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BBY.N - Q1 2026 Best Buy Co Inc Earnings Call

EVENT DATE/TIME: MAY 29, 2025 / 12:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Best Buy's First Quarter Fiscal 2026 Earnings Conference Call. (Operator Instructions). 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 call over to Mollie O'Brien, Head of Investor Relations. Please go ahead.

Mollie Obrien - *Best Buy Co Inc - Senior Director 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. 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. And 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. It has certainly been an eventful start to the year. I'm proud of how our teams have been navigating the environment and planning our business against the backdrop of dynamic macroeconomic factors. They've employed a calm strategic and steadfast approach with their ultimate focus on our customers, and the partnerships we have with our vendors. Against this backdrop, we executed well in Q1 and delivered better-than-expected profitability.

Today, we are reporting first quarter revenue that was slightly below last year as expected, and adjusted operating income rate that was flat year-over-year. On revenue of $8.8 billion, we delivered an adjusted operating income rate of 3.8% and an adjusted earnings per share of $1.15. From a product category perspective, we drove comparable sales growth in computing, mobile phones and tablets. This growth was offset by declines in home theater, appliances and drones. Resulting in a domestic comparable sales decline of 0.7%. We delivered 6% comparable sales growth in the combined computing and tablet categories. Our omnichannel operations provide strong support for our Q1 online sales, which grew year-over-year for the second consecutive quarter. They were nearly 32% of total domestic sales, a slightly higher mix than last year. Almost 60% of online purchases are delivered or available for pickup within 1 day, and we drove our strongest on-time ship to home delivery performance in 3 years.

For the most part, customer behavior in Q1 did not change materially from the commentary we have shared for the past several quarters. Customers continue to be deal focused and attracted to more predictable sales moments. We believe the consumer has remained resilient, while dealing with persistent inflation, making them value focused and thoughtful about big ticket purchases. We also still see a customer that is willing to spend on high price point products when they need to or when there is technology innovation. Additionally, we continue to see material year-over-year improvement in our domestic relationship Net Promoter Score, which tracks consumers' likelihood to recommend Best Buy during the quarter. We believe this is the direct result of our relentless focus on elevating our unique customer experience.

I'm excited to discuss the progress we have made in Q1 on our fiscal '26 strategic priorities. But first, we must address the current tariff environment impacting our industry, our business and consumers overall. Let me begin by saying there were some developments overnight that may have future impacts. We are obviously not addressing these in our following prepared remarks as there remains a great deal of uncertainty. As we stressed last quarter, international trade is critically important for our business and industry. The consumer electronics supply chain is highly global, technical and complex. There have been a lot of developments since our March conference call.

While China remains the number 1 source for products we sell, we currently estimate the percentage of product COGS it represents is approximately 30% to 35%, compared to the 55% metric we shared in March. This is the result of vendors using production capabilities in multiple countries and leveraging their ability to flex sourcing options as the environment evolves. We estimate that the combination of the United States and Mexico are approximately 25% of product COGS at this point.

The level of tariff currently varies across our product categories. Let me provide a high-level breakdown. The consumer electronics products that are coming from Mexico, including televisions and major appliances, are compliant with the USMCA trade agreement and are not subject to tariffs. As it relates to China, there are currently two distinct tariff scenarios. First, categories that are subject to the Section 232 semiconductor investigation, including computers, mobile phones, networking and monitors are currently subject to the 20% fentanyl tariff. Roughly half our China COGS falls into this scenario. Second, categories like major and small appliances, gaming consoles, furniture and accessories are subject to the 20% fentanyl tariff plus the recently instituted 10% baseline tariff. Finally, consumer electronics products coming from countries such as Vietnam, India, South Korea and Taiwan are currently subject to 10% tariffs.

We have been actively employing many tactics in partnership with our vendors as we navigate the dynamic situation and work to mitigate the impact of tariffs on our customers and business. I would organize them into five main themes. These include: One, leveraging manufacturing flexibility. Since 2018, many vendors, including our own exclusive brands have created new manufacturing locations that provide optionality. Two, negotiating costs, including consolidating volume into fewer partners for large negotiations. Three, increasing country diversification we influence many of our partners to start or continue building resiliency into their supply chains by ensuring there are at least two locations available to manufacture the same or similar products for distribution across the globe. Four, adjusting assortments. We review and modify assortments to ensure a wide range of customer needs and budgets are met and rationalize where appropriate to consolidate volume. And five, as a last reason, we adjust prices as tariff-related inventory cost changes are implemented.

As a reminder, Best Buy only directly imports approximately 2% to 3% of our overall assortment. I want to make the point that due to mitigation efforts by both vendors and by Best Buy, the increased product costs that are flowing to us are lower than the tariff rates. And as of mid-May, we have already made the related price and promotional adjustments to our assortment. I also want to stress that, as always, we are committed to offering competitive prices to our customers.

From an inventory perspective, we have continued with our long-standing strategy of targeting roughly 60 days of forward supply. At this point in time, we feel good about inventory levels overall and for back-to-school. I am grateful to our deeply tenured and talented teams for their skill in operating through volatile conditions and for their deep partnerships with our vendors. As we look to the rest of the year, there is still uncertainty related to tariff levels, timing and countries involved in addition to the potential actions of others in the industry as well as the potential reaction of American consumers. However, based on the current tariff levels we just articulated, we are updating our annual outlook with our best view at this time. We are lowering our full year comparable sales range to down 1% to up 1% and and expect an adjusted operating income rate that is consistent with last year or approximately 4.2%. Our underlying working assumptions are that tariffs stay at the current levels for the rest of the year, and there is no material change in consumer behavior from the trends we have seen in very recent quarters.

As you can imagine and based on our history, we will continue to scenario plan and adjust with agility as the situation evolves. Matt will provide more detail. Now I would like to update you on the progress we are making on our strategic priorities.

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

As a reminder, our fiscal '26 strategic 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 (inaudible) of opportunity to generate incremental profit streams. I will start with our digital experiences, where nearly one-third of our domestic revenue is transacted and roughly 60% of our overall purchasers visit at some point during their shopping journey.

We are on track to launch our innovative improved search experience across dot-com, small view and our app later this year. We have already begun rolling the capability out to a small percentage of customers with plans for full rollout by holiday. We are excited about this experience as we believe it will, over time, be a tool used by customers and employees to solve real problems. This new experience will have AI-powered prompts to guide customers to more specific searches and natural conversational filtering for easier product discovery. It will also have fewer, higher-quality matches that reflect customer intent and richer product information to support confident buying decisions.

During Q1, we introduced Best Buy storefront, which allow influencers and creators to build their own branded digital storefronts on bestbuy.com. It is early, but we have been pleased with the interest thus far, with more than 400 creators signed up and more than 60 store fronts already launched. Over time, we believe these will help drive increased traffic, engagement and sales. In our stores, we plan to touch every store this year with shopping experience updates.

Starting in Q2, we are adding vendor pad in home theater, expanding tablet and virtual reality departments and enhancing experiences for the upcoming Switch 2 launch. As expected, there is strong customer demand for this launch, and preorder quantity is sold out very quickly. Best Buy is uniquely positioned for the Switch 2 launch, being one of the only retailers opening their doors at midnight on June 5 for either customers to pick up their consoles or grab another game. I would note that 70% of preorder customers selected in-store pickup underlining this important strength. The midnight opening is not only for preorder customers to pick up their products. There will also be additional consoles, games and accessories available for purchase.

We continue to focus on our unique in-store customer experience and in partnership with our vendors, we have made investments in our certification and training strategy for merchandising, customer engagement and selling. For example, in March, we brought our major appliances associates together in person for rigorous training to further upscale in the appliances category, which we expect to drive even higher productivity and better experiences for our customers. Earlier this month, we replicated this approach for computing and we'll do the same in July with the home theater category, ensuring that our teams are well prepared and knowledgeable across all major categories.

Of course, we have a long history of augmenting our labor expertise with vendor-provided labor. For example, starting last year, both Verizon and AT&T have increased their investments in store labor and have partnered with us to improve technology systems integration in hundreds of stores. As a result, we are driving increased phone sales and activations and delivered our first mobile phones comp sales growth in 3 years. We also feel even better positioned for future product launches.

Our second strategic priority for fiscal '26 is focused on incremental profitability strength. We believe our marketplace launch is even more important in this environment, as it provides ultimate flexibility in product assortments, price points, vendors and SKUs, so we can offer customers the broadest and most relevant experience possible, particularly when combined with our upgraded search capability. Also, sellers and advertisers will have an additional avenue to increase their reach and build their brands, leveraging our qualified traffic. We have seen strong interest from sellers and have already exceeded the seller count goal we set for the entire year. We expect to have at least 500 of them onboarded and ready for the initial midyear launch.

At launch, customers will be able to return their products directly to sellers or in our stores. And our customers will have the confidence of knowing all sellers will have a universal return window aligning with Best Buy policies. We continue to expect Marketplace to have a positive impact on our operating income rate for fiscal '26 even after start-up costs, investments and estimated cannibalization of our first-party product revenue. Over time, we expect Marketplace to help drive profit dollars and unit share. In addition, it will provide opportunities for our Best Buy ads business through new advertisers and increased traffic.

We continue to see fiscal '26 as a pivotal year for our Best Buy ads business. We have had a robust retail media network business for a long time in partnership with our vendors. We are proud of the business that we have built, and we see opportunities for growth. In Q1, we made material progress on our plan. We expanded the available inventory on our site by adding new ad slot placements on high-volume pages to better meet the level of demand and added 20 new vendor advertisers. We went live with one of the largest demand site platform, the Trade Desk. This expands our share of the broader digital dollars to flow to Best Buy apps. We were encouraged by the number of non-endemic advertisers who are already advertising with us as a result. We launched the capability called Social Plus in collaboration with Meta. Social Plus will allow advertisers to reach our customers more effectively on Facebook and Instagram. We are also expanding our engagement with new types of advertisers like quick-serve restaurants. We are excited about the results we were able to drive for a major quick-serve restaurant who ran an April campaign leveraging our first-party gaming segment. Lastly, we filled key leadership roles and opened our New York office.

We continue to expect growth in ad collections to benefit our gross profit rate 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. This brings us to our third strategic priority for fiscal '26. It is imperative that we continue to focus on executing well what is within our control, which includes identifying cost reductions and driving efficiencies to help offset pressures in our business and fund investment capacity for new and existing initiatives. There are many ways we realize these efficiencies. They are often achieved with the help of technology and analytics. Through ongoing vendor partnerships and vendor selections throughout the enterprise and by modifying existing processes or customer offerings. Other times, the result of us moving on from initiatives that aren't generating the financial return we had additionally and originally envisioned.

There are a few areas I would like to highlight. Within our procurement operations, we expect to complete the multiyear deployment of our full source-to-pay technology capability in the second quarter. As we shared last quarter, this will give us expanded transparency into billions of dollars of goods not for resale event. In combination with the enhanced automation of our purchasing process, this paves the way for continuous cost optimization opportunities. Within our supply chain operations, we recently replaced our prior rule-based shipping process with a data-driven sourcing solution that uses real-time cost data to choose the most efficient fulfillment locations. This helps us deliver orders on time and reduce shipping costs.

Within our customer care operations, our use of new conversational AI technology, our upgraded IVR systems and other operational efficiencies have led to both better customer experience and cost savings. In Q1, we saw record low levels of cost per customer contact and customer call transfer rates as well as record high levels of customer satisfaction. These results are driving reductions in annual call volume expense.

In summary, we continue to demonstrate our strong execution through adaptability, strategic investments and operational strengths during turbulent times. We expect to navigate the tariff environment and emerge not only as a vital company, but a vibrant one as the landscape stabilizes over time. 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 Geek Squad 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. There are many reasons we are excited for the rest of the year.

From a product category perspective, we expect growth in computing, including tablets to continue to be driven by the customers 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 the release of new AI features. In mobile phones, we expect benefits from our in-store experience improvements with the carriers to deliver growth for the year. In gaming, we expect the new launch and updated store experience to drive sales momentum for the year. We are also excited to expand our in-store experience and presence for Ray-Ban Meta glasses. This technology and other wearable AI products yet to be launched, will transform the way people live. And Best is the ultimate customer education destination.

In addition, the launch of our marketplace and relentless focus on our online and in-store customer experience will continue to underscore our unique position in the industry. Also, our refreshed brand is resonating more deeply with our customers, and we are driving continuous customer experience improvements across the business.

Added to that, our digital growth benefited from increased app adoption, checkout conversion and recognizable customers, allowing us to better personalize their experiences in the future.

And finally, we continue to invest in our team who are ready to truly help our customers enrich their lives through technology, through more specialized knowledge, unique in-home expertise and robust support. Our recent engagement scores are the highest we have ever seen and our turnover remains the lowest we have seen in more than 5 years. I am so deeply appreciative that they choose to work for Best Buy, how they live our values, and for the culture they have created by bringing their unique experiences themselves to work every day. With that, I will now turn the call over to Matt.

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

Good morning. Let me start with an overview of how the first quarter performed versus the expectations we shared with you last quarter. Enterprise comparable sales declined 0.7%, which was consistent with our outlook. Our adjusted operating income rate of 3.8% was approximately 40 basis points better than expected, which was primarily driven by favorable SG&A expense. The favorable SG&A was primarily the result of an indirect tax settlement and strong expense management. Our gross profit rate of 23.4% improved approximately 10 basis points versus last year which was consistent with our outlook.

I will now talk about the first quarter results versus last year. Enterprise revenue of $8.8 billion decreased 0.9% versus last year. Our adjusted operating income rate was flat to last year, with both gross profit and SG&A largely similar to last year as a percentage of revenue. While adjusted operating income dollars were flat to last year, our adjusted diluted earnings per share decreased 4% to $1.15. One of the drivers of this lower EPS was approximately $10 million of lower investment income which was due to a lower average cash balance combined with lower short-term interest rates. By month, our enterprise comparable sales were down approximately 2.5% in February before increasing 0.5% in March and declining 0.4% in April. The shift of Easter improved March and negatively impacted April comparable sales by an estimated 250 to 300 basis points.

In our Domestic segment, revenue decreased 0.9% to $8.1 billion, driven by a comparable sales decline of 0.7% and International revenue of $640 million decreased 0.6% versus last year, which was driven by a comparable sales decline of 0.7%. The revenue decrease also included a negative foreign currency impact of approximately 450 basis points, which was offset by revenue from Best Buy Express locations that opened in Canada after Q1 fiscal '25. Our domestic gross profit rate increased 10 basis points to 23.5%. The higher gross profit rate was primarily driven by improvement within the services category, which includes our membership offerings. This improvement was partially offset by rate pressure within our Best Buy Health business and lower credit card profit sharing revenue. Our international gross profit rate decreased 80 basis points to 22%. The lower gross profit rate was primarily due to lower product margin rates and unfavorable supply chain costs.

Moving to SG&A, where our domestic adjusted SG&A decreased $13 million which was primarily due to a favorable indirect tax settlement. In addition, we incurred $109 million in restructuring charges this quarter. Those charges are primarily associated with a restructuring initiative within our Best Buy Health business. During the quarter, we returned a total of $302 million to shareholders through dividends of $202 million and share repurchases of $100 million. We have raised our quarterly dividend for 12 straight years and remain committed to being a premium dividend payer.

Moving on to our full year fiscal '26 financial guidance. In March, we made it clear that the guidance we provided excluded any estimated impacts from recently announced tariffs. At the same time, we provided a ballpark estimate of approximately 1 point of comparable sales pressure to our guidance if the China tariffs that went into effect on February 4, remained at the 10% level for the full year. As Corie stated, a lot of has changed since March. Tariff rates have changed the sourcing exposure for many of our products has been changing and the conversation with our vendors has also progressed. As such, the updated guidance we are providing today includes our best estimate of the range of financial impacts from tariffs.

Within that guidance, our working assumption is that tariffs stay at the current levels for the rest of the year. Clearly, the trade policy discussions are ongoing and tariff rates could change. but anchoring our guidance to the current tariff rates felt most appropriate. In addition, our guidance includes our best estimate for each of our revenue categories, which incorporates the trends we have seen year-to-date. Our guidance also assumes that there is no material change in consumer behavior from the trends we have seen in recent quarters.

Our updated enterprise guidance for fiscal '26 is the following: revenue in the range of $41.1 billion to $41.9 billion, comparable sales of down 1% to up 1%, adjusted operating income rate of approximately 4.2% and an adjusted effective income tax rate of approximately 25%, which is unchanged from our prior guidance; adjusted diluted earnings per share of $6.15 to $6.30 and capital expenditures of approximately $700 million, which represents the low end of our prior guidance range. Lastly, we still expect to spend approximately $300 million on share repurchases. Next, I will cover some of the key working assumptions that support our guidance.

We expect our gross profit rate to be slightly unfavorable to last year, with most of the primary components of our gross profit plan very similar to fiscal '25 from a rate perspective.

There are a few items I would like to highlight. First, our product margin rates are now expected to be unfavorable compared to last year, which is largely driven by a higher portion of our sales mix coming from lower margin categories, such as computing. In addition, our outlook reflects our plans to remain competitively priced.

Next, growth from the Best Buy ads and the rollout of our US marketplace is expected to benefit our gross profit rate. We now expect our services category, including membership that benefit our gross profit rate compared to the prior year.

Lastly, we still 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 now expect our adjusted SG&A to be slightly lower than fiscal '25, which includes the following puts and takes. We continue to expect benefits from ongoing efficiencies and effectiveness work streams, including Best Buy Health. Indirect tax settlement we received in the first quarter lowered our full year SG&A compared to last year. Partially offsetting these items are SG&A increases in support of our Best Buy ads and marketplace initiatives, which includes advertising, technology and employee compensation expense. At the high end of our revenue guidance, the store payroll expense and items like credit card processing fees are expected to increase with minimal impacts from a rate perspective.

Lastly, the high end of our guidance now reflects incentive compensation that is approximately flat to last year. While 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 second quarter. We expect our second quarter comparable sales to be slightly down versus last year, and our adjusted operating income rate to be approximately 3.6%. Our gross profit rate is planned very similar to last year's second quarter. With increased SG&A expected to be the primary driver of the lower operating income rate.

As a reminder, last year's second quarter SG&A included a favorable legal settlement and lower medical claims. The combination of these two items provided the benefit of approximately $20 million to last year's second quarter. I will now turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scot Ciccarelli, Truist.

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

Good morning, guys. So I think we all understand that the tariff scenario has been highly dynamic. But it does sound like you have a pretty significant difference in terms of your China sourcing versus, call it, 3 months ago. Can you just help us better understand that? Like is that just a function of -- is it vendors moving product around for you? Is it just better understanding where the products are coming from? Any more color on that? And then part 2, just a housekeeping item. How big was the tax element in the SG&A? Thanks.

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

Scott, I'll start on the China sourcing question. I'm actually going to just reiterate a few things to make sure that everyone got all the data points because I do think they're pretty important. First, we said that China has come down to 30% to 35% compared to the 55% metric. And then just to reiterate, about half the China source products are at the 30% tariffs and then roughly half are at the 20% tariff pending the 232 investigation. Then we said a combination of US and Mexico are about 25% of COGS, and that has 0 tariffs across both of those. That leaves roughly 40% that are coming from other countries like Vietnam, India, South Korea and Taiwan, which are currently at 10%. As we noted, we only directly import 2% to 3%. And so really, it's been about these mitigation efforts that are both coming from the vendors and Best Buy that are -- and that's what's making it happen so that the increased product costs that are flowing to us are actually lower than the overall tariff rates. Explicit to those mitigations, Scott, to your point, the first one is one of the most important, and that is more leveraging of manufacturing flexibility than we were seeing prior.

Since 2018, many vendors including ourselves, have created new manufacturing locations, and you can flex some of those new locations up and perhaps flex down some of the locations that are in China, thereby changing that mix that you're seeing. And remember, these are global supply chains. So they're supplying to many different countries across the globe. And so you're going to use potentially different locations to supply different countries depending on the tariff situation.

Two, we also talked about increasing country diversification just writ large. Obviously, we try to influence our vendor partners, their influence themselves given the situation to continue building resiliency into the supply chain. And ensuring there are at least two locations available to manufacture the same or similar products for distribution across the globe. And so we're seeing even just some of those newer distributions come to market, which is helping to create that diversification.

And then from there, we get into the third mitigation strategy, which is negotiating costs where, obviously, we're going to work with our vendor partners to absorb part of the tariff burden, cost-optimized products and/or consolidate volume into fewer partners for leverage in negotiations. And then fourth, adjusting assortment. So that too can change the mix, right, because you might adjust your assortment review it, modify it to ensure we still have a wide range of customer needs and budgets, but you're going to maybe rationalize where you need to consolidate that volume and that might also change your mix. And then finally, as we talked about as a last resort, adjusting prices.

And I think I just want to reiterate one more time that the cost increase we see does not always automatically translate into customer price increases. We gave you our best view on what we think is translating right now based on what we can see in the market.

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

Yes, Scott, into the tax settlement sizing, our domestic SG&A was about $13 million lower than last year, and the only item we called out. So it's fair to assume that it's at least $13 million, if not a little higher than that.

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

Got it. Very helpful. Thanks, guys.

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

Thank you.

Operator

Mike Baker, DA Davidson.

Michael Baker - *D.A. Davidson & Co - Analyst*

Okay. Great. Thnaks. Can you talk about -- do you think you saw any pull forward in demand. Some vendors and other retailers have talked about seeing some pull forward in consumer electronics demand, although it doesn't seem to have shown up in your same-store sales? And related to that, any comment on market share, how you think you're holding up versus the market and versus other retailers? Thank you.

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

Sure. Yes. I mean we started the quarter a little slower. February was a little lower than as we started the quarter. and improve throughout the year. It's a little hard to look at the specific impact to a pull forward, if you will, because of the shifting of the events for Easter. But likely, there was a few weeks -- a couple of weeks there that were elevated because of the pull forward, but not really hard to say that you can appreciate because of the Easter shift.

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

I think there's one thing that's a little hard to judge in terms of Q1 consumer demand, and that is at the very end of April, you saw a lot of preorders come through for the switch. Those are dollars that consumers feel like they've spent in consumer electronics, but you're not going to actually see those dollars flow through until Q2. So yes, we maybe have 2 weeks of pull forward in a couple of categories, but also we have this kind of weird factor that consumers feel like they're spending money in consumer electronics, but yet they're not -- we won't recognize that. They won't actually get the products until June just to add on to Matt's comments. .

In terms of market share, I mean, we've said this multiple times. There isn't a great single source for everything we sell, especially in consumer electronics. And obviously, quarter-to-quarter within categories, you're going to see fluctuations. Depending on competitive actions and trade-off decisions. I think it's fair to say that we are going to make strategic pricing and promotional decisions depending on the environment. And in Q1, we talked about this going into the quarter. This is a quieter quarter for us from an event perspective. There are fewer launches and initiatives, which tend to be the places where we over-index in share. And so I think in Q1, we maybe saw a little bit of share loss. But we have really good plans for the rest of the year, especially as we think about those launches and we think about the laundry list of things that I gave at the end of my prepared comments in terms of where we are investing and the timing on which we expect to see those returns. And so last year, we gained share in computing. We expect to gain share again this year, same with gaming, where we saw share gains last year and really some record high share levels for us. So we -- I think we have the right plans in place for the year, and we're a little less concerned about precisely in any given quarter exactly where that ends up.

Michael Baker - *D.A. Davidson & Co - Analyst*

Fair enough. If I could ask a follow-up. Last quarter, you did indicate that you thought there might be some changes in consumer behavior because of the tariffs. And even though I think you're mitigating a lot and not seeing a lot of price increases, there are -- I think you're saying some price increases, yet you're saying that you're not seeing any change in consumer behavior. So -- is the -- I guess, can you square those as the consumer not pulling back? Or are we not seeing any demand destruction from higher prices?

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

So let me reiterate what we've been saying about the consumer from literally the last few quarters. That is -- the consumer is remaining resilient, but we've been very clear to say they are making trade-offs in their spend and their budget decisions based on higher prices across many areas of their lives. And I think while tariffs is perhaps an additional one, there's been a great deal of inflation up to this point. So this isn't just a conversation about tariffs. We've been very clear in saying consumers are making trade-offs, and we can see that within our categories.

At the same time, we see a consumer who is seeking value and sales events, and they are willing to spend on higher price points when they need to or when they see compelling new technology. That also is remaining true for us. And so what we're trying to do is take even in the last quarter, are we seeing relatively consistent behaviors? Yes. And there are some categories where if you take something like televisions, where we can definitely see consumers trying to make some of those value trade-offs. But at the same time, we see this continued strength in computing and tablets where there's both need and innovation, and they're willing to go ahead and spend in those areas.

Michael Baker - *D.A. Davidson & Co - Analyst*

Makes sense. I appreciate it. Thank you.

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

Thank you.

Operator

Greg Melich, Evercore ISI.

Greg Melich - *Evercore ISI Institutional Equities - Analyst*

Hi, thanks. To follow up on one of the key areas of initiatives, the 3P growth and the advertising. Where does that show up currently, which segments does that show up in? And then I had a follow-up.

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

Yes. The incremental advertising that we were planning to drive through the ad initiative, some of which would show up in revenue, some of which would show up in gross margin. It kind of depends on the nature of the contract and the nature of the arrangement that we've made. So the answer is it depends based on whether -- in large part of whether it's somebody we already work with in terms of a vendor. If it's not endemic in many cases, it can show up in revenue in addition to margin. But right now, most of that ad sales that comes through, comes through in the margin category. Over time, we would expect to add more to the revenue side as we build out that initiative.

Greg Melich - *Evercore ISI Institutional Equities - Analyst*

And for 3P, is that the same? How do we think about that?

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

Yes. 3P would be traditionally like other marketplaces where you would recognize the commission revenue and gross margin. And then we, at some point, may give like gross sales commentary like other folks do, but the gross -- the commissions that will show up in margin from the 3P sellers.

Greg Melich - *Evercore ISI Institutional Equities - Analyst*

And I just -- my follow-up is on tariffs, that's super helpful. I guess it feels like the blended rate, if my algebra works quickly is in the mid- to low teens from where we are today. Can we think about that price elasticity as you talked about earlier, in March. Do you think that still holds, given that sort of -- if we land at this tariff rate in the low to mid-teens?

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

So Greg, I want to reinforce something that I said in my prepared remarks. After I went through all the mitigation efforts that we're talking about, I actually made it a point to say that due to those mitigation efforts, both by vendors and by Best Buy, the increased product costs that are flowing to us are lower than the tariff rates. So while I know you're doing the blended math, and I know that's a great place to start, then you have to assume because of that laundry list of mitigation things I'm talking about. There are other ways for us to try to mitigate some of those tariffs and collectively make sure that we are staying competitive for our customers. And so the elasticity is then that the team built and they've done an amazing job building some models around this. are built on kind of these lower tariff levels that we would expect to flow through based on these ongoing mitigation efforts and partnership with our very wonderful vendor partners.

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

And maybe just to add on, Greg. We have -- we know a lot more since the last time we did this estimate. So we've taken another attempt that understand the elasticities, which are quite frankly, different by category. And so we have updated our assumptions based on those elasticities what everything Corie said was exactly right. Those elasticities are based off of cost increases that aren't necessarily at the level of effective tariff rate that were flowing through.

Greg Melich - *Evercore ISI Institutional Equities - Analyst*

That's great. Good luck and thanks for all the help.

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

Thanks, Greg.

Operator

Simeon Gutman, Morgan Stanley.

Unidentified Participant

Hi, this is Lauren on for Simeon. Our first question is you sounded pretty positive on your categories such as computing tablets, mobile phones due to the replacement cycle or other maybe in-store initiatives. Can you bridge that positive sentiment versus your updated comp guidance down 1% to positive 1%.

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

Yes. I mean we did a few things for our updated guidance range. We first looked at the base level trends that we're seeing happening throughout Q1 and in some cases, things like computing performed better. Mobile performed better than we expected. And some other cases, as it always does, some of the categories performed a little lower than our expectations. So we looked at those assumptions for the remaining part of the year as best as we could, made some adjustments. And then what we did was we applied an updated view of what we believe the tariff impacts could be based on all the commentary that we've already given. So there's clearly a range that we're providing for both the high and low in terms of the possible tariff impacts. But those two were also layered on to and not the same but similar concept to what we provided last -- 3 months ago, when we said about 1 point of comp was for the 10% China tariffs it's the same idea, except that we've updated our information and now layer that into the guide overall.

Unidentified Participant

Okay. Great. That's helpful. And then our follow-up is just on gross margins. Is there anything to call out from a cadence perspective, specifically, when do you expect maybe benefits from the rollout of the US marketplace to start taking shape? And if you could maybe help size the opportunity of margin benefits from the marketplace. Thank you.

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

Yes. We haven't sized the benefits from either the Best Buy Ads initiative or a marketplace. We have said and continue to believe that the benefits, the rate should be helped in the back half of the year from both of those items. Marketplace is actually an help [OI] rate help for the full year. The ads business while helping gross margin rate a bit. It does have a bit of investment, which kind of makes the OI impact for the year fairly neutral, but they both do help boost the gross profit rate more towards the back half of the year. And we haven't sized them, but they are helping to drive -- offset some of the pressures that always exist as we move through the year.

Unidentified Participant

Great, thank you.

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

Thank you.

Operator

Peter Keith, Piper Sandler.

Peter Keith - *Piper Sandler & Co - Analyst*

Hey, thanks. Good morning. Appreciate all the detail. Maybe to follow up on the marketplace. Are you still on track for a midyear launch? And then on the cannibalization angle, is there any negative impact on comp this year that would be factored into the outlook?

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

Yes, we still are on pace for a midyear launch. And I think we were pretty explicit when we talked about it, that even after the investments that we're making and the cannibalization, we still saw this as accretive overall, both at a gross profit level and at an operating income level. So I think the team is and we have some knowledge from Canada. So we have some pretty good background knowledge on how to estimate that, and the team has tried to take that into account.

Peter Keith - *Piper Sandler & Co - Analyst*

Okay. Fair enough. And Corie, certainly, the Switch two coming should be a nice benefit. Just to the best of your visibility right now. Are there other products or innovation launches that are coming in the upcoming months that you've got your eye on that are that you're excited about?

Unidentified Company Representative

Yes. Thanks for the question. I'll take that one. I think there's a lot of areas that we're excited about in total. You hit on one in the switch and the excitement around gaming and that the preorder sold out very quickly, and we're very excited about the midnight openings. But there's other innovation that happens in a lot of other categories. Computing in particular, continues to be a category where we see growth and a lot of innovation and upgrade continuing the benefits and features that continue to roll out are something we're excited about just the sheer amount of customers that upgraded early in the pandemic, now have an opportunity to come back into the market and actually get some great new products across Windows 11 and obviously, the benefit associated with Windows 10 not being supported as we move past October. As well as Mac customers. There's millions of Mac customers that are still on older technology and haven't upgraded to the MCIP yet and all the benefits associated with that product as they continue to refresh and upgrade those models as well.

In addition to that, when you look across other categories, TVs, there's additional technology in mini LED, antiglare screens, things that are really going to show interest and really solve true pain points for customers. And then Corie hit on it, but we're very excited about what we're seeing in the mixed and AR space. It is a growing category for us. It's an area where there's a tremendous amount of interest from customers. and just new value propositions, new features and benefits and people starting to get used to wearables that actually can do a lot of things in regards to AI, making our life easier and actually having some entertainment value as well.

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

A couple more things I would just add. Lastly, on the handheld gaming space, where I think you're going to see a lot of innovation which kind of lodging that, but we kind of see a few more things coming in the back half of the year. and also in the computing gaming space, computing isn't just about the productivity side, certainly for kids like mine, the high-end gaming computers are really -- we're seeing a lot of success in that space. That includes the monitors that go with that, that are continuing to innovate. So I think we continue to remain pretty excited about that space as well.

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

Great. Thank you very much.

Operator

Steven Zaccone, Citi.

Steven Zaccone - *Citigroup Inc - Analyst*

Great, good morning. Thanks very much for taking my question. I wanted to focus on the updated comp guidance. The tariffs obviously create a complex environment. But as you look over the course of the year, you are facing some tougher comparisons because the computing business started to see improvement last year. Can you just help us understand the drivers to kind of comp the comp in the back half of the year? Given your commentary about pricing happening in mid-May, is there also an expectation that maybe pricing a little bit more of a helper to comps as we think over the course of the year?

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

Thanks for the question, Steve. We outlined many of these at the beginning of the year as well and reiterate some of those here today. I think one of the things, yes, comp for the computing gets a little tougher as the year progresses. But the items that Jason just mentioned, if you think about the opportunity as Windows 10 becomes unsupported in October, you think about also the need to upgrade millions of MAX out there as well. For the new -- to leverage the new AI technology. There is, we believe, a very strong continued opportunity in the computing space.

Not to mention what Corie also mentioned, the computing gaming desktops has actually wasn't quite as strong last year as it's starting this year, and we believe will continue as well. Mobile phones is positively comped, which hasn't happened for a while, and we expect the experience changes, working with our vendors and expertise within that category to continue to help grow and boost sales as the year progresses. And then gaming, while maybe not getting to full growth this year, the pressure that we've seen will be lessened as you progress into Q2 with the Switch launch. And as you get closer into holidays with continued possible growth or less declines in that category as well.

And then a lot of the store experience changes that we are rolling out this year. Meta glasses being one of them, different types of vendor product highlights within our store. All those things build towards, we believe, a growing comp situation as we progress through the year, and that support the high end of the guide. To learn the guide, obviously, it could suggest that we don't see much of a difference in the back half of the year than we've seen in Q1 and Q2. Obviously, we're planning for a range of outcomes. Hard to know exactly if ASPs are a help given the tariff situation, we'll know more as the year progresses. But that obviously is a possibility. In some cases, the elasticities are lower. We just have to see that transpire a little bit more before that we would note that uncertainty.

Steven Zaccone - *Citigroup Inc - Analyst*

Okay. And then to follow up, it's a bit of a near-term question. But since you've adjusted pricing, and you've had this commentary in mid-May, have you seen any changes in consumer behavior or maybe from a competitive environment, have you seen any changes some of your competition on pricing and promotions?

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

Not really. Memorial Day was competitive. It's always competitive, and we've said right now, you've got a value-seeking consumer, which means, I think, in those key drive times, we're definitely seeing even more competitive stance, both I would argue from us and from the competition. The last thing that I would add to build on what Matt has said, I mean, we started talking about unit growth in notebooks in Q4 of fiscal '24. And we're still seeing nice growth in that space. Even in Q1, we talked about 6% growth in the notebooks and tablets area. So I think not only are we looking at pure point just this very near term, customers seem like they continue to behave the way we would expect. But also just generally, on the comp to comp question, we're continuing to see this demand curve around particularly some of the computing and tablets and mobile spaces. And you're just heading into a Win 10 upgrade and some more material advancements, I think, in terms of AI use cases. So the indicators at least feel like and the guide would imply we kind of feel like we're seeing some consistent behaviors from the consumer.

Steven Zaccone - *Citigroup Inc - Analyst*

Okay, thanks for the details.

Operator

Brian Nagle, Oppenheimer.

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

Hi, good morning. Thanks for taking my questions. I have a question regarding tariffs. I appreciate all the detail you've given. I mean recognizing look, it's very fluid and it's happening against probably a very sluggish consumer backdrop. But as the tariff rates continue to socially unfold? I mean, philosophically, is Best Buy more focused on sales or really maintaining that gross margin rate and potentially sacrificing sales?

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

Yes. I'm just kidding. I mean I think like always, the balance, Brian, for any retailer, certainly for us, is navigating this environment in a way that stimulates consumer demand. Both us and our vendor partners have massive vested interest in ensuring as many customers get as much gear as possible at the best prices. And then, of course, we -- like we always do, we're going to continue to work both internally here and closely with our vendor partners to optimize both pricing and promotionality. Bolstering those key drive times and always. So I think the -- and I think you saw some of it in Q1, like we are constantly working to try to balance those two factors, but I don't think at any given point in time, there's never a clear. I always tease my team. There is no ore answer. There is always an and answer. And this is definitely one of those places.

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

I got it. That's fair. And then my second question, , you've done a great job of -- even with sales week maintaining or improving operating margins. So the question there is can you maybe describe better where you're seeing the efficiencies? And then looking out over any let time to the extent that sales restrengthen, will these efficiencies hold? Or will there be expenses that will have to come back into the model?

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

Yes. I mean we -- it's safe to say, we're always looking for efficiencies even in a normal year, which there hasn't been really normal here for a while, but we're always looking for ways to improve our costs. I think we've outlined a few of those things. We've really revolutionize our customer care operations in terms of using data to make that process easier through conversational AI and up getting our IVR systems. Corie talked about the procurement operation, which gives us a lot more visibility to the goods not for sale spend, and that will continue to pay off as we -- this year and into the years to come. Supply chain operations has done a lot of things to improve and drive efficiencies. We talked a little bit about the rule-based shipping process and data-driven solutions that we're employing there. There's also a lot of large product transformation, meaning where are we storing the product? How are we flowing the product in through adjusting those things you can find continued opportunities. And we've even used automated vehicles in some of our places to invest in leading technology to actually drive cost out as well. So there always will be continued opportunities for still look for cost to help make sure we can invest in the right places and offset any pressures that inevitably come in any given year.

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

I appreciate it. Thank you.

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

Thank you.

Operator

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies - Analyst*

Great, thanks so much. My first question is on pricing. I imagine the approach varies across different SKUs and categories. Is there a way to think about the overall blended price hike that's embedded in the current comp guidance whether it's mid-single digit, higher or lower? Thanks.

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

Yes, we're probably obviously we're not going to give a specific number there, too. We'll continue to learn as the year progresses. It's safe to say that we obviously ultimately set our pricing. As a reminder, we only bring in 2% to 3% of the goods for sale for our COGS. I want to just make the point that only a portion of it when we talk about here today of the tariff rate increases that blends out to something lower, only come through in the form of cost increases. And if we get to the point where we do raise prices, they are not that same effect of tariff rate, generally speaking. So we aren't providing that information, but do feel comfortable that at the end of the day, we are always going to be competitively priced regardless of the cost, and we'll find ways to help offset that through other means.

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

Jonathan, I would just add that this is such an incredibly fluid situation that also us trying to snap the line at any given point in time is almost impossible, because all those mitigation efforts that I outlined, those are going on day in and day out by the teams as we make those trade-off decisions. So it is not a static number. It is one that we are constantly working.

Jonathan Matuszewski - *Jefferies - Analyst*

Understood. And my follow-up is on Best Buy Health. It sounds like you continue to pursue actions at improving the profitability of that business. as you've taken a closer look at it, how do you think about its role in the enterprise versus other alternatives?

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

Yes. I mean, let's step a second back to the strategy of the health business is enabling care at home for everyone. And that fundamental belief system for us remains. And as you think about the business that we have called active aging or our lively business or even just some of the care at home business, these remain very viable business models for the future. Now the part that has been harder and taken longer to develop than we initially thought is some of the very discrete in-home health that we are providing in partnership with some of the health care industry. And that's really been made more complex twofold, one, by the adoption of hospital at home solutions at scale just being slower because partially, the health at home waiver has been caught up in a lot of the administration's budgeting conversations, and it's been inconsistent in terms of how long that waiver will be in place. And two, some of the health care providers have just faced their own financial struggles over the past few years. And so we've been working to optimize that part of the health care business FSI. But the remaining parts remain very viable. And I think all of us would agree we absolutely see a future where more of your health care is taken into your own hands using technology and technology devices.

You can already see it across our assortment and across how people are choosing to take care of their own health and we will continue to lean into that part of the strategy. And I think with that, we have reached time, and that's the last question today. Thank you, everyone, for joining us, and we look forward to sharing our Q2 results in August. Have a great summer.

Operator

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