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BBY.N - Q2 2026 Best Buy Co Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Best Buy's second-quarter fiscal '26 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 O'Brien - Best Buy Co Inc - Head, Investor Relations

Thank you, and good morning, everyone. Joining me on the call today are Corie Barry, our CEO; Matt Bilunas, Chief Financial and Strategy Officer; and Jason Bonfig, our Chief Customer Product and Fulfillment Officer. 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. I want to, I think it's important to start by acknowledging the horrific shooting that occurred at the Annunciation Church and Elementary School in Minneapolis yesterday morning. Just a short distance from our corporate headquarters, our hearts break for the young lives lost and their families who are grieving and our thoughts are with the victims, their loved ones and our community, as we process this unimaginable tragedy. And with a deep breath, we will now turn to earnings.

Today, we are very pleased to report better-than-expected results for the second quarter. On revenue of \$9.4 billion, we delivered an adjusted operating income rate of 3.9% and adjusted earnings per share of \$1.28. We delivered comparable sales growth of 1.6%, our highest in three years. This was driven by a mix of new technology innovation, our relentless focus on a seamless omnichannel customer experience and our strong vendor partnerships.

We grew sales in several product categories, including gaming, computing, mobile phones, wearables and headphones. This growth was partially offset by declines in the home theater, appliance, tablet and drone categories. We reported higher-than-expected growth in gaming, largely due to our successful Switch 2 release.

We saw strong results, not only in console sales, but also the related peripherals and software. We provided our customers with a smooth experience from the preorder process all the way to getting the console in their hands at midnight on launch day and subsequent post-launch inventory drops. There was a lot of customer and employee enthusiasm for our June 5 midnight opening and every store had lines of excited customers waiting to get in. I will add that in addition to Switch 2 growth, we also saw growth in other types of handheld gaming as well as augmented reality glasses.

In computing, we delivered our sixth consecutive quarter of sales growth and the highest number of second quarter laptop unit sales in 15 years. This is due to continued momentum driven by customers' need to replace and upgrade products combined with our unique blend of broad assortment and expert advice, service and support. Growth came from across the assortment and across price. As expected, tablet sales declined as we lapped the strong sales of the new generation iPad that launched in Q2 of last year.

Our online sales were 33% of domestic sales in Q2. They grew year-over-year for the third consecutive quarter due to higher traffic and increased customer adoption of our highly rated app. Customers chose to visit one of our stores to pick up 45% of online purchases and our store pickup, including curbside, customer satisfaction metrics continue to improve even as volumes have increased.

For the most part, customer shopping behavior in the first half of the year has not changed materially from the commentary we have shared for the past several quarters. Customers continue to be resilient, but deal focused and attracted to more predictable sales momentum, including our Black Friday and July sales event. In the current environment, customers continue to be thoughtful about big ticket purchases and are willing to spend on high price point products when they need to or when there is technology innovation.

We delivered yet another year-over-year increase in our relationship Net Promoter Score, which tracks consumers' likelihood to recommend Best Buy. As well as higher marks from consumers for meeting tech needs like no one else, offering good deals and being a company they can trust. We also saw year-over-year improvements in associate availability and product availability. I am proud to see the lowest employee turnover rates in 10 years, in addition to the higher engagement scores in our last employee survey. I am inspired by the way our teams have been successfully navigating tariffs, even as the backdrop continues to change.

The impact during the quarter was basically in line with our expectations and was not material to our Q2 financial results. Our approach is to deliver the right product assortments to match customer needs and budgets while partnering with our vendors. We delivered better-than-expected results in the second quarter, and we feel increasingly confident about our plans for the back half of the year.

Given the uncertainty of potential tariff impacts in the back half, both on consumers overall as well as our business, we feel it is prudent to maintain the annual guidance we provided last quarter. At this point, we do believe we are trending toward the higher end of our sales range.

I am pleased with the progress we are making on our fiscal '26 strategy. As a reminder, our strategy is to continue to strengthen our position in retail as a 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.

Our first fiscal '26 strategic priority is to drive omnichannel experiences that resonate with our customers. We often do this in partnership with our vendors, and we have a busy and exciting second half in front of us. This fall, we are amplifying our partnership with Meta, bringing AI glasses and expanded experiences to all stores.

In more than 50 locations, immersive showcase areas and expert support will allow customers to discover and demo the technology. Ray-Ban and now Oakley Meta AI glasses are available. We expect them to be fun and highly giftable products for holiday. In small appliances, we are launching new experiences with brands like [Revel] and SharkNinja. These will feature expanded assortments to inspire at-home baristas and chefs and innovative health and beauty solutions.

We are also introducing expert sales associates in select locations to bring this innovation to life for our customers. In home theater, we are expanding the merchandising areas, featuring TVs from TCL, Hisense and LG. The technologies and focus for TCL and Hisense will be mini-LED screens. And for LG, it will be the latest and most striking OLED screens. Each area will be staffed by a dedicated expert to address any questions and help customers get what they need.

In the mobile phone department, we are bringing our new operating model with Verizon and AT&T to more stores. This model gives customers the opportunity to work with expert salespeople like Verizon, AT&T or specially trained Best Buy employees who can tap directly into the carrier system.

This is resulting in better customer experience and higher sales growth. We will have this in the majority of stores in the back half of the year, which we believe puts us in an even stronger position for the new innovation and phone launches.

In gaming, we worked with Nintendo to double the Switch merchandising space in all stores ahead of the June launch. Nintendo not only invested in store merchandising, they also partnered exclusively with us to have game trucks at select stores. These game trucks are physical trailers that allow fans to play the new system and the latest game.

In computing, we provide customers with the help and inspiration they need as they upgrade or replace their products. We continue to collaborate with our vendors as new tech, and more AI capabilities are released. In fact, we offer 125 models of laptops and desktops featuring enhanced AI capabilities like Copilot+ with almost 70% of them retail exclusive to Best Buy.

They are supported by 16,000 specially trained experts to help customers explore features and applications in daily life. We are also focused on helping customers get what they need to transition to Windows 11 as Microsoft will end support for the Windows 10 operating system this October.

After October, customers who have not transitioned will no longer receive new features, technical support or security updates. We believe this is a more significant opportunity than prior end-of-support examples because there is a large installed base of customers who need new devices with more processing power to use Windows 11. In collaboration with Microsoft, we are leveraging personalized marketing, promotions and store associate training to drive product refreshes and support.

Our Geek Squad can help customers who need a computer repair to convert instead to an upgraded device. Additionally, Geek Squad can help customers set up and transfer their data to new devices, whether in stores, in homes or remotely. Customers can also trade in their old devices for value, they can use to purchase new Windows 11 devices.

All the examples of collaboration and vendor investment I just outlined are in addition to the long-standing partnerships and in-store investments from other large vendors like Apple, LG and Samsung. Many vendors invest not only in training our associates but also in labor hours to augment our staff.

In fact, we expect vendor labor investment to be approximately 20% higher than last year in the second half of this year. This is an important aspect of the Best Buy story. We have relevant traffic, a unique expert sales and service model and physical space that is extremely valuable to our vendors. And we have seen the demand for store presence grow from both our existing vendor base as well as new partners who recognize the value of live interactions for complex conversations.

In fact, we just announced a new partnership with IKEA US. We are collaborating with them to pilot 1,000 square foot areas that showcase kitchen and laundry room settings from IKEA and appliances from Best Buy. Staffed by IKEA coworkers, this experience will launch in 10 stores throughout Florida and Texas, with two of the locations also serving as pickup points for most products that can be purchased on [ikea.com](https://www.ikea.com).

This is the first time IKEA products and services will be available through another US retailer, creating innovative ways for both of us to meet customer needs in a rapidly changing environment. Our second strategic priority for fiscal '26 is focused on incremental profitability streams. I'm excited to say that we launched our Best Buy Marketplace last week. We now have 6 times more products available online for customers than we did before.

We have more tech options than ever, both from big names like Samsung, Dell, HP and Intel and new vendors that help us level up our assortment across categories. For example, customers can personalize their gaming setup with products like custom controllers and more options around chairs, keyboards, monitors and headsets.

We tripled our mobile phone accessories assortment with more options for cases, screen protectors, chargers and more. We also have hundreds of new brands from fanatic sports merchandise to CAROTE cookware, in new categories like licensed sporting goods, seasonal decor and much more. With this growing product availability, our upgraded search technology will be important.

This new AI search, which we are testing now and expect to roll out by holiday, uses helpful comps and to see more like this option that guides customers to be more specific, improving their chances of finding what they need. For our sellers, our Marketplace provides an additional avenue to increase their reach and build their brands leveraging our qualified traffic.

Our stores also play a key role in our Marketplace. Customers can return most products purchased through a marketplace seller at their local Best Buy store, plus our Blue Shirt sales associates use an app that makes it easy for them to help customers find products across our wide assortment, in-store and online, including third-party sellers. It also allows them to seamlessly send product links directly into a customer's online cart.

We continue to expect Marketplace to have a positive impact on our operating income rate in fiscal '26 even after start-up costs, investments and estimated cannibalization of our first-party product revenue. Over time, we expect it to help drive profit dollars and unit share.

In addition, it will provide opportunities for Best Buy Ads through new advertisers and increased traffic. Our Best Buy Ads team had a productive quarter, orchestrating our largest ad campaign ever in combination with our marketing team. It was centered around the theme, AI adapt, designed to drive more awareness of the benefits of AI in your everyday life. It included several advertisers and spanned the full advertising funnel, including video, social, display, owned assets and in-store presence.

It was successful across a number of fronts, impressions, clicks, product interactions and units sold all exceeded our expectations. We are planning Phase 2 of the campaign to run as we move into the holiday season. The Best Buy Ads team will host our first-ever client showcase on September 16, spotlighting our scale, performance and innovation to key decision-makers across agencies, brands, partners and press.

We continue to see fiscal '26 as a pivotal year for Best Buy Ads as we expand into new opportunity areas including agencies, demand-side platforms or DSPs, and non-endemic advertising relationships. We are excited to take our already robust retail media network to a new level in the coming years. We expect growth in ad collections to benefit our gross profit rate in fiscal '26. From an operating income rate perspective, we expect a neutral impact due to the investments we are making in technology and talent.

This brings us to our third strategic priority for fiscal '26. It is imperative that we continue our long-standing diligence around driving efficiencies and identifying cost reductions to help fund investment capacity for new and existing initiatives and offset pressures in our business.

There are many ways we realize these. 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, they are the result of us moving on from initiatives that aren't generating the financial return in the timeline we had originally envisioned such as the exit of our Care at Home Best Buy Health initiative. Today, I want to highlight the ongoing modernization of our supply chain, which is driving efficiencies and elevating our customer experience.

We are implementing a new data-driven sourcing solution to choose the most efficient location to fulfill online orders, 40% of all shift to home units were processed through this new model during the second quarter. delivering cost savings while also improving our on-time delivery performance. We are targeting at least 70% of all orders to go through this new model prior to holiday with 100% implementation in early 2026.

In addition, we have evolved our carrier strategy and FedEx is now our primary national parcel carrier. We are partnering with them to make our supply chain smarter and expect increased integration between us to both improve customer experience and lower costs. For example, just last week, we added FedEx real-time tracking data into customer order communications across all our FedEx orders.

This will provide customers with more timely and accurate updates and should reduce support calls, cancellations and reship costs. With FedEx, we can also expand our national shipping operations, especially for Sunday deliveries. So we can deliver products to our customers even faster than we do today.

As you would expect, we are continuing to automate our distribution centers. We are currently outfitting our distribution centers with automated guided vehicles that autonomously move talents around the warehouse, both horizontally and vertically, optimizing warehouse flow and storage.

In summary, we are pleased with our Q2 execution and financial results. Our sales momentum has continued into August, and our quarter-to-date comparable sales are running in the low single-digit range. We are seeing a strong customer response to our back-to-school sales events.

These results demonstrate an important aspect of our thesis. Our model really shines when there is innovation. This is because we are a trusted source for the latest and greatest new tech. We have a broad range of assortments in addition to unique in-store and digital experiences.

We also have Geek Squad services (inaudible) our customers, and we are 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. In the back half of the year, we expect to drive continued growth in computing, gaming, phones and augmented reality.

We also intend to improve the performance of our home theater and major appliance categories in the back half of the year. We plan to do this through a blend of sharp pricing, assortment adjustments, increased marketing, expanded specialty labor and faster large product fulfillment options. We are also excited about the launch of our marketplace and the opportunity to offer customers even more tech options.

We wholeheartedly believe Best Buy is uniquely positioned to unlock what technology can do for every person in every moment. I want to sincerely thank all of our team for their enthusiasm for technology, their customer service passion and their determined execution during the quarter.

And now I would like to turn the call over to Matt for more details on our Q2 performance and fiscal '26 outlook.

Matthew Bilunas - Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer

Good morning. Let me start with an overview of how our second quarter performed versus the expectations we shared with you last quarter. Enterprise comparable sales growth of 1.6% exceeded our outlook of being slightly down to last year. Our adjusted operating income rate of 3.9% was 30 basis points better than expected, which was largely driven by SG&A leverage from the stronger sales. Our gross profit rate declined 30 basis points to last year versus an outlook of being approximately flat.

This was primarily driven by a higher mix of sales coming from lower-margin categories such as gaming and computing. I will now talk about our second quarter results versus last year. Enterprise revenue of \$9.4 billion increased 1.6% versus last year. Our adjusted operating income rate decreased 20 basis points compared to last year. And our adjusted diluted earnings per share decreased 4% to \$1.28.

By month, our Enterprise comparable sales were down approximately 1% in May before increasing to almost 3% in both June and July. These results included lapping last year's strong tablet performance in May as well as the successful launch of the Switch 2 in June.

In our Domestic segment, revenue increased 0.9% to \$8.7 billion, driven by comparable sales growth of 1.1%. From a category standpoint, the largest contributor to comparable sales growth were gaming, computing and mobile phones, which were partially offset by declines in home theater, appliances, tablets and drones.

International revenue of \$740 million increased 11.3% versus last year, which was primarily driven by comparable sales growth of 7.6% and revenue from Best Buy Express locations that opened in Canada after the second quarter of fiscal '25. From a category standpoint, consistent with our Domestic segment, the largest drivers of comparable sales growth were gaming, computing and mobile phones.

Our Domestic gross profit rate decreased 10 basis points to 23.4%. This was primarily due to lower product margin rates partially offset by rate improvement within the services category. The lower product margin rates were primarily driven by the higher sales mix of lower-margin categories. Our international gross profit rate decreased 210 basis points to 21.8%. The lower gross profit rate was primarily due to lower product margin rates which were also largely driven by higher mix of lower-margin product categories.

Moving to SG&A, where our domestic adjusted SG&A increased \$19 million, primarily due to one, compensation expense, which included higher medical claims; two, lapping last year's favorable legal settlement of approximately \$10 million; and three, technology investments. The previous items were partially offset by reduced Best Buy Health expenses.

As we continue to narrow our focus on our strategy, we incurred \$114 million of restructuring charges in Q2 FY26, associated with the enterprise-wide restructuring initiative that commenced in the quarter. Year to date, we have returned a total of \$568 million to shareholders through dividends of \$403 million and share repurchases of \$165 million. For the year, we still expect to spend approximately \$300 million on repurchases.

Moving on to our full year fiscal '26 financial guidance. We are encouraged by our better-than-expected second quarter results and the momentum to start the third quarter. As Corie shared earlier, we are maintaining the annual guidance we provided last quarter. At this point, we do believe we are trending towards the higher end of our sales range.

As expected, the tariff situation has continued to evolve since our last call. The tariff rates have increased since May. However, we believe the estimated impacts of the higher rates still fall within our previous guidance range. Consistent with our comments last quarter, due to mitigation efforts by both vendors and by Best Buy, the increased product costs that are flowing to us are expected to remain lower than the tariff rates.

Our reiterated 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%; adjusted diluted earnings per share of \$6.15 to \$6.30 and capital expenditures of approximately \$700 million.

Next, I will cover some of the key working assumptions that support our guidance. We still expect our annual gross profit rate to be slightly unfavorable compared to last year. In the second half of the year, we expect gross profit rate pressure will be similar, if not a little higher than it was in the first half of the year.

When compared to last year, the more notable gross profit rate drivers for the second half of the year include: first, our product margin rates are expected to be unfavorable, largely due to a higher mix of lower-margin products and our plans to remain competitively priced. Lower product margin rates are expected to be partially offset by: one, the rollout of our US marketplace; two, improved profitability from our services category; and three, growth from Best Buy Ads.

Now moving to our adjusted SG&A expectations. As a percentage of revenue, we expect our adjusted SG&A to be slightly lower than fiscal '25. The most notable puts and takes for the second quarter of the year include the following: we continue to expect benefits from ongoing efficiencies and effectiveness work streams, including Best Buy Health. Partially offsetting these items are SG&A increases in support of our Best Buy Ads and Marketplace initiatives, which include advertising, technology and employee compensation expense.

The high end of our guidance reflects incentive compensation that is approximately flat to last year. From a phasing standpoint, we expect Q3 to be higher than last year in Q4 to be lower. Lastly, the low end of our guidance reflects our plans to further reduce our variable expenses, including incentive compensation to align with sales trends.

Before I close, let me share a couple of comments specific to the third quarter. We expect our third quarter comparable sales growth to be similar to our second quarter performance. In addition, we are planning for an adjusted operating income rate that is approximately flat to last year's rate of 3.7%.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Seth Sigman, Barclays.

Seth Sigman - Barclays Services Corp - Analyst

Great. Hey, good morning, everyone. I wanted to focus on market share this quarter and around some of the bigger events that you mentioned I think last quarter, you highlighted some weakness in Q1, but I realize there's different seasonal dynamics in Q1. So just curious how that played out this quarter. And then I have a follow-up. Thanks so much.

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

Good morning. So we say it every time and I'm going to say it again, there is no great single source of share information for our categories. But that being said, as we try to cobble together all the different sources that we have, we do feel better about our share position this quarter. We feel like we had some good momentum here in Q2 and at least felt like we had flattish share overall.

And obviously, to your point, we feel like share is a long game conversation for us. It has some variability quarter-to-quarter. But what we're trying to do, and I think you can see it in the prepared remarks, is really position ourselves on our front foot across categories and especially in those places where we think we can really differentiate like gaming and computing.

Seth Sigman - Barclays Services Corp - Analyst

Okay. Thank you for that. And then if you could just bridge us to the third quarter comps being similar to Q2. Q2 obviously had the Switch launch. If we look at Q2 comps, excluding the entertainment category, I would say that the rest of the business would have been down low single digits. So is it that the Switch benefit continues? Or are there other drivers that we should be thinking about? Thank you.

Matthew Bilunas - *Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer*

Yeah. Let me start with first. As we entered August, we talked about we're still seeing momentum as we enter the third quarter, we're seeing a very strong response to our back-to-school sales events. And as we said, the quarter-to-date comps are up low single digits as we exist here in August. I think going from Q2 to Q3, I think, yes, the Switch launch did provide a boost to the second quarter results.

But as we noted, there was a significant iPad launch last year in May that we also had to comp, which goes the other way. As you get into Q3, you continue to see growth from gaming, albeit not as much as you saw in Q2, and then you continue to see -- you see a better performance coming through in the mobile computing category, which includes iPad. So continued growth in computing better performance on iPads, continued growth in mobile phones. And then net of that gets you to a comp that's similar to what was in Q2.

Seth Sigman - *Barclays Services Corp - Analyst*

Great. Very helpful, thanks so much.

Operator

Kate McShane, Goldman Sachs.

Kate McShane - *Goldman Sachs Group Inc - Analyst*

Hi, good morning. Thanks for taking our question. Vendor support has been a distinguishing part of your story for a long time with vendor labor and exclusive. And it sounds like at least on the labor side, you are seeing vendors leaning in more is up 20%. So I wondered if you can maybe talk to that just what changes are being made there? And are you baking in any kind of sales lift from this increased investment?

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

So let me start with, we are incredibly thankful to our vendors for their partnership on so many vectors. And we do feel very good about our relationships, and we work with them in a very omni-channel way just like our business. If I just take a big step back, overall, the level of invested support from our vendors has been growing. And as you noted, part of that is labor, but it is actually across the assets that we have.

And I think as I said in the prepared remarks, this is a really important part of our story. It's highly relevant traffic both to stores but also digitally unique expert sales and service and then the physical space, the ability to really showcase what these products can do in a unique way that can help our vendor partners run across the assortment of what they do in any given space.

And so I think it's not only they're investing in labor, they're investing in some of the updates and upgrades consistently to those physical spaces. There are also, in some cases, investing in training our associates. So it's not just you throw labor in there. It's how do you keep that labor really fresh and really specialized.

And then there are lots of other unique ways they're partnering with us. Best Buy Ads, membership, the app and online presence. You can see some of those vendor shops replicated in our digital experiences. Supply chain and fulfillment where we have our partners program and we fulfill for them, reverse logistics or we take care of that trade in, recycling. I mean, these are all the aspects that our amazing merchant team sit down and negotiate with vendors. And I think it's a very unique set of assets that we bring to the table in these conversations.

Kate McShane - *Goldman Sachs Group Inc - Analyst*

Thank you.

Operator

Chris Horvers, JPMorgan.

Christopher Horvers - JPMorgan Chase & Co - Analyst

Thanks, and good morning. I was just curious how you're thinking about the risks around the consumer in terms of what you've seen the reaction from tariff price increases in the July and August time frame, is elasticity surprising you in either direction? And then as you think about the go forward, is that quarter-to-date low single digit close to that -- is it 3%? And are you simply just being prudent around the potential for deeper valleys in between events?

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

So on that whole tariff discussion, I'm just going to kind of take one step back and start with our customers because our number 1 focus is being there for our customers. And I'm really proud of the way both our teams and our vendor partners have been navigating tariffs even as it's been changing.

And our approach, as it always is, is to deliver the right product assortments to match our customer needs and budgets while we partner with the vendors to navigate these conditions. Q2, as we said, was basically in line with our expectations and not material to our financial results. And I think there's a couple of reminders here.

We had talked last time about the mitigation strategies that we're using in partnership with our vendors. Everything from manufacturing flexibility, cost negotiations, country diversification, assortment adjustments and then ultimately, only were absolutely necessary adjusting price and I think at this moment, it's important to also remind you, we only directly import 2% to 3% of what we sell.

So that means as it relates to tariffs, some vendors are clearly communicating cost increases. Some are adjusting promotions. Some are planning to potentially increase prices with new product introductions, which always happens in our space, and some are just not increasing them at all given these are very, very global supply chains.

And so I think what we saw in Q2 is what we expected, those strategies, when they're all put together, are ensuring that those cost increases are much, much less than the overall effective rate of the tariffs because we're able to put so many of those other mitigation strategies into play.

Matthew Bilunas - Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer

Yeah. And in terms of Q3, I think, as we talked about in August, we're in that low single-digit range, seeing a good performance from back-to-school. We're also very cognizant as you get into September and the last part of September and October, the events start to slow down in the buildup to holiday. So you oftentimes see a slowdown in business a little bit in October as people are waiting for those holiday deals to come.

So our guide would reflect the fact that we're starting the quarter strong. We feel good about the momentum, but also recognizes that sometimes there is a little bit of slowdown as you head into the deeper holiday season.

Christopher Horvers - JPMorgan Chase & Co - Analyst

Understood. And then as it relates to the Switch 2, if you look back to the last launch, the strength really persisted in that category and actually, the fourth quarter was pretty close to the comp, the entertainment category comped pretty close to what it comped on the launch period. How are you actually planning that? As you do get into the fourth quarter, obviously, entertainment does go up in the mix, and so would comps -- would you expect some comp acceleration in the fourth quarter?

And just one clarification. You mentioned you expect sales to trend to the high end of your guidance? Is there any -- does that also translate to earnings? Thanks very much.

Matthew Bilunas - *Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer*

Yeah. So maybe I'll start with the last part of that question. We are saying we are trending towards the higher end of our sales guidance. Clearly, to the extent we can drive a better operating income performance based on those higher sales, we will continue to try to do that, but we have not changed the OI rate guide for the year so far. In terms of gaming and what I would say is we are planning to see gaming growth in Q3. And as you get into Q4, clearly, we're planning that based on the knowledge of availability of the Switch 2 console.

We do -- gaming is always a big part of a holiday sales performance. So clearly, there was some level of expectations. And I think the team's ability to deliver on a really strong launch in Q2 in that event and just how we show up in the store and online does give us comfort and confidence in our ability to get the product we need to deliver on the sales expectations that we have.

So clearly, gaming is always big in Q4. So we'll see, but if you do apply the Q3 guide, it kind of infers that the Q4 guide is pretty similar to what we're going to see in Q3.

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President - Customer Offerings and Fulfillment*

And then specific to the gaming category, we're obviously very pleased with our performance in Q2 and what happened with Switch. We did have really strong momentum from a market share perspective in gaming heading into that, which we're proud, but we're also proud of the fact that accessories and software, we performed very well in those two areas in addition to it.

The other part that is sometimes missed is it's not just Switch 2 gaming and total is strong for us. So handheld gaming not including Switch, things that have either the Windows operating system or the Steam operating system also grew at a pretty significant rate in Q2 as well. And we think that there's a lot of momentum on all those things included.

So obviously, Switch will continue to have great demand all the way through the rest of the year into Q4. And then there's also some new products launching that our partnerships between Microsoft and [ASUS] that will also bring demand in total. So we're excited about our total gaming portfolio, and we feel well positioned to take advantage of that for the rest of the year.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Great. Thanks very much. Have a great Labor Day.

Operator

Steve Forbes, Guggenheim.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

Good morning. Corie, Matt, I wanted to focus on the post Labor Day promotional calendar. And the thought here is we're hearing the potential for change in frequency of promotional events, maybe less about change in depth of those promotional events. So just love to get your thoughts on how the depth and frequency of events are slated for this year relative to last year and sort of how that impacts your ability to forecast the business, given your comments around how the consumer is more attracted to those events.

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

I think one of the team's strength is the ability to very carefully plan out, especially as it relates to the back half, a compelling promotional calendar. And like any year, you're going to find those right moments where you think the consumer is going to be most open to those promotional events, and then you're going to plan across your assortment.

And it goes back to something that actually I should have said in earlier tariff answer. This is a really promotional category. And that means all of us are -- in partnership with vendors, all of us are working to stimulate demand from our consumers and all of us are working to position at the right time.

In general, we have seen both breadth and depth of promotions higher than last year. And we assume that will continue, and that is reflected in the guide that we gave. And we are going to try to find those right moments to ensure we are competitive like Black Friday in July, which was quite successful for us, so that we are showing up and we are resonating with our customers.

Steven Forbes - Guggenheim Securities LLC - Analyst

And then maybe following up on that, right? So breadth and depth higher than last year. I think given the tariff pressures in net terms, I think there was a lot of conversations within the expert networks over the past three months about just sharing of the cost and maybe an increased percentage of share being pushed down to the retail community. I guess I'd love to just hear your thoughts on just control over gross margin, right, as we approach that holiday selling season?

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

So, look, all of us are working in partnership, especially in this category to be there for our customers and drive demand. And that is priority one for everyone together. We are going to go into the level of detail of talking about exactly who shares wet. But of course, I'm going to say that it varies by vendor, and it varies by product category. And as I said before, when we have been seeing increased costs, it is materially lower than the overall effective rate.

And that's because every vendor is taking their own approach to how they think about navigating this backdrop. Like I said, some have already communicated cost increases. You can see that in some of the older gaming platforms as an example. Some are adjusting promotions. Some are planning cost increases with new launches.

Some are balancing this across the whole global supply chain and maybe not adjusting costs here in the US. And so for us, this is just a -- this is frankly what our vendors do all the time. This is making sure that we have the broadest assortment, opening price point to more premium. That is an advantage that we have as an only consumer electronics retailer. So that whatever the budget is of the person walking in the door, we've got something that matches that budget. And so far, I think we've been able to do that.

Steven Forbes - Guggenheim Securities LLC - Analyst

I appreciate the color. Thank you.

Operator

Michael Lasser, UBS Financial.

Michael Lasser - UBS AG - Analyst

Good morning. Thank you so much for taking my question. If I have long talked about the profit pool associated with core consumer electronics retail, not really growing and Best Buy was either going to have to harvest a greater share of the profit pool or serve other categories, such that it was able to drive growth in the overall enterprise.

How are you looking at this now, especially in light of the challenges that have been realized by serving health care and home furnishings and the prospect that increasingly your competitors could push down the overall core profit pool to harvest profit in other ways and through other streams? Thank you very much.

Matthew Bilunas - Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer

Yes. Thanks for the question, Michael. I think what you'll see in our prepared remarks, we focused a lot on our strategies. And there has been a lot of dynamic shift over the last number of years in CE. One of those shifts has been a proliferation of third-party sellers in a lot of our categories.

And you're seeing us now launch a marketplace to help us strength in some of those places where unit share has been harder to capture because so much of that is being delivered from a third-party marketplace. So as we try to ensure or stabilize our base within CE, that is an important aspect as we go forward, and we believe that's going to help us on an aspect of solidifying categories that have shifted in that direction.

We're also working on growing our ad business and growing that ad business actually provides a bit of fuel for us so that we can continue to reinvest back into things like price, reinvest into things like the customer experience and into driving awareness. Those are -- that growth of that profitability will help us fuel the core retail business as you were talking about.

Those are a couple of examples of how we are evolving our strategy to move forward, which helps us move beyond maybe just harvesting the business in terms of being more aggressive in terms of like how do we grow the business more proactively in the future.

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

The last thing that I would add, Michael, is even as it relates to the core business, our priority is driving those amazing experiences for our customers. And we highlighted on the call so many ways that we do that in partnership with our vendors. You can imagine we are continuing to expand and deepen those relationships. So that we provide not just the like SKU for SKU competition with others, but this really broad, really immersive technology experience that is different.

And we are the only place where that kind of breadth which means we get to partner with people like Roku or Amazon and bring to life these experiences, not just for the hardware but also in terms of how we think about connecting with our customers on the software side.

We also talked about the upgrades from Windows 10 to 11. So these relationships are deeper than just let's go fight it out on the SKU for SKU hardware level, but we will do that. They are also about us being the one place where you can come and see all of these brands and all of these operating systems. And you can imagine that behind the scenes, we continue to navigate that in partnership with our vendors to bring these things to market uniquely.

Michael Lasser - UBS AG - Analyst

Okay. Thank you very much for that. My follow-up question is last couple of quarters, home theater and appliances, have been a bit more challenging for Best Buy as you do the review and diagnose some of those challenges you outlined step that you're going to take in order to stabilize those businesses, including making sharper pricing. So how much are you willing to invest in order to improve the performance of those categories? Is it really just a function of price? Are there other factors at play?

And if you look across your portfolio of profits, how much are you willing to fund some of these (inaudible) or take the profits associated with these emerging pools like Best Buy Ads in marketplace and reinvest them back in stabilizing parts of your core business?

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President - Customer Offerings and Fulfillment*

Yeah. Thank you for the question. I think TVs and appliances are very different categories. So maybe I'll hit on really quickly and some of the differences associated with each. In half one, the TV trend has been a little bit softer, and there has been more of a shift towards value. So there is a need for us to make modifications to our assortment. Some of that is price, but some of that is also what we offer and the way that we bring that experience to life in store.

As Corie alluded to, we are actually expanding relationships with some of our vendors, in particular, TCL, Hisense and creating more experiences in our store that not only lean into the more premium side of technology but also allow us to better meet some of those value-seeking customers. That's the way things look from a TV perspective. And on top of that, additional marketing investments to make sure that we're driving the right traffic

Appliances is a little bit different situation and the fact that the market is very focused on duress right now just because the housing upgrade market has been a little bit softer and the rest has not historically been our sweet spot. Our sweet spot is more around packages associated with appliances. So there is a need for us to modify our assortment there and also placement.

So in some cases, it's less about price, but more about speed of fulfillment or even the ability for a customer to actually take an appliance out of our store and just directly take in that particular day. And those are some of the moves that the teams are making as well to better meet the customer where they are in the market today.

Matthew Bilunas - *Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer*

Hey, Michael, I might just add in terms of how that's represented in our financials. I think we're always strategically trying to balance sales and profitability. And I think even in our guide this year, though, we did note that product margin rates are expected to be lower year-over-year.

And some of that, most of that is due to just the mix of what we're selling, but we have built in a level of promotionality or competitive pricing so that we can actually make sure we are being competitive as we get into Q3 and Q4 to support not just all the experiences that Jason talked about, but also just from a competitive price standpoint, we have tried to incorporate that into our guidance as best as we can see. And obviously, we'll adjust as we see.

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

And I think it's just worth noting that kind of a ribbon on this. That guide that we put out, that includes all of these things we're talking about includes mix. It includes making sure we feel like we have a very strong promotional stance. And it includes that conversation we just had about balancing sharing in the tariffs. And I think it's worth noting that even with all of that put together, our guide has remained very stable on the profitability side.

Michael Lasser - *UBS AG - Analyst*

Is that why you are thinking, hey, we might be at the high end of our top line, but just in line on the profitability side because of tariff pricing mix, those factors are just playing out to be a little bit more challenging?

Matthew Bilunas - Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer

Yeah. I don't think our profit expectation has changed dramatically. We haven't changed the guide for the year. And in the previous guide. We did also talk a little bit about building in that promotionality and that remains pretty consistent I think we are believing that we're a little more confident in the top end of that sales range, as we talked about.

And we did exceed our expectations in Q2, which is coming in some lower-margin category areas. So it's fair to say that on the high end as you mix into those lower margin areas doesn't come with as much profitability. So we have a little bit of room there, but that would have -- we've already factored that in.

Michael Lasser - UBS AG - Analyst

Thank you, very much and good luck.

Operator

Anthony Chukumba, Loop Capital Markets.

Anthony Chukumba - Loop Capital Markets LLC - Analyst

Good morning. Thank you for taking my question. So it sounds like the Switch launch was a success, but I was just wondering how did it perform -- or sorry, Switch 2, how did it performed relative to your expectations? And then how does that how did that flow through to your guidance for the back half of this year? Thanks.

Matthew Bilunas - Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer

Yeah. I mean we did exceed our sales expectations in Q2. A big part of that was our performance coming from the Switch launch. So fair to say that, that was a significant part of the [beat] to our expectations in Q2. And we do expect to continue to grow in gaming as we get into Q3 and Q4, and that we've reflected any sort of additional upside that we might see as it relates to that product.

But it did represent something. We also, though, did exceed expectations in other categories like computing as well. So it wasn't the only thing that did better than we expected in the second quarter.

Anthony Chukumba - Loop Capital Markets LLC - Analyst

Got it. And then in terms of the Windows 10 support expiration, so based on that -- because I know your computing sales has been quite strong for quite some time. But is it safe to say that you would expect a further acceleration just based off of that?

Jason Bonfig - Best Buy Co Inc - Senior Executive Vice President - Customer Offerings and Fulfillment

Yeah. In computing, we expect to see continued momentum. So a couple of things. There's been 6 consecutive quarters of growth in computing and Q2, as Corie mentioned, we actually had the highest laptop volume in Q2 than we've had in 15 years. So we are continuing to see that acceleration.

And there's really three factors that are driving growth in computing. The Windows 10 end of life support is driving customers that have not been in the market for a long time in and they have very specific needs, specific things like data transfer and things like that are top of mind.

There's also a pretty significant trend of MacBook users that have MacBooks that are three to eight years old that are still on the Intel-based platform that can get some significant changes in performance in battery life and performance in general as well as AI when they upgrade, and that's driving interest in the market.

And then just the AI features continue to evolve. Every single quarter, there are new features dropped from Apple and Microsoft in total and customers are seeing interest and our Copilot+ PC assortment has grown pretty dramatically. We're up to 120 in different models in our stores.

So those three factors are really what's driving the growth, and we think it will continue moving forward because those are all really important things to different groups of customers.

Anthony Chukumba - Loop Capital Markets LLC - Analyst

That's helpful. Thank you.

Operator

Robert Ohmes, Bank of America.

Robert Ohmes - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Good morning. Thanks for taking the question. Maybe for Corie. Just -- sorry, on the Verizon and AT&T carrier system commentary, can you just walk us through, is this a significant back half benefit you're expecting in traffic? Or is there any structural change in the agreement versus things you've done in the past?

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

It's not a structural change. I would think about it more as an expansion. We actually saw mobile phone sales grow in both Q1 and Q2, and that was after years of declines. And so what we're doing is we're actually an operating model that we have had in some of our stores with both Verizon and AT&T.

And the reason is advantageous is it's just easier to access all of the myriad of pricing and arrangements that you need in this space with the customer, depending on if they have a family and they have multiple lines and they have different needs in terms of data.

This just allows a really seamless way for the customer to interact with a more specialized associate given the complexities also have access to the greatest deals. So yes, we expect that to continue to drive momentum in the mobile category in the back half. It's part of what is baked into our belief system around being at the higher end of the range.

Robert Ohmes - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Got it. That's helpful. And then maybe for Matt, any -- the restructuring charge in this quarter makes sense. Just any -- should we expect more restructuring charges through the balance of the year?

Matthew Bilunas - *Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer*

The restructuring charge that we took in the quarter reflects basically our motivation to move resources towards those strategic areas in our business. And I think there are some of the impacts will happened this year. Some of those actual impacts happen as we carry into next year, but we don't expect to be adding a material amount more restructuring at the rest of the year.

Robert Ohmes - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Terrific. Thanks so much.

Operator

Scott Ciccarelli, Truist Securities.

Unidentified Participant

Good morning. This is Shervin on for Scott. Just had a question here regarding tariffs again. While we've been in a bit of a limbo situation still dynamic. I'd love to hear about your progress since last quarter when we talked about sourcing, distribution like what's the split of your exposure today to China versus other countries? What's the end goal?

What are you doing and like when you expect to get there? I also think that you talked about your progress with vendor negotiations surrounding costs. A little bit more color there would be great. Thanks.

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

Sure. So as a reminder, before I start this conversation. We are the importer of record on only about 2% to 3% of what we sell. So whenever we're quoting the sourcing on this, it is in partnership with our vendors and understanding where they are doing the majority of the sourcing.

Right now, the US plus Mexico are about 25% of product cost of goods sold at this point, those have 0 tariffs. China has come down to 30% to 35% compared to the 55% we shared back last March and about half the China source products are at 30% tariffs, roughly half or a 20% tariffs, and that leaves another roughly 40% of CE products coming from other countries like Vietnam, India, South Korea and Thailand, which as you know, are at varying levels right now.

And so the kind of blended effective rate of all that is about 16% versus the 12% to 13% we shared with you and I will reinforce that because we continue to work on the mitigation strategies that we've talked about, the amount of cost adjustments that are coming through are materially less than that blended rate because our partners are doing an amazing job really trying to work through these very global supply chains.

Unidentified Participant

Great. Thank you.

Operator

Zach Fadem, Wells Fargo.

David Lantz - Wells Fargo Securities LLC - Analyst

Hey, good morning. This is David Lantz on for Zach. Thanks for taking our questions. I guess first one for me. How do you think about sizing a potential upgrade cycle? And to what extent does that incorporated in guidance?

Jason Bonfig - Best Buy Co Inc - Senior Executive Vice President - Customer Offerings and Fulfillment

Yeah. I think I'll step back a little bit. I think every category is at a different level of upgrade cycle pretty uniquely. And I think as an example, we've been seeing, as we've talked about a lot, replacement cycle, upgrade cycle coming through computing. It first started with notebooks. It's moved into other things like desktops.

There's been a long-nose strength in gaming computers as well. And I think that's the first place where we saw because of that significant purchase during the pandemic, maybe not getting the optimal machine, seeing a replacement cycle happen for quite a bit of time now in that category. And I think it kind of varies by product category. Gaming is another example. It's usually pretty launch dependent where we just had a Switch launch. We have -- we probably won't see a PS5 or Xbox for a little bit of time.

I think TVs and appliances are a little longer in the replacement cycle window closer to the six-, seven-, eight-year cycle, probably not seeing a large level of replacement having there, although there is a lot of innovation happening in some aspects of those categories like extra large televisions that didn't exist years ago. So I think every category is a little bit different.

I think broadly, our business shines when there's innovation. And so it's always some combination of needing to replace the technology in your life, but also being interested and curious about new innovation that's coming that both of those things combined is kind of where we do our best work. And so we aren't quite back all the way on an innovation or replacement cycle, but we see the momentum building in a number of the different categories.

David Lantz - Wells Fargo Securities LLC - Analyst

Got it. That's helpful. And then with expectations that rates ease in some of your business tied to housing, curious how retail wind would impact your business?

Matthew Bilunas - Best Buy Co Inc - Senior Executive Vice President - Enterprise Strategy, Chief Financial Officer

Yeah. I think probably in appliances the most. I think there's the strongest correlation with the housing turnover or housing starts coming to the major appliance business, maybe a little bit on the home theater TV side, but mostly on the majors.

And I think as people start to get into new homes or actually want to remodel their homes, we start to see people gravitate maybe towards package appliances versus right now, it's a very dressed market. And we also offer a very broad range of assorted major appliances, all the way from Viking and (inaudible) the high end to opening price points.

And so I think as we get into better housing turnover, housing starts, you [start] to see people want to pursue different types of major appliance purchases. And I think from that respect, that helps our business because we have more dedicated labor. We have more showcasing in our stores. We have a broader assortment. I think so when we do see that, we would expect to be able to drive a bit of better performance on the major side of the business.

David Lantz - Wells Fargo Securities LLC - Analyst

Got it. That's helpful. Thank you.

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

All right. With that, I think that's our last question. I want to thank you all for joining us, and we look forward to updating you on our progress in November. Have a great day.

Operator

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

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