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BBY.N - Q4 2025 Best Buy Co Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Mollie O'Brien *Best Buy Co Inc - Head of Investor Relations*

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

Matthew Bilunas *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Jason Bonfig *Best Buy Co Inc - SEVP of Customer Offerings, Fulfillment & Canada*

CONFERENCE CALL PARTICIPANTS

Christopher Horvers *JPMorgan - Analyst*

Brian Nagel *Oppenheimer & Co., Inc. - Analyst*

Jonathan Matuszewski *Jefferies LLC - Analyst*

Michael Lasser *UBS Securities LLC - Analyst*

Anthony Chukumba *Loop Capital - Analyst*

Oliver Hu *Barclays - Analyst*

Steven Forbes *Guggenheim Securities LLC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Best Buy's fourth quarter fiscal 2025 earnings conference call. As a reminder, this call is being recorded for playback and will be available by approximately 1:00 PM Eastern Time today. (Operator Instructions) I will now turn the conference over to Mollie O'Brien, Head of Investor Relations.

Mollie O'Brien - *Best Buy Co Inc - Head of Investor Relations*

Thank you, and good morning, everyone. Joining me on the call today are Corie Barry, our CEO; Matt Bilunas, our CFO; and Jason Bonfig, our Senior Executive Vice President of Customer Offering and Fulfillment.

During the call today, we will be discussing both GAAP and non-GAAP financial measures. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures and an explanation of why these non-GAAP financial measures are useful can be found in this morning's earnings release, which is available on our website, investors.bestbuy.com.

Beginning this quarter, we have renamed all of our non-GAAP financial measures to adjusted financial measures. For example, non-GAAP SG&A has been renamed to adjusted SG&A. The methodology for calculating these measures remains unchanged, and therefore, any previously reported non-GAAP financial measures that are renamed to corresponding adjusted financial measures remain unchanged.

In addition, I want to remind you that fiscal '25 had 52 weeks compared to 53 weeks in fiscal '24. We estimate the impact of the extra week in Q4 fiscal '24 added approximately $735 million in revenue, approximately 15 basis points of adjusted operating income rate and approximately $0.30 of adjusted diluted EPS to the full year results.

Comparable sales for the 14-week Q4 fiscal '24 and 53-week fiscal '24 exclude the impact of the extra week. Finally, some of the statements we will make today are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may address the financial condition, business initiatives, growth plans, investments, and expected performance of the company and are subject to risks and uncertainties that could cause actual results to differ materially from such forward-looking statements.

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

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

Good morning, everyone, and thank you for joining us. I am pleased to report both better-than-expected sales and earnings for the fourth quarter. We drove positive enterprise comparable sales growth of 0.5%. On revenue of almost $14 billion, we delivered an adjusted operating income rate of 4.9% and adjusted earnings per share of $2.58. As we entered fiscal '25, we were operating in an uneven environment and expected there would be industry pressure.

Our fiscal '25 strategy was to focus on sharpening our customer experiences and industry positioning while maintaining, if not expanding our operating income rate on a 52-week basis. And with today's results on a 52-week basis, we are reporting 20 basis points of annual adjusted operating income rate expansion on a 2.3% comparable sales decline, demonstrating our ability to preserve profitability in a softer sales environment.

The Q4 holiday promotional environment was in line with our expectations going into the quarter. As we have seen for the past several quarters, customers were deal focused and attracted to more predictable sales moments.

We were pleased to see strong customer response to our doorbusters and earlier Black Friday sales. This gave us a running start to the quarter and the strong November comparable sales in a holiday season with fewer shopping days between Black Friday and Christmas Day.

Our digital sales were almost 40% of total domestic sales this Q4, a slightly higher mix than last year. We saw sales growth across digital assets, including the Best Buy app, which hit the number one rate shopping app position on the Apple App store on Black Friday this year and saw almost 20% traffic growth. We have very competitive fulfillment options, offering our online customers, on average, a 10% faster promise for delivery this year.

In addition, 45% of our online revenue was picked up in our stores by our customers during the quarter, showing the value customers put on the convenience of our stores. From a product category perspective, we drove comparable sales growth in computing, tablets, and services. This growth was partially offset by declines in appliances, home theater, and gaming.

We delivered better-than-expected domestic comparable sales growth of 9% in the combined computing and tablet categories. Laptop sales growth specifically increased to 10% versus 7% growth in Q3. Improved sales performances in headphones and in TVs within the broader home theater category, also added to better sales result compared to the first three quarters of the year.

As I step back, there are several factors that contributed to our results and set us up well for success in fiscal '26. Our stores reset, enhanced vendor experiences and labor enhancements contributed to material year-over-year improvement in our domestic relationship net promoter score, which tracks consumers' likelihood to recommend Best Buy.

The investments we made in both digital and store experiences and associate training helped us optimize the computing, replacement and upgrade cycle to drive sales growth and share in the category.

In our digital business, our focus on personalization and speed resulted in app engagement and sales growth. Our investment in marketing and the introduction of our new branding drove traffic and positive lift to brand perception metrics. We successfully tested new targeted promotional strategies that delivered higher engagement across all tiers of our My Best Buy membership.

Our prudent and balanced approach to expenses allowed us to invest strategically and our ongoing efforts and investments in onboarding, training, and our commitment to creating a stable and engaging environment for our employees contributed to our lowest employee turnover metrics in six years and higher engagement scores sequentially and year over year.

We are encouraged by and proud of our execution and results and I'm beyond grateful for the passion and hard work our team members across the company demonstrate each and every day. As we enter fiscal '26, we are excited to build on the momentum from this past year.

Our strategy is to continue to strengthen our position in retail as a leading omnichannel destination for technology, expanding our operating income rate, while at the same time, building and scaling new profit streams that we believe will drive robust returns in the future.

Therefore, our fiscal '26 priorities are as follows, one, drive omnichannel experience improvements that resonate with our customers; two, launch and scale incremental profit streams, including Best Buy Marketplace and Best Buy Ads; and three, drive operational effectiveness and efficiency to fund strategic investments and offset pressures. Of course, these priorities are intertwined and worked together as a great customer experience drives the level of opportunity to generate incremental profit streams.

Before providing more detail on these priorities, I'll share some insights on the assumptions driving our sales expectations. We believe the consumer will remain resilient, but is still dealing with high inflation that is driving expenses up across their lives, making them value focused and thoughtful about big ticket purchases. We also still see a consumer that is willing to spend on high price point products or when they need to or when there is technology innovation.

After stabilizing through fiscal '25 we expect the US CE industry to be flattish to slightly up this year. From a category perspective, we expect continued sales growth in computing and improved sales trends across multiple other categories. This leads to our comparable sales guide in the range of flat to 2% growth for the year, with growth weighted more in the second half of the year based on the timing of product launches and initiatives.

We expect growth in computing, including tablets, to continue to be driven by the customer need to replace and upgrade products. We believe this will be helped by both the end of Windows 10 product support in October and ongoing innovation in the form of gradual improvement in AI use cases and release of new AI features.

Beyond computing, we expect other categories to show more stabilization and improved comp sales trends, including home theater, mobile phones, and major appliances. Against this backdrop, I need to pause a moment to address the topic of tariffs. International trade is critically important to our business and industry. The consumer electronics supply chain is highly global, technical, and complex.

China and Mexico remain the number one and number two sources for products we sell, respectively. While Best Buy only directly imports 2% to 3% of our overall assortment, we expect our vendors across our entire assortment will pass along some level of tariff costs to retailers, making price increases for American consumers highly likely.

The fiscal '26 guidance we provided this morning does not include the impact of the recently enacted tariffs. This is because it is a highly dynamic situation with uncertainty about the duration, timing, amount, and countries involved in addition to the potential action of others in the industry as well as the potential reaction of American consumers.

That being said, we believe it is helpful to provide some level of context. Based on our early analysis, if the China tariffs that went into effect on February 4, remain at the 10% level for the full year, we believe they would have a negative impact in the ballpark of 1 point of comparable sales. This would mainly impact quarters two through four.

I want to stress that our deeply tenured and talented teams are experienced as operating in volatile conditions. And this is also a situation where our partnerships with vendors are extremely valuable. We intend to execute the strategic plan we set for this year while navigating the tariff environment.

Now I would like to provide more details on this plan and our fiscal '26 strategic priorities. As I mentioned, our first priority is to drive omnichannel experience improvements that resonate with our customers. I will start with our digital experiences where one-third of our domestic revenue is transacted and 60% of our purchasers visit at some point during their shopping journey.

Our first focus for the year is to meaningfully improve our search and discover capability to make it even easier for our customers to find what they want and need. Therefore, we will leverage AI to launch an innovative new search experience across dot-com, small view, and the app.

We will also build on the foundation we established last year as it relates to personalization, using AI to make the personalization smarter to drive both engagement and conversion. The app is our preferred shopping experience for both our free and pay My Best Buy members, and the personalized home screen was served to members on over 100 million sessions in the fourth quarter, driving measurable improvements in engagement.

This spring, we will be introducing Best Buy store fronts that will allow influencers and creators to build their own branded digital storefronts on bestbuy.com, which we expect to drive increased traffic, engagement, and sales. Additionally, we will continue to integrate enhanced data and expand video content that improves the customer experience across the shopping journey.

Our stores are incredibly important for both our customers and our vendors. Customers know they can visit a Best Buy store to see and demo product or talk to a knowledgeable sales associate in ways they can't anywhere else.

Overall, our plan for our physical stores is similar to last year. We will prioritize merchandising and store health and appearance updates over large-scale remodels. In doing so, we continue to leverage the valuable insights we've gained from testing and deploying unique solutions within our store portfolio in the past few years.

For example, our resets in monitors and digital imaging earlier in the year contributed to sales growth for those categories in the holiday quarter. Throughout the year, we expect to drive shopping experience updates across the chain, including growing vendor pads and home theater, expanding tablet and virtual reality departments and enhancing experiences for expected iconic gaming launches.

We will also continue the rollout we began last year of dedicated space to showcase new and emerging tech after seeing positive results for many participating vendors. Many of these planned updates are in partnership with our vendors. They are increasingly investing in our sales floors, both physically and in specialized labor, helping us create unique and engaging merchandising for our customers.

For example, last year, we repositioned computing to the center of several stores and implemented enhanced Microsoft and Apple experiences, which are already showing promising results. We plan to implement these updates in more stores later this year. We will continue our disciplined annual approach to closing or relocating less profitable locations.

Last year, in the US we closed 12 traditional big box stores and opened two new stores. This year, we expect to close roughly 5 to 10 stores and open a few new smaller format stores. From a labor perspective, in fiscal '26, we will focus on enhancements and optimization, building on the more material changes we have made in the last few years.

Overall, we were pleased with our decision to add dedicated labor focused on computing, home theater, and major appliances in roughly 350 stores. We'll keep refining to boost sales proficiency and customer experience and expand this model to more locations this year.

To continue the commitment to driving product knowledge, merchandising excellence, and customer engagement, we plan to bring these dedicated associates together for an intensive vendor-supported in-person training and certification program in the spring.

In our services business, we expect to update our customer offers for home theater delivery and installation. These new service offers will be simplified from the current state and should make our installation services both more attractive to a wider base of customers and easier to sell, clearly highlighting our most differentiated experiences.

Additionally, I will highlight the valuable role that our Geek Squad agents play in times of new technology -- for example, they help customers understand what is unique about Copilot+ AI PCs or why they would want to upgrade their computers as we approach the upcoming Windows 10 upgrade cycle.

Our second strategic priority for fiscal '26 is focused on incremental profitability stream opportunities. As we mentioned in our last earnings call, we are targeting a midyear launch for our new US Best Buy marketplace.

We believe that as the trusted leader in CE, we have an opportunity to leverage our positioning and assets to build a differentiated digital marketplace platform. This will allow us to bring our customers access to much more expansive assortment and new categories without needing to own the inventory.

In addition, sellers and advertisers will have an additional avenue to increase their reach and build their brands, leveraging our qualified traffic. We will phase in capabilities over time. For example, we plan to facilitate product returns for our customers at Best Buy stores when we launch the marketplace. We expect to add capabilities such as fulfillment as a service for sellers in a later phase. It is still early in the process and we are pleased with the strong interest from sellers and believe it indicates a promising launch.

All potential sellers will go through a vetting process, so we can ensure our customers receive the positive experience that they would expect at Best Buy. Our Canada team operates an established growing third-party online marketplace, and we have leveraged their learnings and expertise as we build out our plans. Even with start-up costs, investments and estimated cannibalization of our first-party product revenue, we expect Marketplace to have a positive impact on our operating income rate in fiscal '26.

Over time, we expect Marketplace to help drive profit dollars and unit share. In addition, it will provide opportunities for Best Buy Ads through new advertisers and increased traffic. We have recently elevated the focus on our Best Buy Ads business and see fiscal '26 as a pivotal year. We've had a robust retail media network business for a long time in partnership with our vendors.

We are proud of this business we have built, but the opportunity for further growth. Last fall, we brought in a new leader for the business, Lisa Valentino, who brings more than 20 years of media and advertising leadership experience at firms such as Disney, Condé Nast, and ESPN. We are currently filling other key leadership roles and plan to open a New York office.

In fiscal '26, we are investing in capabilities that we believe will unleash growth like competitive market level self-service offerings that allow brands to manage their own advertising buys and new ad products that will expand inventory and customer reach.

We also expect to drive results through agency relationships and the new marketplace I just discussed. In fact, we have just signed our first joint business partnership with one of the largest global holding company. We expect agency partnerships to result in new advertisers and revenue growth over time, leveraging our data targeting, advanced and innovative beta opportunities in areas like commerce, sponsorships and in-store experiences.

I will add that our membership program plays multiple roles in our business, not only providing unique value to our members, but also serving as a source of growth for our rich first-party data that helps fuel Best Buy Ads. We had approximately 100 million members across three tiers, free, My Best Buy membership, Best Buy Plus paid membership, and Best Buy Total membership.

We ended the year with nearly 8 million paid members, up from 7 million last year. We expect growth in ad collections to contribute to gross profit rate improvement in fiscal '26. From an operating income rate perspective, we expect more of a neutral impact due to the investments we are making.

We believe the actions we are taking in fiscal '26 position us for future growth and rate expansion over the next number of years. Our third strategic priority for fiscal '26 is a consistent one. It is to drive operational effectiveness and efficiency.

We have a long-standing commitment to identifying cost reductions and driving efficiencies to help fund investment capacity for new and existing initiatives and offset inflationary pressures in our business. In our procurement operations, we expect to complete the multiyear deployment of our full source-to-pay technology capability. This will give us expanded transparency into billions of dollars of goods not for resale spend.

In combination with the enhanced automation of our purchasing process, this paves the way for continuous cost optimization opportunities. As we have discussed previously, we have been improving our customer service experience and operational efficiency by modernizing our IVR phone system with AI-powered solutions. These advancements intelligently route customers to the right agent reducing friction and improving resolution speed.

Since implementing AI-powered routing logic, we have achieved a 300 basis point reduction in transfer rates, demonstrating improved accuracy and directing customer inquiries. We also leverage technology to enable seamless self-service options for key functions such as price matching, order status inquiries, and membership management.

As a result, self-service adoption has doubled with nearly 50% of customers managing their memberships via phone without agent assistance. This shift not only improves customer satisfaction by offering faster, more convenient solutions, but also optimizes resource allocation within our support teams going forward.

In addition, during the holiday season, we were able to leverage text analytics with 100% of our customer service agent interactions, creating a real-time performance dashboard that highlighted top contact drivers and call volume trends and provided daily alerts for anomalies. This allowed us to quickly identify and resolve issues that were affecting multiple customers. In Q1, we will expand this program to chat interactions.

Last year, we established a digital and technology hub with a partner in Bangalore, India. This year, we will expand the scope of work being performed by our India resources leveraging more economical access to talent and skills. I'd like to take a moment to talk about Best Buy Health.

During the fourth quarter, we recorded an impairment charge to reflect the downward revisions in our longer-term projections. We still believe in the fundamental strategy of leveraging technology to enable care at home and believe it will be important to the future of health care, but the market is not scaling as fast as we originally forecasted. We will continue actions intended to maximize the value and improve the profitability of the business.

In summary, we are pleased with our execution and the momentum we built in fiscal '25. We are excited to build on that momentum to bring our fiscal '26 strategy to life, while we continue to navigate uncertain circumstances. We often stress that we have the luxury of competing with the biggest retailers in the world. Even so, we continue to thrive.

It is because we remain committed to our mission to enrich lives through technology. We are the trusted source for the latest and greatest new tech as well as a broad range of assortment, unique in-store and digital experiences and the expert services to help our customers. We are also a true partner to our vendors, often working with them from early in the product development cycle all the way to launching products on our sales floor.

And with that, I will now turn the call over to Matt.

Matthew Bilunas - *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Good morning. Before I talk about our fourth quarter results versus last year, let me start with how the quarter performed versus the expectations we shared with you last quarter.

On enterprise revenue of $13.9 billion, our adjusted operating income rate was 4.9%, both of which exceeded our expectations. Our overall gross profit rate was better than expected, which was primarily due to the favorable product margins, whereas adjusted SG&A dollars were unfavorable to our outlook entering the quarter, which was primarily driven by higher incentive compensation.

I will now talk about our fourth quarter results versus last year. As Mollie stated, this year's fourth quarter included 13 weeks compared to 14 weeks last year. We estimate the extra week was approximately $735 million in revenue and $0.30 of adjusted diluted earnings per share and provided a benefit of approximately 40 basis points to last year's fourth quarter adjusted operating income rate.

Enterprise revenue increased 0.5% on a comparable basis. Our adjusted operating income rate of 4.9% declined 10 basis points compared to last year. And our adjusted diluted earnings per share decreased to 5% to $2.58. By month, our Enterprise comparable sales were up approximately 4% in November before declining 2% in December and ending January slightly up.

In our domestic segment, comparable sales increased 0.2% and revenue decreased 5.2% to $12.7 billion. The revenue decrease was primarily driven by the lapping of last year's extra week. International comparable sales increased 3.8% and revenue decreased 0.2% versus last year to $1.2 billion.

The revenue decrease was largely due to the extra week last year and a negative foreign currency impact of approximately 500 basis points, which were partially offset by revenue from Best Buy Express locations that have opened during fiscal '25.

Our domestic gross profit rate increased 50 basis points to 20.9%. The higher gross profit rate was primarily driven by improvement within the services category, which includes our membership offerings. This was partially offset by lower credit card profit sharing revenue. Our international gross profit rate increased 40 basis points to 21.4%. The higher gross profit rate was primarily due to favorable supply chain expense.

Moving to SG&A, where our domestic adjusted SG&A decreased $30 million. The decrease was primarily due to the lapping of last year's extra week, which was partially offset by higher incentive compensation and advertising expense. As Corie mentioned, we recorded a goodwill impairment related to Best Buy Health. This totaled to $475 million and is excluded from our adjusted earnings.

During fiscal '25, our total capital expenditures were $706 million versus $795 million in fiscal '24. The year-over-year decline was driven by a reduction in both store-related investments and technology, which was partially offset by increased expenditures in Canada.

During fiscal '25, we returned $1.3 billion to shareholders through share repurchases and dividends. We remain committed to being a premium dividend payer and this morning announced that we are increasing our quarterly dividend to $0.95 per share, which is a 1% increase. This increase represents the 12th straight year we have raised our regular quarterly dividend.

Moving on to our full year fiscal '26 financial guidance, which, as Corie mentioned, excludes the impacts of recent tariffs and is the following, enterprise revenue in the range of $41.4 billion to $42.2 billion; enterprise comparable sales of flat to up 2%; enterprise adjusted operating income rate in the range of 4.2% to 4.4% and adjusted effective income tax rate of approximately 25%; adjusted diluted earnings per share of $6.20 to $6.60; capital expenditures of approximately $700 million to $750 million; and lastly, we expect to spend approximately $300 million on share repurchases with the purchases weighted more heavily to the second half of the year.

Next, I will cover some of the key working assumptions that support our guidance. Earlier, Corie provided context on our fiscal '26 top line assumptions. So let me spend more time on the profitability outlook. We expect our gross profit rate to be in a range of flat to up approximately 20 basis points compared to prior year.

Most of the primary components of the gross profit are planned very similar to fiscal '25 from a rate perspective. Within our gross profit rate outlook, there are a few items that I would like to highlight. We expect growth from Best Buy Ads and the rollout of our US marketplace to benefit our gross profit rate. Product margin rates are expected to be flat to slightly down when compared to fiscal '25.

We expect our services category, including Membership to have a neutral impact to our gross profit rate compared to the prior year. After being a pressure in fiscal '25, we expect the profit share on our credit card arrangement to have a neutral impact in fiscal '26.

Now moving to our adjusted SG&A expectations. As a percentage of revenue, we expect our adjusted SG&A to be approximately flat to fiscal '25, which includes the following puts and takes. SG&A is planned to increase in support of our Best Buy Ads and marketplace initiatives, which includes advertising, technology, and employee compensation expense.

We expect higher incentive compensation as we reset our performance targets for the new year with the high end of our guidance, assuming an increase of $45 million compared to fiscal '25. Partially offsetting the previous items are expected benefits from ongoing efficiencies and effectiveness work streams, including in Best Buy Health.

So our payroll expense and items like credit card processing fees are expected to increase at the high end of our revenue guidance with minimal impacts from a rate perspective. Lastly, the low end of our guidance reflects our plans to further reduce our variable expenses, including incentive compensation to align with the sales trends.

Before I close, let me share a couple of comments specific to the first quarter. We expect our first quarter comparable sales to be slightly down versus last year. We expect our Q1 adjusted operating income rate to be approximately 3.4%, which is 40 basis points lower than last year's first quarter. We expect our gross profit rate to be flat to up 20 basis points, which are aligned with our guide for the full year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan - Analyst*

Let me be the first to ask the first tariff question. The 1 point headwind on the 10% tariff from China, is that assuming that you raised price and essentially unit elasticity offsets that? So can you go into that a little bit?

And then given the range of guidance, you're saying flat to 2%, it looks like every comp point is $0.20. So is it fair to assume that 1 point headwind is equivalent to a $0.20 EPS headwind?

Matthew Bilunas - *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Sure. Let me start and Corie can jump in here. I think just broadly first, let me just give some context to the estimate. We didn't clear our guide because it's a very highly dynamic situation with a lot of uncertainty about the duration, the timing, the amount the country is involved, the potential actions of the industry, and reactions by the American consumer.

That being said, we thought it would be helpful to provide some context based on our early analysis and what we're estimating is the 10% that we went in on February 4 with China. And again, we're ballparking that at about a negative -- 1 point of negative comparable sales impact. We're assuming in this estimation that a material portion of the costs are passed on to us by the vendors.

And then that's either directly broken out or blended in with a higher COGS or through some level of promotional positioning. Of course, we prefer not to raise prices, but because of the higher COGS, we need to enact some price increases, and that is going to vary based on product category, SKUs, competitive environment, and other factors.

The 1% impact is a combination of unit decreases and a slight level of ASP increase based on the prices going up. The giant wildcard here, obviously, is how the consumers are going to react to the price increases in light of a lot of price increases potentially throughout the year and a general consumer confidence that is showing a little signs of weakness at the moment.

I think it's not necessarily fair to take -- what we're expecting from a profit perspective is really just a normal flow-through at this point, but that would be net of any sort of other mitigants we would normally do if business starts to go downward.

And as it relates to the comp increase in 20 basis points, I don't know if these are just extremely linear part of what we're trying to do this year on top of navigating the tariff situation is also investing in our future, investing in initiatives.

And so we are getting leverage with some of that revenue growth, and we expect the initiatives that we're driving this year to help expand rate in the future on top of actually also contributing to operating income dollars this year as well. So hopefully that answers your question.

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

Chris, I would just give like two more bits of context here. One, I think I need to state the obvious. We've never seen this kind of breadth of tariffs -- and this, of course, impacts the whole industry. So it's not just the Best Buy question. It is a broad industry question.

And I say that because that makes the estimation of the impact, all the harder, especially when you're in the guts of a replacement and upgrade cycle where people really need this stuff.

So it's difficult for us to understand elasticities perfectly because you don't have anything predictive in our history that looks or feels quite like this. The second thing I would say then to that same point is -- this isn't a perfect linear conversation.

So I know it's tempting to say, well, if the tariffs go from 10% to 20% in China, do I just double? It's not going to be a linear point of view on how this impacts, particularly at the end of the day, the consumer who, of course, given how the tariffs are structured right now, will have impacts across many of the things that they are purchasing. So I think we tried to give you our best take based on what we can see today, but to just point out the difficulties in trying to assess the situation, given how unique it is.

Christopher Horvers - *JPMorgan - Analyst*

Yeah. I appreciate that. I appreciate the challenges, especially with the timing of everything and when we're having this call today. And that you anticipated my second question was the linearity of if 10% went to 20%, maybe going to the other side, which is Mexico. We estimated maybe Mexico was 15% to 20% of sourcing.

My understanding is a chunk of that is your private label TV program. So you can talk about how you're thinking about the Mexico exposure? And is there more of a bigger headwind if Mexico goes into a place -- in took place because there's not a -- with that private label, there's not necessarily a shared burden with the vendor base.

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

I'll start with your estimations in terms of size are right in the ballpark. We're probably about 20% sourced from Mexico in total across the whole vendor profile. So I want to make sure I reinforce that, that is appropriate. Jason, maybe you can comment on the exclusive brand side of things.

Jason Bonfig - *Best Buy Co Inc - SEVP of Customer Offerings, Fulfillment & Canada*

Yes. Mexico does impact not only our exclusive brands business, but also a large percentage of the TV business, basically, large screen TVs in particular as well as appliances.

Operator

Brian Nagel, Oppenheimer.

Brian Nagel - *Oppenheimer & Co., Inc. - Analyst*

So I want to follow on Chris' comments about -- Chris' questions about tariffs, so I apologize, it will be a big topic. But -- so recognizing it's extraordinarily early, we're literally gain this news in real time as you are as well. The Best Buy is proven over time and extraordinarily nimble operator.

To what extent is there flexibility in your supply chain that these tariffs stick that you are able to -- you are able to ship some of your sourcing either direct or as you work with your vendors?

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

So I'm biased, Brian, but I do want to stress that we have an incredibly deeply tenured team here. And to your point, this is a team that has some life experience in navigating this kind of situation. Secondarily, we are deeply grateful to our vendor partners to also have been willing to -- continue to be willing to come to the table and try and work through this with us. . There are quite a few actions you can imagine that we are taking on.

So first, we are in constant communication with our vendors, making sure that we understand all the way down to SKU level, what some of the potential impacts might be. Therefore, we can evaluate some of those near-term inventory implications and where we might want to move our assortment to one or a different SKU, depending on what the implications are.

Two, we're reviewing and adjusting our supply chain and sourcing. Obviously, as a reminder, we said it in the call, only direct import 2% to 3% of our COGS. And we had already diversified a lot of our exclusive brands manufacturing. So we will continue to look at options for that back to the prior question. But again, it's not a quick move in any of those cases, and we had done a lot of the work to try to diversify those already.

We are continuing, as we told you to analyze and model the impacts to pricing that is kind of the last thing that we want to adjust. We, of course, want to make sure that our prices are as competitive as possible. But across the industry, this is going to be an issue. It will impact all parts of the business.

We are evaluating the implications for consumer demand because this is bigger than a step back, even if you think about the Q1 guide, this is bigger than just a discussion about tariffs. It's just kind of a volatile environment for the consumer. And I think you can see that reflected in some of the consumer confidence numbers we're seeing right now.

And so we're watching that and trying to understand how best do we meet consumer needs in that environment. We, of course, are engaging with any policymakers to ensure they just have our point of view on this really complex set of supply chain ecosystem. And then finally, we're, of course, leveraging some of our industry partners that's CTA or the National Retail Federation to just make sure that we're kind of bringing the holistic story together across not just consumer electronics, retail, but retail in general.

Brian Nagel - *Oppenheimer & Co., Inc. - Analyst*

That's very helpful, Corie. I appreciate it. My follow-up question, I guess it's more of just a numbers question, but look, you've done a nice job. You pointed this out. Matt, you pointed this out in your prepared comments that here you are leveraging expenses in this is called calendar '24 with still somewhat weak sales.

The question I have is, as we look forward, assuming that the sales backdrop for Best Buy starting to solidify here, you're starting to see maybe a better trajectory. How should we think about the leverage going forward? I mean how much is the base in the model set? Or is there going to be some type of expense to come back in as sales presumably continue to improve?

Matthew Bilunas - *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Yeah. Thanks. The second question there. I do expect that as we continue to grow sales that we would at a core operating unit get leverage on those sales. I think what's sometimes hard to see is just the fact that in order for us to also improve rate in the future, we need to continue to invest in things that will help bolster the profit, which are things like ads and things like Marketplace.

And so this year, as we guide [0 to plus 2] comps without tariffs, we are also guiding at the high-end expansion of operating income rate. And within that, you do have core leverage on the sales, and then you have some investments going into things like Ads and Marketplace that has SG&A growing at a similar pace of sales, but that is an OI rate -- an OI dollar contribution in this year and what we would hope to future years.

So in the future, we would expect to be able to sales grow to get some -- a little bit of leverage and also be able to see expansion of rates supported by other things like Ads and Marketplace and any other initiatives that we would engage in.

Operator

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

Corie, could you elaborate on your learnings from the success you've had with the Marketplace in Canada over the past several years? And just kind of comment on the elements you're looking to replicate in the US and any areas you may be looking to change.

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

Yeah, this is one of those places where we have a distinct advantage in that at least some portion of the company has been dealing with Marketplace. In Canada, that marketplace has been historically geared a little bit more towards some of the refurb and rebuilt side of equation. We have actually had a lot of that same product here in the US. It hasn't been Marketplace. It's been our own refurbed product.

So we have some experience on that side of things. I think what we've learned from Canada is that there is a demand to go deeper into the assortments. And that's not just the Canada question. We can see that in customers who are searching our website and looking for a broader selection or looking for a broader quantity of products, and we just don't have them there for them.

And what Canada has shown us distinctly is that you can't -- by offering this deeper selection of products, you can capture latent demand that you hadn't been able to before because you were so worried about having all of that inventory on hand.

I think in the US, one of the things that we will do that slightly different is we'll probably offer even more new products and we'll have multiple versions of the same SKUs that are going to be available in our marketplace, and that's a little bit different than what we've seen in Canada. It's actually a learning that we wish we could implement in Canada, and we're actually going to implement in the US first.

So we're trading notes back and forth. And I think that's been a really helpful piece of the puzzle in terms of how we have prioritized the experiences that we think will matter most in our marketplace here.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

That's really helpful. And I guess just my follow-up question is on the marketplace. I think in Canada, one out of every four items shipped on Best Buy Canada's website is from 3P sellers. So I guess if you think kind of long term about this initiative, is there any reason why that's not the trajectory for the marketplace in the US?

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

I think we'll see how it goes. What I would say is back to the differences between Canada and the US, Canada has less 1P refurb product. So you have a lot of people going there to get this kind of refurb and value-based product. And that was a big part of the early demand. Their demand has evolved since then is now growing more into some of the new space and a little less in the refurb.

So we'll see how ours looks different because we will have some of that SKU overlap and we're going to be geared a lot more toward deeper assortment new product. But I think it's going to take a little bit of time to evolve in terms of exactly how that looks in the US. But we are bullish on -- again, because we can see customer behavior, we are bullish on having this deeper assortment available to our customers.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS Securities LLC - Analyst*

Corie, Matt, if the tariffs persist as they went into effect to date, how much pricing will be staying across the industry? Is it going to be in the hundreds of basis points, high hundreds of basis points? What do you expect if these tariffs persist the consumer is going to experience and most likely Best Buy will participate in terms of raising prices?

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

Good morning. I wish I could give you a precise answer that would get down to quantity of basis points. I think it is a very difficult situation to answer precisely because it relies on everything from what will vendors absorb to what will we think about trying to offset to the competitive landscape, to your point, everyone in the industry facing this all the way to what gets passed on to the consumer.

I think it is fair to say, and we said it in our prepared remarks that tariffs at this level will result in price increases. I think it is very difficult to say given the backdrop that we're in, exactly precisely how big that is.

Michael Lasser - *UBS Securities LLC - Analyst*

Okay. And could you give us a little bit more flavor on how you're going to approach pricing, meaning if these tariffs that went into effect today are only temporary, will you act quickly to raise prices out of really necessity? And then if the tariffs go away a month from now, will you roll back prices?

Can you give us some stents in your strategy? And as part of that, is instead of comping as high as 2% this year, like the high end of your guidance translating to [6.60] if you comp down 2%, how should we think about what your earnings is going to look like in that type of scenario?

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

So I'll start and on the pricing side. Again, this isn't as simple as Best Buy decides to raise prices. This is a full value chain that starts with the manufacturing and then works its way all the way through, as we said, we're only the direct importer record on 2% to 3% of what we sell. So this starts much further upstream with our vendor partners who are navigating this environment along with us.

You can imagine, we carry, on average, let's call it, six weeks of supply. So you're not overnight going to see these implications. And that's why even when we talked about the impact, we said it would be much more orders two through four because depending on how fast in category turns, these cost increases will slowly work their way into categories and then we'll also slowly work their way into price. I think our objective in terms of pricing, Michael, will be the same as it has always been. We want to be competitive.

We want to make sure that we have price points across the spectrum for everyone from value-seeking to high-end premium seeking. And we want to make sure that in a cycle we're in, where people are looking to replace and replenish and in some cases, we'll be almost forced to because we're looking at like a Windows 10 upgrade, we want to make sure we're there for them across the assortment.

That approach to pricing will not change. We are just going to have to navigate in partnership with our vendors, how some of the cost profile changes due to the tariffs.

Matthew Bilunas - *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Yeah. And to the extent that -- in your example, where our comps were down [negative 2] this year instead of the guide we gave from flat up to can't give you what that exact flow-through is, Michael. I think as you've seen from our past, you've seen our ability to navigate a profit dollar and profit rate in light of sales decline. So that -- I think we will obviously try to mitigate as much as we possibly can. The reason it's really hard to say at this moment, we really don't know too much about the total impact or the duration.

And obviously, as you're adjusting your profitability and the structure of your model, you have to make sure you're not damaging your long-term opportunity to grow in the future by reducing costs so much that we're in the moment in the year, it might actually help you lower the profit -- or increase the profit that might damage your ability to grow in the future.

And so there are things that we believe strongly in and believe that consumer electronics has a great opportunity in the future. And we have to speak cognizant of what we're doing in a given year that might impact our ability to grow in the future. So it's really impossible to at this moment because we really don't know too much about the actual amount of tariffs and the duration of those at this point.

Operator

Anthony Chukumba, Loop Capital Markets.

Anthony Chukumba - *Loop Capital - Analyst*

I just wanted to add another tariff-related question. Actually, no, I'm kidding. I'm not going to ask about tariffs. Okay, so you did the positive comp in the fourth quarter.

It's the first one in quite some time. as far as you can tell, like how did your comp compare to the industry? In other words, like were you sort of in line with industry growth, did you take share? I mean do you have any data on that at this point?

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

Yeah. Thank you for the question. That wasn't tariff related, Anthony. We've said many times, and this isn't skirting, there is no single source for share information in our categories because you have to cobble it together from multiple places to make sure you get all those subcategories brought in there.

We do, however, try to cobble it all together and get after share. And for Q4, we think our share was flattish compared to last year. For the full year, we think we had some nice share gains in computing and gaming. And in fact, we actually reached what we think is our 30-year high in share and gaming consoles. So there's some really nice wins and some things that really underscore the model.

And then I think there were some other areas that are a little bit more challenged, particularly due to some of the value-seeking behaviors that we're seeing in the industry. So I think what this underscores is that we historically and we are showing it now we outperform when there's more differentiation when we have that chance to leverage our differentiation in the market.

And we definitely saw that in some of the computing and tablets results throughout the year. And we're excited because as we look ahead, we start to see a little bit more and more innovation that's coming our way. So I appreciate the question, Anthony.

Anthony Chukumba - *Loop Capital - Analyst*

Got it. And then just a quick follow-up and that segues nicely. We know that there's going to be a new switch coming out this year as well as GTA 6. I know software is not as big for you guys as it used to be. But like how do you think about gaming in the context of your guidance, [the flat to up 2]?

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

Yeah. We actually specifically -- I'm going to start with, we specifically called out on the call that we were going to make some enhancements to our stores and our experiences to really try to leverage that. You're right.

We're a little bit more about not just the consoles, but the whole experience of gaming, whether that is computing, whether that is console based and all of the fun accessories that go with all that. And so I think the team is doing a nice job leaning in. Jason, I don't know if you want to just talk about some category expectations for the year.

Jason Bonfig - *Best Buy Co Inc - SEVP of Customer Offerings, Fulfillment & Canada*

Yeah. In gaming, in particular, as Corie alluded to, we are making modifications to our store to get ready for some of the new things that we think will happen this year specifically from a Nintendo and the excitement that, that will bring in probably mostly in the back half -- and then the other title, you mentioned there's a lot of great settles coming out.

But that one, in particular, does have implications on not only it can drive opportunities for hardware purchase accessories and then obviously just customers just getting ready for that very exciting title. So we do see some opportunities in gaming, especially as we move towards the back half of the year.

Operator

Robbie Ohmes, Bank of America.

Unidentified Participant

This is Maddie on for Robbie Ohmes. I first just wanted to ask, I saw that you reported almost a 10% domestic services comp in 4Q. So I was wondering how stand-alone warranty sales performed in 4Q? What were the underlying drivers for that services comp? And then could you remind us what you expect from services in 2025?

Matthew Bilunas - *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Yeah. Thanks for the question. In Q4, we continued to see improvements in services revenue across a number of different areas. Throughout the year, we saw that. We saw growth in paid membership. We saw growth in stand-alone warranty.

We saw growth in the delivered and installed the paid services. That was consistent pretty much throughout the year and particularly in Q4. So what's driving the warranty, I think, is just obviously, there is just a level of labor in stores that is dedicated to helping making sure customers get a full solution.

And so we have been seeing attachment trends improve throughout last year pretty consistently, and that has been helping drive a warranty business particularly. As we think about the next year, I think what we expect to see from a services revenue growth is something that's pretty aligned to the total enterprise revenue growth as we're starting to now lap a lot of those changes we made to the membership program in fiscal '24.

So now a pretty consistent level of services growth in total with what we might see from a product or an enterprise into a total.

Unidentified Participant

And maybe just one more. Could you provide any color on how we should think about the puts and takes to gross margin in 1Q? I think you said flat to up 20 basis points.

Matthew Bilunas - *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Yeah. In the first quarter, we're expecting a gross profit rate range of flat to up 20 basis points, similar to how we were seeing the whole year, maybe a little bit towards the lower end of that range in total. The favorability in Q1 is going to continue to still be driven by the services membership offerings driving a bit of rate improvement.

That's because we don't completely anniversary the Geek Squad model changes that we did until the end of Q1 this year slightly offsetting that favorability would be product margin rates and Best Buy Health are both planned to be slight pressures in the first quarter. Most of the other drivers within gross profit rate in Q1 are pretty similar on a year-over-year basis.

Operator

Seth Sigman, Barclays.

Oliver Hu - *Barclays - Analyst*

This is [Oliver Hu] on for Seth Sigman. Can you guys talk about how you feel about your market share and appliances and what you're doing to accelerate that? And also from a housing perspective, how important is an improvement in housing turnover to achieve your sales guidance for this year? And can you remind us about how important housing is on some of your other categories as well?

Jason Bonfig - *Best Buy Co Inc - SEVP of Customer Offerings, Fulfillment & Canada*

From an appliance perspective, over the last couple of years, there's obviously been pressure just based on sales and then the home improvement industry in particular. We believe right now about 80% of the industry is what's called [duras] or break fix, which is meaning that a single unit is being replaced. That is not necessarily Best Buy sweet spot. Our sweet spot is more appliance packages and premium sales.

As a result of that, the industry has been highly promotional to try to stimulate interest -- we've been practical with that. We are very targeted with our investments and where we invest from a promotional perspective to make sure that we drive sales.

As we look forward, we do think that there's opportunities for the appliance business to not be as negative as it was last year lesser than the double digits that we've seen over the last two years, in particular. And then we'll continue to watch the housing market to see if that helps it improve, but we do think the decline will be less negative than it has been historically.

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

And to be explicit, our guide assumes no material change in the housing market. And to your secondary question that you asked, we see actually little correlation in the other categories that we have with the housing market. As you can imagine, we've looked at that pretty carefully. A bit in TVs, but that's nothing even close to what we see on the appliance side.

Operator

Steven Forbes, Guggenheim Securities.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

A two-part question on the idea of scaling the incremental profit streams. The first one is just on the two ones you mentioned, right, Marketplace and Best Buy Ads anyone to help sort of frame up what you see today?

Like what do you sort of think is the potential as you look out over the next couple of years for those two profit streams in terms of both growth contribution and margin contribution based on everything you know, conversations with vendors, sort of the product portfolio optimization strategies are undergoing. Like any way to help frame up for us how you're sort of thinking about it today?

Matthew Bilunas - *Best Buy Co Inc - SEVP of Enterprise Strategy, Chief Financial Officer*

Yeah, I think we would see both of those to continue to present, I would say, some revenue and profit opportunities as we move forward. I mean, obviously, we're only launching the marketplace midway through the year this year. So next year, we'll see probably more of an impact. And that is going to -- expected to be contributing to an EBIT dollar and rate this year.

And I think in the future, we see continued opportunity to scale a number of sellers on the site. And as we continue to build out further enhancements to the experience as we get into potentially fulfilling on those 3P sales as well. I think we do see continued opportunity. I also just expand the number of categories and SKUs and see how the penetration looks in terms of how the overlap is with our 1P.

So we do think there's an opportunity to really expand the long tail of our assortment to ensure that we're meeting the customer demand. I think it's an opportunity too, to just help solidify some unit share as well because there is just a different type of business you can drive out of a 3P marketplace that I think will help solidify just a customer experience and overall customer penetration that we have.

We've had an Ads business a long time. I think we're getting a little bit more into the agency nonendemic types of growth areas and to do that, we have to scale some technology, build out some team members. So we do see that there is a profit opportunity, probably particularly more next year, this year and maybe a little bit more neutral as we're investing a little bit more.

But we're not really sizing these for the next few years, but we would say that those would both be contributors to helping us expand an operating income rate as we get into the next couple of years.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

And then just a quick follow-up, right, as we think about some other profit streams that you guys have talked about in the past, corporate device life cycle management Partner Plus. Any sort of update, Corie, on how you're sort of thinking about how Best Buy fits into the broader ecosystem for consumer electronics and just how you're sort of framing up those opportunities maybe relative to how Best Buy Health has changed in its outlook. Are there any other changes in essence, both positive or negative?

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

I always like to think about strategies on horizons and you've got kind of your horizon one, which is what's returning for you right this second, your horizon two, which is we see lots of really positive indicators, so we're going to lean into it, I think, about ads in some of that vein. And then there's your horizon three.

Some of the things that you're trying and you're building and may build themselves into really interesting use cases. I think in all the examples you just gave, what the team is really focused on is where can we either see customer behaviors or use our distinct assets to optimize future growth potential.

Partner interest continues to grow nicely. And again, not only does it grow nicely, but it presents a beautiful solution both for our vendors and our customers, making it really easy for them to shop. So that was kind of moving closer into horizon one as the team continues to scale it.

Device cycle management, which you mentioned, that when I think about it a little bit more is horizon three. We're seeing nice in our services business associated with our talk before about our business offerings. We're seeing good growth on the services side of our business offerings.

And we continue to kind of build out what would the capabilities need to look like there, how might we decide the future growth potential there. But right now, we gave you kind of the biggest rock we're most focused on because we think they have the highest near-term return potential.

And you can imagine we're always going to be putting things in that kind of horizon three pipeline to see what might come out the other side next. And with that I think that was our last question. We thank you all for joining us on this very busy day, and we look forward to updating you on our results and our progress during our next call in days. Thank you.

Operator

Ladies and gentlemen, that concludes our conference call. We thank you for participating and ask that you please disconnect your lines.
