home, in store, digitally, remotely and virtually.

And finally, all these interactions provide us rich data and insights across customer experiences to create personalized technology solution tailored to the customer-specific technology and needs. And all this data fuels our business like Best Buy Ads, matching our partners' marketing to the most appropriate audiences based on our first-party data. When this ecosystem works together, it provides a unique experience tailored to the customer. It also reaches beyond our consumers into business partners, suppliers and other strategic relationships that leverage our capabilities. Whether it's our consultative services highlighted on partners' websites or vendors leveraging our in-store pickup to fulfill from their websites, others value our capabilities.

So let me add some color around the first part of the ecosystem. As I said, customers are excited about tech and want to be confident with their purchase, particularly when it's part of their daily life at home. So instead of me trying to describe all the parts and pieces to you, I think this video does an excellent job bringing to life the unique ways we provide expert advice and services seamlessly across all our touch points.

(presentation)

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

So again, just to reinforce, there is no one else that can provide this type of immersive experience at scale in a world where more and more of our lives are being lived in a way that requires technology. And we felt it was important to double down on our unique capabilities with an equally unique membership offer. This represents literally years of customer research and innovation and truly puts the customer at the center of our investments.

Matt talked earlier about the financial implications of our new membership program. Now I get to talk about the fun part. Fundamentally, Totaltech is designed to provide our customers complete confidence in their technology, buying it, getting it up and running, enjoying it and fixing it if something goes wrong. Matt and Jason already mentioned some of the benefits, but as a reminder, Totaltech includes product discounts and periodic access to hard-to-get inventory, free delivery and installation, free technical support, extended warranties on products and much more.

Because the membership is so comprehensive, it has broad appeal among our customers. There is truly something for everyone. And the benefit that's most appealing can vary based on a customer's unique shopping journey or their stage in life. So let me share some early examples. I say early because as a reminder, we literally just rolled this program nationally in mid-October.

The benefits associated with purchasing products like product warranty and member pricing are being leveraged the most. Younger generations are using these benefits, especially AppleCare, at a higher rate than older generations. This is exciting and important as extended warranties as a stand-alone business was definitely not a growing part of our business or strategy. And additionally, it's exciting that our employees have embraced this offer. Realizing the suite of benefits means there is something in it for every customer. This makes for a more comfortable and natural sales environment and allows the employees to truly focus on the customers' needs.

The VIP access to phone and chat support and access to Geek Squad support and services in general are used more often by older generations, which our legacy plans over indexed on. And the access to hard-to-get inventory is resonating with some of our most engaged customers who already interact and spend with us very frequently. That broad appeal is one of the main reasons we rolled out this program. We have significantly elevated the customer experience by packaging up unique benefits our customers value that no one else can provide, and by doing so, we believe we have made it inconceivable for them to purchase their tech anywhere else.

From a business perspective, of course, the goal is to increase customer frequency and capture a larger share of CE spend. As a specialty retailer, our customer frequency has a different profile than mass merchants. As a result, it is even more crucial that we stay in the consideration set as customers are building out their technology solutions. I am incredibly happy to say that we are indeed seeing increased interactions with our Totaltech customers to the tune of about 60%. Also, when we look at NPS surveys specifically from customers who are Totaltech members, they are running about 1,400 basis points higher than nonmembers. From a spend perspective, it's difficult to calculate with precision given the early stage of the membership and our historical customer frequency, but we currently believe customers who sign up for the membership are spending about 20% more than they would have if they did not have the membership.

We already have 4.6 million members. Now to be transparent, we auto converted 3.7 million Totaltech support and other legacy support programs. We have actively enrolled more than 1 million members since launching nationwide in October, and we see a path to double the number of members by the end of fiscal '25. This membership program is a vital addition to our customer relationship ecosystem, providing an offer that no one else can and interaction data that is incredibly valuable to all aspects of our business, fueling our growth over time. And to deliver this offer seamlessly, we leverage another part of our ecosystem: omnichannel retailing strength.

To provide more depth on the evolution of our omnichannel retailing model, I am pleased to welcome Damien Harmon, our EVP of Omnichannel, to the stage to talk to you about how we are optimizing our workforce, reimagining our physical presence and leveraging technology. Damien?

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

Thank you, Corie. It's great to be here with you today to talk about our accomplishments and our plans for this year and beyond across our omnichannel portfolio. As Corie mentioned earlier, omnichannel retail is a critical component of our strategic ecosystem. It's the most direct way to connect our strategy to the needs of our customers and employees.

Let's look at the last 2 years before we dive into where we're going. These last 2 years have challenged our employees in ways we could have never imagined. Powered by our strategic investments, we were able to serve our customers' needs and grow the business.

There are 2 areas I want to highlight. First, the connection between our online sales, which expanded to 34% of our total Domestic revenue, and the 150% growth we've seen in our virtual interaction across video, chat and voice. Today, 84% of Best Buy customers use digital channels throughout their shopping journey. These virtual opportunities have created new ways for us to offer customers the immediate ability to shop with an expert wherever they are.

Second, and also connected to our customers using digital channels throughout their shopping journey, is we've seen a 72% growth in customers who are using our app while in our stores. This also creates an opportunity for us to build more digital interactions and technology-related solutions to support their needs. These numbers are amazing. We could not be more proud of our teams and how they've delivered. Just as importantly, it gives us an incredible foundation for continued growth and optimism as we look to the future.

Now from an omnichannel perspective, we look at the combination of customer experience, loyalty plus operating efficiency. The 2 main drivers of that and what I'm going to talk about today are how we optimize our workforce and reimagine our physical presence in ways that serve our customers' needs in an ever-growing digital world. Our focus is on further developing our teammates to give them the skills to help customers inside and outside of our stores, but more importantly, through any number of digital channels at our customers' fingertips. At the same time, we will optimize our store portfolio, and as Matt mentioned, we will maintain the trend of closing 20 to 30 stores per year. However, with online penetration growing so rapidly in the last 2 years, we're making investments in our stores to provide a better, more seamless shopping experience as customers move from online shopping to visiting our stores to video chatting from their home.

So I'll start with our people. We have significantly improved efficiency and productivity of our store labor model. We've seen a more than 100 basis point improvement in store domestic labor expense as a percentage of revenue compared to FY '20. We've also materially increased store productivity over the past 2 years. We've done this by reskilling our teammates and making investments that lean into physical and digital shopping experience.

A few examples include our fulfillment improvements, consultation labor and our virtual store. This allows us to leverage our employees more effectively inside and outside of our stores. The great news is that as we've made these adjustments, we've maintained a strong NPS in our stores. These investments in our people have allowed us to help them learn new skills, grow their careers, gain flexibility and realize their dream by keeping them with us longer.

We've increased our average wage rate 20% in the last 2 years by raising our minimum wage to \$15 an hour and shifting some of our employees into higher-skilled, higher-paying roles. In fact, our average wage for our field employees this year will be over \$18 an hour. Since we've started our flexible workforce initiative in 2020, 80% of our talented associates are now skilled to support multiple jobs inside and outside of our stores, and we're proud of the fact that our field turnover rates remain significantly below retail average and are near our pre-pandemic turnover rates.

Overall, we're in a place we like right now. We're becoming more efficient without losing sight of delivering amazing experiences for our customers and our employees. We're going to continue to strike the balance between spend and productivity as we look at the factors that I've just outlined.

Now an obvious differentiator for our workforce is our Geek Squad team, which continues to deliver an experience that creates repeat customers, builds trust and drives incremental spend.

(technical difficulty)

percent of our mobile phone customers are new

(technical difficulty)

average tenure of

(technical difficulty)

No one can match that level of expertise at the scale we can. That has helped us produce fantastic NPS results in store, in home and through our remote

(technical difficulty)

across all Geek Squad services. Geek Squad will be a vital part of our Totaltech initiative, and we'll continue to offer stand-alone

(technical difficulty)

our expertise through consultations as well, both inside and outside of our stores. These consultations provide a direct access to customers for our ever-growing set of experts. Employees will have the

(technical difficulty)

And with each consultation, we can

(technical difficulty)

17% more across their lifetime value and they purchase more often when engaged for a consultation.

Customers are

(technical difficulty)

92% of customers say they will likely continue working with their expert. And when customers are engaged with one of our consultants or designers, they shop with Best Buy 2x more frequently. So looking ahead, we believe

(technical difficulty)

200% by fiscal '25.

As you saw earlier, we had 45 million virtual interactions across all channels, creating opportunities to engage our customers differently.

We're

(technical difficulty)

last fall. To date, our virtual store in comparison to historical chat experiences is generating higher close rate, higher sales and a 20% improvement in customer satisfaction.

And that's not all. Our vendors are extremely excited about it as well. We started with 17 vendors onboard, and we will end fiscal '23 with over 60 vendors investing in our virtual store. This is an investment in us and the belief that we're creating a totally differentiating experience. We're expanding our virtual store and adding more categories like appliances and home theater, and we expect our virtual sales interactions to double by fiscal '25.

So let's talk about ways we're reimagining our store in support of our physical and digital shopping experiences. We are very excited about the things that we're testing, learning and in some cases, implementing in our stores. First, let's talk about our experiential store. In 2020, we launched a test in one of our Houston stores and added 2 additional locations since then.

Some of the key enhancements include dedicated showcase spaces for some of the new categories Jason mentioned earlier like e-transportation, outdoor living, fitness. We expanded our Microsoft and Apple shops and dedicated more space to premium experiences like appliances, home theater and audio. We expanded our Geek Squad presence for more customer interactions and space for repair services.

And we've also enhanced fulfillment capabilities to include exterior lockers, additional space for shipping, packing and fulfilling from our store warehouses.

And we're excited about the performance. We've seen a 370 basis point improvement in NPS. We've seen a steady lift in customer penetration in the retail trade area as well as overall customer spend. And we expect to continue to see strong revenue lift in these experiential stores. And we will remodel 50 locations in fiscal '23 and about 300 locations expected by fiscal '25.

Now I want to highlight our 16 outlet stores

(technical difficulty)

open box, clearance, end-of-life and otherwise distressed large product inventory across major appliances and televisions which might otherwise be liquidated at a significant lower recovery rate. These outlets unlock value by alleviating space and capacity from our core stores, and they are an important element of our circular economy strategy by providing a second opportunity for products to be resold instead of ending up in the landfill.

In FY '22, gross liquidation recovery rate is almost 2x higher than alternative channels. These locations are attracting new and reengaged customers. 16% of customers are new and 37% of customers are reengaged. In FY '23, we will double the amount of outlet stores, and we'll test expanding our assortments by adding computing, gaming and mobile phones.

As we discussed last year, we launched a test in Charlotte of a new holistic market approach. And as I mentioned earlier, the ways people are shopping today are entirely different than how they shop 2 years ago, and our stores and the way they operate need to change and adjust accordingly. This work in Charlotte is a manifestation of the shopping evolution, and this pilot leverages all of our assets in a forward portfolio strategy across stores, fulfillment, services, outlets, consultation labor, and we bring it all together with our digital app.

Within the test, we are looking at how a variety of store formats across 15,000, 25,000 and 35,000 square foot locations can serve the customer's needs. And this summer, we will be introducing a 5,000-square-foot store into the marketplace. When you look at the before and after map of the Charlotte market, you can see we have reduced our overall square footage by 5% and yet, we've increased our customer coverage in the marketplace from 76% to 85%. We've also added 260 access points where customers can get their gear and employee delivery covers nearly half of the metro. So looking ahead, we'll be focusing on using this market to learn in fiscal '23 before we make decisions on what to scale or what not to do.

Technology enhancements are at the center of many of the changes I just mentioned, from self-checkout to virtual store, technology supporting our teams and customers in new and exciting ways. Take a look at this video to see what we're doing.

(presentation)

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

As you can see, technology brings it all together in support of our optimized workforce and how our physical locations will enhance the shopping experience inside and outside of our stores. We're excited about this year and our future as we focus on the combination of customer experience, loyalty plus operating efficiency.

Now I'd like to turn it over to our President of Best Buy Health, Deborah DiSanzo.

Deborah DiSanzo Eldracher - *Best Buy Co., Inc. - President of Best Buy Health*

Thank you, Damien. Here is the ecosystem slide Corie and Damien shared, and it's a perfect introduction to Best Buy Health as our work is an excellent example of the Best Buy ecosystem and flywheel.

Today, I will share the strategy of health at Best Buy. But first, let's see it come to life in this video.

(presentation)

Deborah DiSanzo Eldracher - *Best Buy Co., Inc. - President of Best Buy Health*

I hope the video begins to answer the question that I hear often: Why in the world is Best Buy in health? I understand the question because health is complex, it has a longer return on investment and other companies have not succeeded.

So why will Best Buy succeed? We didn't build this strategy to be like any other company or to change who Best Buy is. We built our strategy on Best Buy's strengths, our world-class omnichannel, distribution and logistics, strong analytics, presence in the home and our empathetic caring center agents.

Our strategy is supported by the rapid consumerization of health and 2 significant trends. First, technology is moving into health. We recognize an \$80 billion market opportunity for health technology and the desire for consumers to use technology to manage their health.

And second, health is moving into the home. By 2025, an estimated \$265 billion in Medicare services will move into the home and 61% of patients say they would choose hospital care at home. And Best Buy has long proven we're a trusted adviser for technology in the home. 70% of the U.S. population lives within 10 miles of a Best Buy store, able to shop health and wellness products, speak with our expert Blue Shirts and utilize our distribution hubs to fulfill their health technology needs. Geek Squad makes 9 million home visits annually, helping consumers set up technology and perhaps more importantly, teaching them how to use it.

And we have the confidence of our customers and partners as we work to help enhance the health industry. Our strategy is to enable care at home, building on the strengths in 3 focal areas. In consumer health, we provide curated health and wellness products. In active aging, we offer health and safety solutions to enable adults to live and thrive at home. In virtual care, we connect patients with their physicians and enable care at home. Our presence in each of these focal areas creates a flywheel where growth in one adds momentum to the other 2. This is the strength of our story.

Now let us look at the customer journey. Jason touched on a few areas of consumer health earlier, and our video introduced you to Angela, a 45-year-old mother and caregiver to an aging father. You saw her purchase a Tyto Care home medical kit when her son was sick, and Angela can find countless other products to support the health of her family, from weighted blankets to exercise equipment to blood pressure cuffs and more. These products not only support our customers in their day-to-day health but also serve as an entry to our other 2 focal areas: active aging and virtual care.

Lively supports adults who want to age independently at home. Our easy-to-use phones and personal emergency response devices feature one-touch access to our caring center and services like urgent response, fall detection and more, providing patients and caregivers with the peace of mind that care is only a call away. Last year, we launched our new Lively brand and a Lively partnership with Apple to feature our health and safety services on Apple Watch. And today, I'm happy to announce Lively on Alexa, which will launch this spring.

Our Lively monthly subscription service provides a consistent revenue stream, and last year, we drove 15% year-over-year growth by adding 348,000 new lives served. Our caring center agents connected with our customers over 9 million times last year, offering a variety of health and safety services.

So let's jump back to Angela's story. Angela worries about her father living at home alone so she purchases a Lively smartphone and an Amazon Echo for her dad from Best Buy, along with a monthly Lively health and safety subscription plan. Jacob uses his Lively Smart to request a Lyft ride to a doctor's office through a caring center agent. He had a minor fall at home and uses his Amazon Echo to alert the caring center, who can follow protocol to determine if emergency medical services are needed. And this patient journey is just one example of the many ways Lively supports active aging adults at home.

Now let's look at virtual care. Accelerated by the COVID-19 pandemic, perhaps the most exciting opportunity lies within virtual care, where we enable patients to connect with their care teams. In November, we acquired Current Health. Current Health is making inroads into care at home through securing strong partnerships with successful programs at Baptist Health, Mount Sinai, AbbVie, the Defense Health Agency and more. Our acquisition merges Current Health's FDA-cleared at-home platform with Best Buy's scale, expertise and connection to the home. Together, we create a powerful virtual care experience.

Jacob is in the hospital with sepsis. The hospital physician identifies and enrolls Jacob into the hospital's hospital at home program. Best Buy sets up Jacob's home with the technology needed for remote patient monitoring and trains both Jacob and Angela on how to use it. This ensures the hospital physician can focus on treating patients rather than being a tech consultant. This is a job that physicians had to play during the pandemic and it overtaxed our health system.

At home, Jacob is monitored by Current Health's platform and a virtual command center. The hospital physician checks in daily with video visits to ensure he's healing on track. The command center coordinates Jacob's home medications and notices a lack of data from his monitor. After discovering that he's improperly wearing the device, the Geek Squad is deployed to a system. The platform's algorithm alerts the command center that Jacob has a persistent fever and the on-call health system physician prescribes therapeutic, which is delivered by the pharmacy partner. When Jacob recovers, the hospital physician discharges Jacob, and Jacob continues to be supported by Lively.

A few of the pieces in this patient journey are still in development, the Geek Squad integrated with Current Health, for example, but this is our direction. And you can see Best Buy is there for the patient with technology, support and connections to enable care at home.

And we're not building this alone. We're creating an ecosystem to support consumers in their care-at-home journey. Consumers are at the heart of our strategy, and throughout a lifetime of health needs, Best Buy is there to help enrich and save lives through technology and meaningful connections.

As I mentioned earlier, our health opportunity creates a flywheel, driving growth in all 3 focal areas. Our revenue in fiscal year '22 was \$525 million. We're growing 35% to 45% a year, and we are accretive in fiscal year '27 as the health industry has a longer return on investment.

Thank you for your time, and I'll turn it back to Matt.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Thank you, Deborah. You've heard details from Corie, Jason, Damien and Deborah about some key areas that give us excitement about the opportunity in front of us. We firmly believe our differentiated capabilities and focused investments will lead to compelling returns over time. While fiscal '22 was certainly an amazing year, we see a path to even higher revenue and earnings by fiscal '25. And as we look beyond fiscal '25, we see even more opportunity for revenue growth and operating income rate expansion as the benefits from our initiatives like Totaltech and Best Buy Health grow even further.

Before I share additional details on our fiscal '25 targets, I would like to review a few guiding behaviors that have been our brand for several years. First, we plan to fund our growth through the cash we generate to return excess cash to shareholders. Second, we are committed to leveraging cost reductions and efficiencies to help offset investments and pressures in our business. Our current target set in 2019 is to achieve an additional \$1 billion in annualized cost reductions and efficiencies by the end of fiscal '25. We achieved approximately \$200 million during fiscal '22, taking our cumulative total to \$700 million towards the \$1 billion goal.

Let me take a moment to reflect on our past performance. We have talked about our record results over the past couple of years, but it is also important to note that we have had very steady growth in the years leading up to the pandemic. This past year was the eighth straight year of comparable sales growth.

In addition, we have expanded our operating income rate, earnings per share and ROI. Earlier in the presentation, we shared our fiscal '25 targets, so I won't cover them in detail here, but I'd like to spend a few minutes on our fiscal '25 assumptions.

We expect our revenue in fiscal '25 to be in the range of \$53.5 billion to \$56.5 billion. This range reflects a 3-year compound annual growth rate of approximately 1% to 3%, despite the anticipated decline in sales in fiscal '23. I would also note that due to expected store closures, our comparable sales CAGR would be approximately 2% to 4%.

There are a few key assumptions underlying the revenue expectations. First, as Corie shared, we believe the consumer electronics industry will remain significantly higher than it was pre-pandemic, and we expect that fiscal '25 will be back to a level similar to fiscal '22.

Second, we believe we have an opportunity to capture even more market share than we have in the past. This is due to growth from Totaltech and the store initiatives that Damien talked about.

As it relates to Totaltech, we believe that the combination of membership revenue and incremental purchases by members will add approximately \$1.5 billion in revenue by fiscal '25 compared to fiscal '23. This is a net impact. So it incorporates the impact of cannibalizing other stand-alone services now part of our membership offering. Of course, we also expect revenue growth from Best Buy Health and the expansion into additional categories that Jason shared earlier.

As we move to our fiscal '25 operating income rate outlook, we expect to expand our rate to a range of 6.3% to 6.8%. As we have highlighted, Totaltech is currently pressuring our fiscal '23 operating income rate. Health has also been an area of investment for us over the past few years. However, as each of them scales, we expect them both to meaningfully contribute to our fiscal '25 rate outlook. We also see opportunities to lean in even further on capabilities like our in-house media business, Best Buy Ads, which as Corie mentioned earlier, is fueled by our first-party data.

We expect this business will benefit our fiscal '23 operating income with benefits increasing in the out-years. In addition, we expect to see rate benefits from our continued focus on finding cost efficiencies that benefit both gross profit and SG&A. Damien highlighted a number of strategies that are part of this effort.

As we've discussed over the past few years, technology will be critical in unlocking many of these opportunities. Of course, there are areas where we will likely see pressure on our rate in the future. The first example of this is pricing. Throughout most of the pandemic, the level of promotions in our categories has been well below levels of fiscal '20. This has been largely a result of higher demand and more challenged or constrained inventory environment. We have seen pockets of promotional activity increase over the past 2 quarters, and our belief is that the promotions will continually progress back to fiscal '20 levels.

A second area I would highlight is increased spend in technology in our store portfolio. As we have shared over a number of quarters, our technology spend has been increasing in support of our initiatives and overall omnichannel experience. In addition, we expect more depreciation expense from our capital investments in our stores.

Lastly, there are a few other factors we will continue to assess, but at this point, don't see as being material to our rate in fiscal '25 compared to fiscal '23. First, from a store labor standpoint, we expect to maintain expenses at a similar rate of revenue. We will continue to invest in higher pay for our employees, but expect to balance the higher wages to efficiencies, leveraging technology and more flexible workforce.

Second, we do not expect channel mix to have a material impact to our rate. As Damien shared earlier, our outlook assumes closing 20 to 30 stores per year through fiscal '25. This assumption reflects our belief that the online channel mix will grow approximately to 40% in fiscal '25.

We will continue to apply a rigorous process for lease renewals to ensure we are comfortable with the financial return and overall customer experience. Currently, the vast majority of our stores are cash flow positive, and we believe are essential for us to serve our customers. I'll move next to our cash flow and our capital allocation approach.

To start with, we have been generating healthy levels of free cash flow for several years, which provides us ample room to fund our growth investments. Our average annual free cash flow over the past 5 years is more than \$2.3 billion. Our capital allocation strategy has been consistent for several years. Our first priority is to reinvest in our business to drive growth, highlighted by the strategies you've heard today. This includes both capital expenditures and operating expense investments.

Next, we may explore additional partnerships and acquisitions if we believe they will accelerate our ability to achieve more profitable growth. We also plan to continue to be a premium dividend payer and return excess cash through share repurchases. Let me quickly expand on a few of these areas.

We expect our annual capital expenditures to increase to a range of \$1 billion to \$1.2 billion over the next 3 years. Earlier, Damien outlined a number of changes to our stores to further our strategy. Consistent with our iterative approach, we will test, learn and deploy once we have vetted anticipated returns of our initiatives. Technology investments are expected to remain similar to fiscal '23, simply decreasing as a mix of our capital deployment.

This morning, we announced a 26% increase in our quarterly dividend to \$0.88 per share. Our targeted dividend payout remains in the range of 35% to 45% of prior year's non-GAAP diluted earnings per share.

Lastly, this year marked a record level of share repurchases at \$3.5 billion. In fiscal '23, we plan to spend approximately \$1.5 billion on share repurchases. So with that, let me turn the stage back over to Corie.

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

Thank you so much, Matt. Extraordinary ecosystems have formed over the past 20, 30, 40 years as digital has transformed every aspect of how we all do business. That same transformation is happening in our homes, meaningfully accelerated in the last 2 years. And while we started as a music retailer selling fun-to-have products, we're now the only company built around the same extraordinary transformation of technology in our lives and in our homes. While others sell some of the same products we do, we alone offer the complete technology solution across manufacturers and operating systems. We are the only company in all channels and at scale that can do everything from design your personalized hardware and software solution in the home, to install and connect all of it, to keep it working when there are any issues from unreliable networks to broken screens. These assets appeal not only to our customers, but they are also unique and investable for our marketing partners, technology vendors, small business and education relationships and other strategic connections.

As we look to the future, we see technology as a permanent and growing need in the home, constantly evolving as the world's largest companies innovate with new use cases around the metaverse, transportation, green electricity and health, just to name a few. We have a unique value creation opportunity into the future and are investing now as we have successfully invested ahead of change in our past to ensure we pivot to meet the needs of our customers and retain our exclusive position in our industry. We are excited to help customers enrich lives through technology in ways no one else can. And with that, we will break for 10 minutes before beginning our Q&A session.

(Break)

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

Welcome back. We are excited to begin the Q&A portion of our event, which we expect to run approximately 45 minutes. But before we do, I want to take this opportunity to introduce and welcome Mark Irvin, our new Chief Supply Chain Officer. Many of you spent time with Rob Bass and may know that he recently announced that he is stepping away from a life in retail to pursue some other passions as we have been discussing for quite some time. We are so excited for him and thank him for his incredible work on our supply chain transformation.

That incredible work extended to his ability to bring in top-tier talent. One example of that is Mark Irvin, who came to Best Buy in 2013, specifically to work with and learn from Rob. Mark has been an instrumental part of the team that has led our supply chain transformation and is ready to use his lifetime of knowledge in the space to continue to advance our industry-leading supply chain efforts. We are thrilled to have Mark Irvin taking over the reins in supply chain. And we've invited him to join us for Q&A.

So operator, we are now ready for our first question.

QUESTIONS AND ANSWERS

Operator

Your first question is from the line of Chris Horvers from JPMorgan. Moving on to the next question, Mr. Simeon Gutman from Morgan Stanley.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Hopefully, you can hear me and hopefully my mugshot doesn't stay on as Chris'. Okay. Great. So my first question is on the industry outlook. So you're effectively saying that the industry will revert or digest in '22. And I want to make sure I understand that in '23, it starts to grow. Can you talk about why does it grow? Why doesn't this revert for 2 years given the consumption growth we've had? I assume it's having to do with the innovation and [share] replacement, but why doesn't that begin in '24 as opposed to '23?

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

Yes, I'll start and maybe Matt can add some color. I think that what we're looking at is, as you said, a little bit of a step back in the next year as we lap some of the stimulus. But I think there's a number of factors, and we outlined some of them in the prepared remarks that we believe will continue to boost the inventory as we head to the other side of next year.

So some of the things that we cited, first of all, you have this real phenomenon or technology is all over our and we are very dependent on that technology, and this nesting factor being in our homes is a very sticky behavior.

And that's because secondarily, a lot of what we're doing is leveraging tech. And people are saying they expect to continue to do that, things like streaming or learning or obviously, all of us probably in some way, shape or form, hybrid working. Those are really -- gaming is another great example. Those are really sticky behaviors that we continue to expect to see over time. And not only that, now you've got 2x as many connected devices in the home as you had 2 years ago. So you have this proliferation of devices.

And because the innovation cycles are continuing to ramp, we're also seeing in most of our key categories that replacement cycle already start to shorten. We could literally see it in the last 2 years in our customers, that replacement cycles shortening. And so while we think there's a bit of a step back next year, all of this massive interest in the industry, the new ways that people are using technology, the innovations that are happening in spaces like metaverse or some of the things that Jason talked about in his prepared remarks, all of those, we believe, start to create that ramp as we get on the other side of a little bit step back in the next year.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Okay. And maybe as a follow-up to Totaltech, this will just have a couple of pieces, but I promise it's all Totaltech-related. Any quantification of the impact to the EBIT or the EBIT dollars in '22 or fiscal '23? Can you share what you think or expecting or modeling for renewal for year 1 of Totaltech?

And then you mentioned you're seeing 20% lift in some of the early sign-ups. Is there a danger or risk you're basing that off of the period of very good consumption when there was stimulus money hanging around? So how are you confident that's a good level to think about going forward?

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

Yes. I'll start maybe and then Matt can talk a little bit about the EBIT. On the renewal, we haven't come out with renewal rates. The good news is they continue to be in line with our expectations. So we're happy with what we're seeing from a renewal perspective, but we do want to give that a bit of time.

I think to your second question around the period of time that we're using. First, we've been overt in saying it is a short period of time. We just rolled this out in October, but we wanted to at least give some color on what we're seeing.

Second, while you're right, this is a unique period of time. We're comparing it against a control group in the same period of time. So all of the behaviors that we comparing because what we're looking at in that 20% lift is a lift in people who purchased and are using Totaltech versus those who would not or had not purchased it.

And so you've got a comparative group there. So both behaviors in theory should be different. But still, it's holiday, like we've said, it's a short period of time. We wanted to give the initial color, and then we'll keep watching that as we go through the next year, obviously.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sure. And maybe just to adjust the overall impact to EBIT next year, we talked about the OI rate being at 5.4% and last year it ended at 6%. That decline is mostly coming from our gross profit rate decline and the majority of that gross profit rate decline has been -- is due to the Totaltech membership rollout.

As you know, we launched the membership in Q3, at the end of Q3 last year, and we don't cycle that until Q3 of next year at FY '23. So that majority of that gross profit decline is coming from the Totaltech launch, to give you a general size of the impact.

Operator

Your next question is from the line of Chris Horvers from JPMorgan.

Christopher Michael Horvers - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Clearly, I need some Totaltech support there. So I guess my first question is a bit of a follow-up. You talked about a 2% to 4% CAGR over the next 3 years. If you're down at the midpoint, it looks like you're embedding, if I checked my math, roughly like a 5% comp in the out 2 years. And if you look back 2015 and 2019, you sort of did a 3%.

So a 2-part question is, first, what drives the confidence in that? And then the second part of it is, are you assuming share gains in core categories like PC and TV? And to what extent is the contributor from these new opportunity categories that you've talked about?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. Thanks, Chris. Yes. So essentially, you're right that roughly, as we think about our path to FY '25, FY '22 we talked about it being down as the industry is assumed to be in the low single digits to mid-single digits. As you move to FY '25, that would assume a higher pace of growth in those couple of years, not necessarily being linear, but a little higher pace of growth than we have historically.

What gives us confidence in the ability to do that is a lot of the initiatives that you heard today. So we've outlined a number of things, Totaltech, changes to our stores, expanding our assortment, growing into Best Buy Health. Those things give us confidence in being able to accelerate our sales as we look out past FY '23.

What's assumed in that number as well is essentially, we would expect to still modestly gain share on a baseline of our business but then be able to accelerate our share growth with these initiatives that we talked about and then expand our markets with the items that Jason shared and also Best Buy Health as well.

Christopher Michael Horvers - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Understood. And then my follow-up question is any further cadence commentary on the top line? Obviously, you got a couple of years of stimulus here in the first quarter. Is it fair to think that 1Q is the low point in the year and you hit the midpoint of the range? Or is your expectation that in the fourth quarter, you could flip to the positive?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. So what we outlined was a minus 1% to minus 4% comp for FY '23. We also talked about how the weight of that decline is in the first half of the year. So you could assume that something maybe towards the bottom end of that range or a little worse on the first half of this year. So you could imagine any number of outcomes as you look at the back half.

Operator

Your next question is from the line of Karen Short from Barclays.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

These other elements that are going to flow into the P&L. But wondering if you could talk a little bit about what you think the actual 4-wall margin structure will do in the time period from today until fiscal '25. And then I have one other follow-up.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. I'm not sure I caught the entirety of the first part of that question. But in terms of the store 4-wall operating rate in the future, we would expect to continue to find efficiencies in our store operating. Damien outlined a number of things that we're doing.

It's also important to know that the store is connected to the broadness of how our whole business works from an omnichannel perspective, whether it's the store, our digital presence, our chat or virtual sales that we're now engaging in. So we're always going to find ways to create efficiencies.

Obviously, there are some levels of inflation in fixed costs within our stores that we're always choosing to navigate, but we would expect that there's still opportunities for us to continue to drive a better outcome on the store side, but from a profitability standpoint.

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

Karen, I just want to underscore, it is incredibly difficult for us to separate the performance of the stores from digital performance from what Matt was alluding to virtual and call. And if you think about Q4 alone, 65%-ish of what we sold online was either picked up in stores, that was about 45%; or shipped from a store, that was about 20%.

And so when you have that amount of crossover, literally, I mean, it's the best example of like true omnichannel behaviors with our customers. Piecing those things apart is incredibly difficult. And instead, what we're trying to do, to Matt's point, is really build in effectiveness and efficiency across those. So you create those real frictionless experiences for customers. You have both the convenience, but you also have that amazing experience when they want it.

Karen Fiona Short - *Barclays Bank PLC, Research Division - Research Analyst*

No, that's helpful. And then I'm just curious, with respect to the Charlotte test, any color or metrics you can give on the overall margin, I guess, and/or sales lift in that store? I realize that there's a decline in sales floor square footage. But any time on rolling that out to other markets?

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

Yes. I'll start and maybe Damien can add some color. We aren't yet providing any of the metrics on performance. And that's because it still is a, relatively new; and b, this is how a bunch of stores are working together.

And I just want to underscore back to the first question that you asked. The beautiful thing about Charlotte is we're really trying to say, what do our stores need to do in the future. Obviously, our online penetration has doubled in the last 2 years. And that means the role of the store is different. The store is incredibly important. It showcases all the experiences. It is the cornerstone for convenience. And as Matt said in the prepared remarks, more than 99% of our stores are cash flow positive.

So in and of itself, the stores are amazing experiential moments with our customers. And we know that the role of the store will continue to evolve. And so what we want to make clear with Charlotte is this is a market now with the same quantity of stores before and after. But you have 24% less selling square footage, 100% more warehousing and fulfillment and an overall reduction in square footage of 9% in the market. But you also have consultants going into home. You have more access points than ever, and you cover the market, about 41% of it, with employee delivery. And so what you're trying to do is create a bigger draw in the market for more customers because you just have all these different experiences. Damien, I don't know if you have anything you want to add?

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

The only thing I would add is, traditionally, we've looked at one store at a time and how that particular store can create an experience for a customer. Now you're looking at the full portfolio, all of our assets in a particular geography, and you're finding ways to be able to navigate that customer experience and what they're expecting across a multitude of different experiences.

I think that's what's really important is we've never done that before because it's been in each individual store. Now being able to say across a 15,000 or 25,000 or a 35,000 square foot store in an outlet experience and our consultation labor, we can take care of that customers' needs across the board, and our teams are working across the stores. Our teams are working across different customer expectations and really delivering a unique experience in that marketplace and we're continuing to learn over time, and then we'll apply that as we see what's working best for us or what's not.

Operator

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

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

I guess I'd like to start on understanding a little bit more about the pricing commentary that you made and your outlook for the next couple of years. And if we look at just average unit size versus number of transactions last year, could you give us that? And then help us understand as you get that 2% to 4% comp, how much of it do you expect from ASP as opposed to transactions?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sure, I can start and then Corie can jump in, too. If I look just outward towards our FY '25 goals, we talked about how we'll always need to be price competitive in our business. So that is fundamental to how our consumers want to interact with us and to the market. And so we'll always make the right decisions to be price-competitive and create value for them.

If I think about what happened this last quarter in terms of ASPs and units and transactions and thus last year, on a year-over-year basis, a lot of our growth [in most circles] was coming from ASP increases, which was coming from a couple of different avenues. So premium mix is up. That's the majority of our ASP increases. Secondly, we have some pricing increases from what we've been seeing from inflation, but the majority is that premium mix.

Transactions in traffic were down in the quarter, as you would imagine from a sales -- the sales decline. But it's important to know, too, if you look all the way back into our history, ASPs have been increasing year after year after year. There's an interesting dynamic happening in our organics,

which can distort the view of organics in total. We've been seeing actually unit and transaction growth and ASP growth in our higher ASP areas like computing and appliances and televisions, where we're seeing the unit declines in transaction is on the very low ASP items, things that have been shifting over to the digital mediums like gaming software or music or movies. And so that's what's creating some of the dynamic on the units and transactions. So we really like the fact that our units and our ASPs are growing in those areas where we can really create a better experience for our customers in totality.

And I think you addressed next year. Next year, I think we don't plan our business based on ASPs in units and transactions. We would continue to expect, though, that as our business shifts and we start, you see our Totaltech offers and our better experience stores take hold at our ASP and our premium mix would continue to grow and provide a better solution overall, but also be able to add in some of those lower ASP items as we continue to create a better experience holistically.

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

Great. I'd love to follow up on that a little bit on the Best Buy advertising. Is that more of a revenue opportunity or a margin opportunity? And how important is it -- is that basically selling at the current vendors? Or are there opportunities more broadly?

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

Yes, I'll start. I think that there are broad opportunities in the Best Buy Ads business. Obviously, we have what we would call audiences or kind of sweeps of customers and information about those customers that's certainly very valuable to our vendors, which is where we over-index right now but can be more valuable broadly to other partners who might be looking for potential consumers who have the kind of same look and feel as our consumer base.

And so while we start kind of near in with those who really understand this unique customer that we have and the unique knowledge we have with that customer, everything from service interactions to purchase interactions to how they decide to use the app, all of these are important behavioral points that are important, not just to our vendors, but ultimately, probably to a wider swath of partners.

I don't know if you want to hit on the financials.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sure. The Best Buy ads business for now, it's -- most of that is coming through our current vendors. And when that's the case, what it does, it actually drives margin rate, it's recorded as an offset to cost of sales. So overall, when you take that in addition to the SG&A required to drive it, it does create an OI rate positive experience for us, but it is more of a rate offset in margin. To the extent we drive more sales with people that aren't our vendors and we go outside of our ecosystem, that actually would then show up into revenue in the future.

Operator

Your next question is from the line of Anthony Chukumba from Loop Capital Markets.

Anthony Chinonye Chukumba - *Loop Capital Markets LLC, Research Division - MD*

But in terms of my actual questions, I guess you mentioned that the promotional -- promotions did increase year-over-year. And obviously, that's kind of a -- it sounds like it's a sort of end of pandemic type of normalization to some extent. I guess my first question is, I guess, where were promotional levels relative to the fourth quarter of, I guess, 2020?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. I'll start and maybe Jason can jump in after that. Compared to FY '20, some of our categories actually did start to get close to or back to FY '20 levels in Q4. So there were places we saw more promotionality in Q4 on a year-over-year basis and as it relates back to '20 were things like computing, headphones and wearables and even TV started to get back to levels close to FY '20. And so that's where we've been seeing some of the more promotions in this last quarter.

We actually saw computing start to be more promotional on a year-over-year basis back in Q3. So that's where we're starting to see. And you're right, as we look to FY '23, we would expect more and more categories to start to return to more normal FY '20 levels based on how inventory starts to flow. There are some still inventory things we're watching in terms of the chipsets and some supply constraints. But as inventory starts to normalize and get into next year for more categories, we would expect more of them to return to levels closer to FY '20.

Anthony Chinonye Chukumba - *Loop Capital Markets LLC, Research Division - MD*

Got it. That's helpful. And then just a quick follow-up. You talked a little bit about this in the press release. Just even directionally, what was the impact from, I guess, supply chain issues, product availability issues on your fourth quarter results? And what do you expect the impact to be even just directionally on your F 2023 guidance?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. We did see some pressure from freight warehousing in Q4. It wasn't as material as some of the other things we've talked about. So we are seeing higher rates come through just the transportation and carrier mix of what we're having to supply, it was offset a little bit by a parcel reduction. So overall, there was a little bit more pressure in Q4.

As you think about next year, we are expecting to see freight warehousing continue to be a pressure as we continue to move through the year, not as material as some other things that we've laid out, but it would be something that we're going to continue to navigate over the next number of quarters.

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

And Anthony, I think the other part of your question was around the inventory levels that we saw in Q4, and we haven't sized it specifically, but I think it's fair to say we would have been healthy in our range had we not had some of those very targeted -- and again, I want to be clear, they're very targeted inventory constraints that were just a bit larger than we thought. And I think we expect to see some of those continue into, especially the first half of next year and again in a more targeted way. But our overall inventory situation, I think that's some of what you're seeing in the promotional environment, our overall inventory situation is very healthy. I mean they are up 6%, 15% versus 2 years ago. So it's just these pockets where we've seen more demand, so that's good, but a little bit more constrained than we were expecting.

Operator

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

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

Best Buy has a long history of doing what it says it's going to do, setting realistic expectations and then following through on those expectations. If you do get some feedback or there is sentiment coming out of this event, it might be that you set really aggressive targets over the next few years, especially on the profitability side.

To put some perspective around that, the midpoint of the 6.3% to 6.8% operating margin expectation would be 50 basis points better than what Best Buy has ever done in the past, and that was during a pandemic. And to get to the midpoint, Best Buy was able to achieve 50 basis points of annual operating margin in fiscal '24 and fiscal '25, whereas prior to the pandemic, it was generating about 20 basis points of annual operating margin expansion.

So as you look out, what's changed about the model to make it more -- that much more profitable than Best Buy has been in the past? Is it really health care advertising? You've been able to master the profitability of the online business.

And as part of that, could you talk about the contribution from Totaltech, Best Buy Ads, Best Buy Health and cost reductions and efficiencies, would they all equally contribute to the profitability expectations a couple of years from now?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sure. I'll take that from a couple of different angles, Michael. First, I'd say, over the last couple of years, this team you see on the camera, everyone in the building and in the field have been doing an amazing job just navigating and accelerating a number of the strategies to lift our business and improve the profitability over the last couple of years managing through the pandemic.

There is certainly a number of things we've changed about our operating model that has allowed us to navigate very easily through a store channel to an omnichannel to now a virtual channel and the chat situation. So the team has done an amazing job just finding ways to efficiently operate this business, and that's helping us drive profitability now and as we look forward. And we'll continue to do that.

As you look to the out-years in terms of profitability, we have been -- we've been talking about investments in areas like health and technology. And now we're talking about investing in our stores. All those things are intended to pay back, not just payback from a sales perspective, but also continue to improve from a rate and an operating dollar and an operating rate perspective as well.

So they are, as we've laid out in our materials, ways we're going to help expand our rate from FY '23 up to the range of 6.3% to 6.8% in FY '25. We believe those initiatives will help generate more profit being more accretive over time. And at the same time, we'll keep working hard to make -- create the efficiencies in our stores and navigate through the different channels very seamlessly. We'll never stop trying to find those improvements, and this team has been hard at work doing that.

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

Michael, I think you have stacked -- you actually nailed and laid out a lot of them. But you have this kind of stacked quantity of things that both have happened and that we're investing in. I mean, we have tremendously more scale than we had just 2 years ago with \$8 billion added to the top line. And obviously, that -- majority all coming through are digital experiences. So we've navigated a massive change in the composition of our business.

Under that, we've also created material efficiency and effectiveness because I think it's really important to note, we also noted in the prepared remarks, in Q4, we saw some of our best NPS results, particularly on the in-store side of things. Our teams are doing incredible work garnering skills, 80% of our associates have more than 1 skill, which allows us to move this labor really flexibly and allows really interesting career paths.

So you've got scale, you've got a really efficient and effective model that now has moved through this changing dynamic. And then we're layering on top distinct initiatives that we have expectations around return. Totaltech being one, the ads business being another, the health business that we're investing in for our future the store experience side of things, all of these, we are using behavioral history that we're seeing in our customers to help us predict how we think this model looks in the future.

And I would just underscore what Matt said, I give the team a great deal of credit for choosing to double down on these investments now because we do think this is what unlocks exponential growth for us as we head into the future.

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

That's helpful perspective. My follow-up question is embedded in your guidance for the next couple of years is it looks like a mid-single-digit comp for the domestic business. If it proves that it's more like a 3% top line growth for the domestic business from 2024 and 2025, can you still get to the 6.3% to 6.8% operating margin? Or should we think more like a 6% operating margin in that scenario?

Matthew M. Bilunas - Best Buy Co., Inc. - CFO

Yes. Certainly, the ranges we gave from a revenue and OI perspective have those ranges on all the initiatives and various components of our plan. So we would continue to strive for those targets that we gave for operating rate income despite maybe coming at the bottom end of that scale.

There's obviously a range of outcomes to the initiative, but also just the work in our baseline business to create efficiency. So we would continue to target that even if it was towards the lower end. But obviously, we're going to make the right decisions for the long term. So we'll always choose to invest as we need to along the way.

Operator

Your next question is from the line of Scott Mushkin from R5 Capital.

Scott Andrew Mushkin - R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research

So getting to the margins, I was wondering if you could give us like cadence. Obviously, you're going to be down to the -- this year but then sharply up in '24 and '25. I mean is it balanced between those 2 years? Or is it mostly expected in '25, the improvements?

Matthew M. Bilunas - Best Buy Co., Inc. - CFO

Yes. So we haven't given the numbers for FY '24. So obviously, we're giving ourselves a little bit of flexibility in how we get to the FY '25 goals, not just in terms of the lines of P&L, but even the year's as well. We would expect to see improvements each year, if you will, the general size is we haven't actually sized for anyone, but we wouldn't expect to see improvements as we progress in each of the years going forward.

Scott Andrew Mushkin - R5 Capital LLC - Founder, Managing Partner, CEO & Director of Research

Okay. And then my second question is, obviously, on the revenue side, there's some pretty ambitious targets. I think Michael was talking about that a second ago. But I was wondering, you're obviously attacking new areas and new categories. When you think about the comp, how much is coming from those new areas? And how much is it increasing your addressable market? I know you threw \$300 million out there. But is your market now actually going to be bigger than that as you attack new areas for the business?

Matthew M. Bilunas - Best Buy Co., Inc. - CFO

Yes. We didn't size the -- expanding our assortment within the numbers. We gave some indication for some of the other areas that if you go from the mid-range of FY '23 to FY '25, that's about \$5 billion. Totaltech was \$1.5 billion of that number, and that includes the cannibalization of the stand-alone services and offerings that we have.

We also talked about how health is at \$525 million today and that we're going to grow at a high CAGR rate over the next number of years, that would indicate that by FY '25, it's about \$900 million of growth, too. So we're breaking those parts out.

What's left is what we would expect to expand in our -- from our categories and our physical assets. So we would expect those to provide some meaningful growth as well as the other items.

Operator

Your next question is from the line of Peter Keith from Piper Sandler.

Peter Jacob Keith - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I'll also echo, great presentation today. First question I had was just around Best Buy Health. We've been talking about this, I feel like, for about 5 years. So it seems like we're making some progress. But I was wondering if you could also kind of look back in terms of what hasn't worked that you've learned and discontinued versus what you're leaning into more aggressively as you see future opportunity.

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

Maybe I'll start with a little bit of context, and then I'll ask Deborah to come in since she came in partway through the journey. I think it's maybe not as much about what maybe what didn't perform as well. I think it's what we're learning about a consumer that has changed a great deal, particularly in the last 2 years.

So some of those early hypotheses we had around health moving into the home, around people wanting to age in their homes with technology, I think those hypotheses were actually exponentially sped up over the last couple of years. And we started to see some new use cases around virtual care in particular.

So I think we felt like we were pointed in the right direction even 3, 4 years ago, it's just that the consumer behaviors have really changed in the last 2 years, having gone through the pandemic. And now we're refining our focus a bit so that we really target where the industry is going. Maybe, Deborah, you could add some color.

Deborah DiSanzo Eldracher - *Best Buy Co., Inc. - President of Best Buy Health*

Corie, I think you pretty much covered most of it. I think I would just say, in the active aging space, we -- people will continue to actively age in their home, live independently in their home.

If you think about it, we target consumers are 65 years and older, and these consumers like -- actually, they like a physical store experience. So that in the past couple of years, when our stores were closed, we couldn't go in. We couldn't see the phones. We couldn't see the personal emergency response devices, we really saw that pick up, though, in Q4 of this year.

So we are very optimistic about that market. And I just want to emphasize what Corie said again, really, in the pandemic, consumers thoughts of digital health changed dramatically. In the health technology space for about a decade, people have been talking about the consumerization of health care, but the pandemic really brought the consumerization of health care.

So now consumers want to take care of themselves and their family in their home 365 days a year. They do it with technology, and they need help with that technology. And I think that with Best Buy enabling them to connect with their physician, helping them with their technology is really what's driving our optimism in the market.

Peter Jacob Keith - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Okay. Maybe another question I would want to pivot over to Jason on some of the macro and product trends. Here again, 5G, we've been talking about for a couple of years. It seems like it's starting to come to life. Metaverse, maybe a couple of years out. Could you bring those to life for us a little bit more in terms of types of products you would expect to sell and how you might be involved from a services implementation as we think about product cycles in these areas?

Jason J. Bonfig - *Best Buy Co., Inc. - Chief Merchandising Officer*

Thanks for the question. 5G, I think you're going to continue to see happen at more of a market level. So it will be almost a rolling change as it hits the individual markets and the potential for that additional speed is unlocked with customers. That shows up not only in products, but it also just shows up in the ability to make more connected products, the expansion into things like tablets, watches, laptops to really take advantage of that faster connection.

The other area is metaverse, it's very, very much alive, and we're seeing the trends with our customers. When we look at VR, our VR business grew double year-over-year in Q4, but actually also for the entire fiscal year of FY '22, showing the customer interest in wanting to experience the metaverse, want to try some of the different things from a virtual reality perspective and the amount of products and the amount of customers just will continue to evolve as they find more and more ways to take advantage of the technology that's going to just continue to expand experiences for customers and the ability to plug into these new networks and new experiences as we move forward.

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

Peter, your question about services. This is so interesting because what we're seeing is this really high level of interest and yet confusion around what it is and what I'd do with it. I just read a survey that said that 70% of consumers age 65 and older want to try VR experiences, but aren't even sure exactly where to start.

And so sometimes this is consulting services in the home. But sometimes this is as simple as having that wide array of products from all of the vendors and just being willing to help people kind of dabble into, whether it's metaverse or 5G, which becomes really relevant as we're talking about getting out of our homes actually and being on-the-go and being able to game and work and learn on-the-go. So I think for us, that's a long continuum all the way from coming to the store, we can just help you understand what this is, all the way to now I have twice as many connected devices in my home. I want to learn how to leverage a 5G network and maybe get off WiFi. How do I do all of that? And I think over time that, again, from our unique point of view, that's where we can be helpful to the consumer.

Operator

Your next question is from the line of Zach Badam from Wells Fargo.

Zachary Robert Fadem - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Can you help us bridge the gap from your current gross margin profile of [25.5%] and help us understand what's embedded in the 6.5% EBIT margin target? And specifically, could you walk us through the expected Totaltech drag in 2023, how that's expected to normalize? And how we should think about the other moving parts mixing around new categories and promo, et cetera?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sure. So overall, for FY '23, we've talked about how the majority of that step back is -- in operating rate is driven by the Totaltech launch that we did in FY '22. And so we cycle that at the end.

And so what's essentially happening is the what used to be higher services gross profit rate is now being impacted by the launch of Totaltech, which is a much more complete offer. So it includes product warranties, installation, things like that. So the gross -- the services gross profit rate is coming down, if you will.

What we're doing, though, is driving more members much faster than we did in our previous service membership and driving more product incremental sales. The stand-alone offer at Totaltech is actually profitable on its own but we're navigating this period of time where we're cycling a different services offer and also building and scaling the incremental sales of the offer itself.

So all that takes some time, and we're not necessarily pointed towards a gross profit rate or an SG&A rate. We're looking at driving OI rate over time and OI rate dollars over time. And so we haven't given guidance over that period from FY '25 because we're obviously going to give ourselves a little bit of flexibility as we navigate a very new offer in Totaltech as we understand just the incrementality and the frequency, but also just the usage.

So we haven't given those -- the breakouts of the different. We will also expect gross profit expansion in other areas, though, so health has a very healthy gross profit rate. Best Buy Ads also has the ability to drive gross profit rates. There are things that help us mitigate what might come from a lower services gross profit rate in the future.

Zachary Robert Fadem - Wells Fargo Securities, LLC, Research Division - Senior Analyst

And on that OI rate expansion from 5.4% to 6.5% in 2025, it suggests a 100 basis point improvement over a 2-year period. Is it fair to assume that, that will be evenly distributed in '24 and '25? Or are there certain drivers or initiatives that are more weighted towards the front or back end?

Matthew M. Bilunas - Best Buy Co., Inc. - CFO

Yes, we haven't given -- we're not going to give the exact breakout by initiative. But all of them are contributing to that OI rate expansion from '23 to the targets we gave for FY '25.

There are a lot of moving parts. So -- but each of them, the initiatives of health and Best Buy -- or Totaltech as well as Ads, those are all contributing to the growth in the operating income rate.

Operator

Your next question is from the line of Scott Ciccarelli from Truist Securities.

Scot Ciccarelli - Truist Securities, Inc., Research Division - Research Analyst

So I had a health care follow-up. I think in response to Peter's question, you guys were talking about an acceleration of consumer need for aging employees, et cetera. But I think your business has actually ramped slower than expected. So what do you think the impediments have been to faster adoption? Is it the value equation? Is it an awareness issue, et cetera? And then what can you do to accelerate the adoption of your health care services?

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

Scott, thank you. Thanks so much. I'll take that. So think about it this way. First of all, the health presentation that we presented today is a bit different than the strategy that you saw previously.

So this is really one strategic area, 3 focal points: taking advantage of the rapid consumerization of health care, which did really not exist before 2 years ago. Second, we continue with active aging. People still do want to live healthy and happy and independently in their homes. And the third

area of virtual care is also an area which essentially did not exist before the pandemic. Now hospitals want to have hospital home programs. They want to take care of helping people get better in their homes where they are surrounded by loved ones and feel comfortable. And so hospitals all over the country are really putting in hospital at home programs, putting in chronic disease management programs. These are growth areas that did not exist before.

Our focus before was in active aging. And as I said in my prior remarks, those are consumers 65 years and older and for our products, so the active aging products, they really appreciated a physical store experience. And so when we had different hours in the last 21 months, when we had some store closures, it did impact the active aging business. But we see it now really, we had a very strong Q4, and we see that continuing.

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

Okay. And then a quick housekeeping item. Matt, given the economics of the Totaltech program, if membership actually grows faster than expected, does it take longer to kind of shift in the profitability mode?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Not necessarily. The growth in membership is indicative of the value of the offer, the interactions that they want to have with us. And so we would see membership revenue grow, but also to the extent that members are growing, the incremental product sales that they would grow, we'd grow with that. So it wouldn't necessarily impact the pace at which we could actually drive profitability.

Operator

Your next question is from the line of Steven Forbes from Guggenheim.

Steven Paul Forbes - *Guggenheim Securities, LLC, Research Division - Analyst*

I wanted to start with customer relationships event, maybe a topic from the last Analyst Day. So Corie, if you can, really, if you could help frame where we are with those events across the various interactions and provide some high-level insight on how the relationship events over the past 2 years have or maybe amplify the business strategy that you laid out, supporting the upwardly revised targets?

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

Yes. So if you go back to 2, 3 -- 2 years ago, 2019, we talked about specifically these customer relationship events. And at the time, if you recall, we underscored things like using the app and having the app. We underscored at that point, Total Tech Support, which we've now evolved into Totaltech, obviously. We underscored customers who shop in multiple categories.

There were like specific events that people who use our financial services. There were specific events that we were looking at that we said, when customers interact with us in this way, we tend to keep them in our ecosystem. They tend to spend more, they tend to be those more loyal customers. You can imagine, over the last 2 years, the good news is we have seen some acceleration in those type of events. We've seen more app downloads. We're seeing a 72% increase in people using the app when they're in our stores, great. That's a great data point. We're seeing to what Matt just said, more people take up the Totaltech offering than we were seeing in Total Tech Support, although that was still growing over the last couple of years. We're seeing more -- we just saw a whole bunch of new customers, and we're seeing those customers shop us in multiple categories. So we're seeing that grow.

I think you can see in the presentation that we gave today, it is still very important for us to continue to drive those customer -- deep customer relationships. And we're continuing to evolve how we see those interactions that are most important to those longer-term relationships. And almost every strategy that we underscore today, whether it is what Damien talked about in terms of our more experiential stores or whether it is

Totaltech or whether it is a relationship with patient or someone we were helping to provide help for, all of those are the types of relationships that keep customers stickier to the brand.

And given we talked a little bit, our frequency is a little bit lower than you can imagine someone who has grocery or someone who has consumables. And so this idea of increasing the frequency, staying relevant in the selection is really important to us. And that's, I think, what you can see, all of the strategy is geared around those deeper and more prevalent customer relationships.

Steven Paul Forbes - *Guggenheim Securities, LLC, Research Division - Analyst*

That's helpful. And then just a quick follow-up as we revisit the holistic market approach. Just curious what's sort of incorporated around that strategy over the next 2 or 3 years in those longer-term targets that you laid out?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

The holistic.

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

The market spread. So when Matt was talking about the capital guides that we kind of gave and you could see some of that increase in capital. At some point, we're assuming -- and Damien talked specifically about the experiential stores, there probably will be some other store concepts that we may choose to roll.

But what I want to say is we've been very clear that the Charlotte market is a pilot, and we mean that. Sometimes people say pilot and then they fully know exactly everything they're going to roll from there. It is a pilot. We are learning from it. And we assume that at some point, we will continue to roll pieces of that model, but we're not yet ready to say this is exactly the concepts, exactly how many and exactly in what markets.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sorry for the confusion there. Yes, we would assume there are some revenue impact and profitability impact from the broad work on our store portfolio, namely the experiential store rollouts that we're doing. And as we continue to look at the market approach, any other changes, we would include that into the revenue outcome as well.

Operator

Your last question is from the line of Liz Suzuki from Bank of America.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Just a short-term one on the comp guidance. I guess since 2-year growth rates are starting to get thrown off by the start of COVID 2 years ago. Do you think we should be looking at 3-year growth rates as we think about the cadence of quarterly comp?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. It's increasingly difficult to look at 2 years and 3-year stacks of growth rates. I think the best guidance for us would be if you look at the next year's guide of 1% to 4% and think about the first half versus back half, the first half is going to see a bigger weighted sales decline just based on the [37% comp] we did in Q1 last year and then the [20% comp] in Q2. How that works out exactly, it won't necessarily be even from a 3-year

perspective or a 2-year perspective. But if you think about a first half, back half for next year is probably the easiest way. And then think about the overall guide of 1% to 4% and how that -- where they may land in that order.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Got you. And then, I guess, just to that point on kind of 3-year growth rates. I mean, the implication from the guidance would suggest some reacceleration from the fourth quarter exit rate. So can you quantify the impact of Omicron and the inventory shortages on that fourth quarter comp and if you consider those sales to have been lost permanently?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes, we didn't quantify it. What we said is we believe we have been pretty safely in the range of our revenue performance in Q4 if we hadn't had to reduce our store hours and if we had seen the level of inventory in certain products and categories that we were expecting. Some of that wouldn't necessarily be lost because we find that people do come back to us after maybe an attempt that they couldn't or if the product wasn't available. So it isn't necessarily lost as you look into next year, but we do believe we would have been pretty safely in the range of revenue had those 2 factors not happened.

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

Thank you so much. And with that, we will actually wrap today's investor event. And on behalf of our panelists and all of Best Buy, it has been our pleasure to share our progress with you, and we genuinely thank you for taking the time and all of your questions. Have a great rest of your day.

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