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BBY.N - Q4 2026 Best Buy Co Inc Earnings Call

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## OVERVIEW:

Company Summary

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

**Matthew M. Bilunas** *Best Buy Co Inc - Chief Financial and Strategy Officer*

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

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**Scot Ciccarelli** *Truist Securities - Analyst*

**Michael Lasser** *UBS Financial - Analyst*

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

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**Steve Forbes** *Guggenheim - Analyst*

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**Jonathan Mateuszewski** *Jefferies - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to Best Buy's fourth 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 p.m. Eastern Time today. Operator Instructions I will now turn the conference call over to Mollie O'Brien, Head of Investor Relations.

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**Mollie O'Brien** - *Best Buy Co Inc - Vice President, Investor Relations*

Thank you, and good morning, everyone. Joining me on the call today are Corie Barry, our CEO; Matt Bilunas, our 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](https://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-Q 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. Today we are reporting better-than-expected profitability for the fourth quarter. On revenue of \$13.8 billion, we delivered an adjusted operating income rate of 5% and adjusted earnings per share of \$2.61, both of which are slightly up to last year.

Our Q4 comparable sales were down 0.8% versus last year, within our guidance range for the quarter. Our data sources show our market share was at least flat, pointing to slightly softer consumer demand for our industry during the holiday quarter.

Our holiday customer demand patterns were also different than modeled despite sales event timing that was very similar to last year's. We saw softer-than-expected sales in November and the beginning of December. We then experienced strong sales in the last two weeks of December and the start of January, and sales were negatively impacted by weather-induced store closures during the last week of the quarter.

We were prepared for a promotional holiday and the environment was even a bit more promotional than we factored heading into the quarter. I'm proud of how our teams strategically pivoted throughout the quarter in terms of marketing, promotionality and labor.

From a product category perspective, we delivered our eighth consecutive quarter of positive comparable sales in computing, driven by laptops, desktops and accessories. In mobile phones, we delivered our fourth consecutive quarter of growth driven by our expanded partnerships and in-store operating model improvements with large carriers.

We grew our gaming category revenue but at a much slower rate than the previous two quarters as expected. We also saw strong growth in newer and emerging categories like AI glasses, 3D printers, collectibles and toys, health rings and PC gaming handhelds. These positive growth categories were offset by declines in home theater and appliances.

We are pleased with the progress we have made in our ads and marketplace initiatives, and both delivered positive contributions to gross profit rate in the quarter. We are also pleased with our customer experience metrics. Our relationship NPS was up materially year-over-year and the highest it has been in 11 consecutive quarters.

We delivered significant year-over-year gains across all five of our most important attributes, including helpful, empathetic, meeting tech needs like no other company can, value and ease. As we exited the year, we saw continued five star customer satisfaction gains in associate availability, product availability and store appearance.

For our online customers, we reached our fastest-ever fulfillment speeds for our fourth quarter, with 70% of online purchases a fulfilled within two days. As I step back and look at the full year, I am proud of what we have accomplished.

First, we returned to positive comps and stabilized our share position while navigating a complex and often evolving tariff environment. We successfully launched and scaled our US digital marketplace, onboarding more vendors than originally expected and drastically increasing our available SKU count for our customers.

We grew Best Buy Ads while almost doubling the number of ad partners compared to the prior year. We were able to both make the necessary investments in our Marketplace and Ads initiatives and expand our enterprise operating margin through a combination of disciplined expense management and efficiency optimization efforts.

We leveraged the use of new technology in many areas to elevate customer experience and drive efficiencies, including faster online shipping and delivery speeds and better customer support capabilities. We further strengthened our in-store customer experience by partnering with multiple key vendors to expand their investment in immersive merchandising areas as well as expert labor.

And we remain committed to being a Best Place to Work, and our most recent employee engagement survey improved year-over-year, ahead of industry benchmarks, and we continue to have industry-leading retail employee retention rates.

Finally, we returned \$1.1 billion to investors in the form of dividends and share repurchases. I'm incredibly grateful for the hard work, dedication and resourcefulness of more than 80,000 employees to achieve these results.

Moving forward to fiscal '27, we are excited about the momentum in our business. We also expect to continue to navigate a mixed macro environment. For the year, we are guiding comparable sales growth in the range of down 1% to up 1%. I'll highlight some key assumptions.

Consistent with the past several quarters, we expect to see a consumer who is still spending but is value focused and attracted to sales moments. Importantly, while customers continue to be thoughtful about big-ticket purchases, they are willing to spend on high price point products when they need to or when there is technology innovation. We do expect consumers to spend a portion of their higher tax refunds at Best Buy concentrated in the first quarter.

From a product category perspective, we are planning for continued growth in computing, driven by industry momentum from replacement cycles, the end of support for Windows 10 and innovation driven by AI. We expect continued growth in mobile phones from the new carrier labor models and system enhancements we have implemented over the past year.

And we expect continued growth in our newer emerging categories that I referenced earlier, like AI glasses, 3D printers, collectibles and toys, health rings and PC gaming handhelds. And we see opportunities to improve the sales trends in home theater, from extended store experiences, increased expert labor and our role as the national retail launch partner for an exciting new technology, RGB, in the middle of the year.

As you are aware, the significantly increased demand for memory components is driving cost inflation and supply uncertainty, particularly in computing. We are partnering with our vendors to mitigate impacts on the business. We are focused on five major navigation themes.

One, we are bringing in as much inventory as we can. We are also providing our vendors with a longer forecast horizon to better plan allocations across commercial and consumer segments and collaborate more effectively with memory partners.

Two, regarding terms, we want to ensure that business and operational terms are situated to make Best Buy a preferred partner in the eyes of our vendors during a constrained environment. Three, we are using our ability in computing to specify configurations to hit price points that match consumer budgets.

Four, we are narrowing assortments to improve in-stocks where there may be constraints. And five, we are focused on educating customers on why now is still a good time to buy. Their current device may not be performing optimally. We have quality options for every budget.

And they can get a better device today on the same budget as their last purchase, which may have been years ago. We have a number of tools to highlight, including trade-ins, financing, refurbished products and easy upgrade with Geek Squad.

As we think about the impact on our fiscal '27 outlook, the high end of our comparable sales guide reflects a more neutral impact as higher prices are offset by lower unit sales. At the low end of the guide, inventory is more constrained across a number of categories.

Now I will talk about our multiyear strategy, which is consistent. We will continue strengthening our position in retail as a leading omnichannel destination for technology, while at the same time scaling new profit streams. Our priorities and resource allocation philosophy remain consistent as we build upon the momentum from fiscal '26.

These are one, drive omnichannel experiences that resonate with our customers. Two, scale Best Buy Ads and Marketplace and three, drive efficiencies and identify cost reductions that are crucial to help fund investment capacity and offset pressures in our business.

Let me provide some key details on initiatives across stores, digital assets and our services offerings. Last year we provided multiple examples of store refreshes and upgrades we implemented in partnership with our vendors, including Meta, Revel, SharkNinja, TCL, Hisense and LG. We are expanding these experiences to yet more additional stores this year, demonstrating the value these are driving for our vendors and our customers.

In addition, we are continuing to improve our stores look and feel by using our square footage more strategically. For example, in approximately 70 stores, we will move computing to the center of the store, consolidate space and allocate open spaces to value-generating initiatives. Many of these open spaces will be filled with a much larger and more comprehensive assortment from Meta. In other stores, we are piloting either outlet sections or outdoor furniture from our Yardbird brand. In these cases, we are shifting from stand-alone locations to leveraging the space and traffic we already have.

This year, we expect to have new Domestic Best Buy store growth for the first time in more than a decade. We plan to open 6 new stores to better meet demand in markets that have grown, including areas where we have not previously had a physical presence. We have created and tested a smaller store model that drives incremental revenue in these types of markets, like the Bozeman store we opened last year. We expect to close only two Best Buy stores as a result of our ongoing review of leases as they come up for renewal.

We are pleased with the investments we have made in customer-facing labor over the past couple of years. We plan to keep our labor flat as a percentage of revenue, balancing the growth in dedicated specialized labor with more flexible and multipurpose resources.

We expect the level of vendor-provided labor hours to grow again this year after growing 20% in the second half of last year. Together with our vendors, we provide in-person expert CE experiences for our customers that are unmatched in today's retail world.

As you would expect, we are also focused on our digital experience. We have already begun to activate on ways to bring our products to life through AI platforms this year. First, we're partnering with OpenAI to give our customers a new way to explore and discover our products. We're among the early retailers to make it easier for our product catalog to be displayed on ChatGPT, creating a more seamless path to product inspiration. We're also an early ads partner and exploring more opportunities to enhance our shopping experience with OpenAI.

In addition, we support Google on its new Universal Commerce Protocol, a cross-industry standard that helps create a more seamless agentic shopping journey across the web. Using this Universal Commerce Protocol, we're working with Google to build new way for customers to purchase directly in AI mode in Google Search and the Gemini app.

We are also the first retail partner to launch a native checkout integration with Wizard, an AI-powered commerce platform. As agentic commerce matures, we want to serve our customers in new ways, both on and off of platforms. That includes evolving bestbuy.com to be more agentic-friendly and ensuring our site is ready for AI agents to browse and discover on behalf of our customers.

Other fiscal '27 online priorities include strengthening customer recognition and personalization, increasing app adoption and engagement, enhancing our new invite-only capability and driving online conversion for categories like major appliances and TVs.

Now I will discuss our services offerings, which have long been a key differentiator for Best Buy. To sustain our leadership, a priority for us this year is to reassess our Geek Squad services by simplifying our portfolio while at the same time making our services accessible to more customers. The good news is we're making progress in simplifying our range of offerings with different price points to create customer choice.

We are also planning to move beyond break, fix and product installation services to dive into experiential solutions that cater to a variety of evolving customer needs. Whether it is a simple product upgrade or a full premium home installation, we will be there for our customers with speed, expertise and convenience.

We're continuing to prioritize our renowned Geek Squad agent support in-home, in-store and virtually. At the same time, we're enhancing our digital and AI experiences. This dual approach allows customers to choose how they want to receive service, whether it's through direct interaction with an agent or more autonomous digital solutions, empowering customers to get the support they need on their own terms.

Our services business -- our services are also instrumental to the growth of our Best Buy Business arm. Here we focus on business segments like education, hospitality, builders, health care and corporate enterprises. Product sales are concentrated in computing, home theater and major appliances and often paired with services such as field installation and end-to-end product support services like device life cycle management.

Our Best Buy Business team generated more than \$1.1 billion in revenue in fiscal '26, and we expect to generate a mid-single-digit sales growth rate again in fiscal '27.

Now I'd like to provide an update on our Best Buy Marketplace. First, we have been very pleased with the outcome and performance. Our customers are responding favorably too as sales ramped through the back half and represented approximately \$300 million in Domestic GMV in the fourth quarter.

Furthermore, our five-star ratings for third-party purchase experiences are consistent with that of first-party purchases. This outcome affirms that the team adopted the appropriate design principles to deliver a seamless customer experience regardless of whether the product is 1P or 3P.

And customer return rates for Marketplace items continue to be lower than our 1P return rates. These customers are taking advantage of the convenient return-to-store option for more than 80% of product returns.

Top unit categories in Q4 included mobile phone accessories, computer accessories, movies and small kitchen appliances, illustrating momentum and opportunity in what have traditionally been lower-share categories for Best Buy. As a result, Marketplace is driving unit market share growth.

While we are still early in our journey, our 3P seller community remains highly motivated and excited by the initial performance. To date, we have enlisted over 1,100 sellers on Best Buy Marketplace. And over 90% of our sellers with an open store front are experiencing sales in any given week.

I would add that our store employees are equipped with the right tools to help customers get what they want even if we don't carry it ourselves, and are contributing to the Marketplace GMV.

Moving to Best Buy Ads. In fiscal '26, our gross advertising collections were just over \$900 million. This is up more than 7% versus last year. Today these collections show up mostly as an offset to our cost of goods sold with a small amount flowing through revenue. In fiscal '27, we anticipate growth of approximately 10%.

By the end of fiscal '26, we had 750 advertising partners, nearly doubling the count from last year. Most of this growth stemmed from Marketplace third-party partners following our August launch. Additionally, our first-party partners are investing more with an average annual investment up 16% year-over-year.

Our on-site inventory mix was just over 40% last year, lower than many other retail media networks. On-site inventory drives a higher margin than offsite. So as we continue to create more on-site inventory and grow this mix, there is significant margin growth potential over time.

Both Ads and Marketplace positively contributed to our gross profit rate in Q4, and we expect continued gross profit rate contribution this year. From an operating income rate perspective, we expect a slight contribution this year due to ongoing investments in our technology stack, marketing and head count across our sales, operations and technology teams. We expect fiscal '27 to be the last major investment year, with more material operating income rate contribution coming in fiscal '28 and fiscal '29.

In order to invest in initiatives like these that will bring long-term value and offset pressures in the business, our third long-standing business priority is crucial, and that is driving efficiencies and identifying cost reductions.

There are many ways we realize these efficiencies, with technology and analytics, through ongoing vendor partnerships and vendor selections throughout the enterprise, and by modifying existing processes or customer offerings. In fiscal '27, our key opportunity areas are supply chain, customer care, reverse logistics and continued optimization of our health business.

In summary, I'm pleased with the progress we made in fiscal '26 and excited about what we expect to accomplish in fiscal '27 as it relates to our multiyear strategy. We are deepening customer relationships and successfully strengthening our position in retail as a leading omnichannel destination for technology, while at the same time scaling new profit streams that we expect to provide considerable benefit over time.

I will now turn the call over to Matt.

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**Matthew M. Bilunas** - *Best Buy Co Inc - Chief Financial and Strategy Officer*

Good morning. Let me start with our fourth quarter performance compared to the expectations we shared last quarter. Enterprise comparable sales declined 0.8% and were on the lower end of our guidance range. Despite the softer sales, our adjusted operating income rate of 5% was better than planned and included slightly favorable rates for both gross profit and SG&A. I will now talk about our fourth quarter results versus last year.

Enterprise revenue of \$13.8 billion decreased 1% versus last year. Our adjusted operating income rate increased 10 basis points compared to last year and our adjusted diluted earnings per share increased 1% to \$2.61. By month, our Enterprise comparable sales were down approximately 3% in November, before improving 2.2% in December and up 0.4% in January. In our Domestic segment, revenue decreased 1.1% to \$12.6 billion, driven by a comparable sales decline of 0.8%.

From a category standpoint, the largest contributors to comparable sales decline were home theater and appliances, which were partially offset by growth in computing and mobile phones. Our online revenue of \$4.9 billion decreased 2.3% on a comparable basis and represented 39% of our Domestic revenue. Our online comparable sales growth includes the net commission revenue earned from our third-party marketplace sellers.

From an organic standpoint, the blended average sales price of our products was approximately flat to last year. International revenue of \$1.2 billion increased 0.5% versus last year. The revenue increase was primarily driven by the favorable impact of foreign exchange rates, which was partially offset by a comparable sales decline of 1.3%.

Our Domestic gross profit rate of 20.9% was flat to last year. During the quarter, our gross profit rate benefited from increased collections from Best Buy Ads and growth in Marketplace commissions. These items were offset by lower product margin rates which were primarily driven by an unfavorable sales mix and increased promotions.

Our International gross profit rate decreased 90 basis points to 20.5%. The lower gross profit rate was primarily due to lower product margin rates.

Moving to SG&A, where our domestic adjusted SG&A decreased \$36 million. This decrease was primarily driven by reduced compensation expenses, which included incentive compensation and lower Best Buy Health expenses. These items were partially offset by increased expenses related to Marketplace and Best Buy Ads, including higher advertising and technology expenses.

During fiscal '26, total capital expenditures of \$704 million were essentially flat to fiscal '25. During fiscal '26, we returned \$1.1 billion to shareholders through share repurchases and dividends. We remain committed to being a premium dividend payer and this morning

announced that we are increasing our quarterly dividend to \$0.96 per share, which is a 1% increase. This increase represents the 13th straight year we have raised our regular quarterly dividend.

Moving on to our full year fiscal '27 financial guidance, which is the following: Revenue in the range of \$41.2 billion to \$42.1 billion, comparable sales of down 1% to up 1% and adjusted operating income rate of approximately 4.3% to 4.4%, and adjusted effective income tax rate of approximately 25.5%, adjusted diluted earnings per share of \$6.30 to \$6.60. Capital expenditures of approximately \$750 million.

And lastly, we expect to spend approximately \$300 million on share repurchases. From a phasing standpoint, the repurchases are planned to occur primarily during the fourth quarter, resulting in our weighted average share count remaining near the levels at fiscal '26 year-end.

Next, I will cover some of the key working assumptions that support our guidance. Earlier, Corie provided context on our fiscal '27 top line assumptions, so let me spend more time on the profitability outlook. We expect our gross profit rate to improve by approximately 30 basis points compared to the prior year due to growth from Best Buy Ads and our US Marketplace.

Now moving to adjusted SG&A expectations, which include the following puts and takes. SG&A is planned to increase in support of Ads and Marketplace, which includes advertising, technology and employee compensation expense.

We expect higher incentive compensation as we reset our performance targets for the next year, with the high end of our guidance assuming an increase of \$30 million compared to fiscal '26. Store payroll expenses are expected to increase at the high end of our revenue guidance with minimal impacts from a rate perspective. Partially offsetting the previous items are expected lower Best Buy Health expenses.

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 first quarter. We expect our first quarter comparable sales growth to be approximately 1%. From a monthly phasing perspective, comparable sales were down approximately 1% in February and expected to increase in March and April. We expect our first quarter adjusted operating income rate to be approximately 3.9%, with gross profit rate expansion being the primary driver of the 10 basis points of year-over-year improvement.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Kate McShane, Goldman Sachs.

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### Unidentified Participant

This is Grace on for Kate. We were wondering in the case that product prices do increase due to the higher memory pricing, we were wondering what that could look like. And what do margins look like across the different computing categories like good, better and best?

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**Matthew M. Bilunas** - *Best Buy Co Inc - Chief Financial and Strategy Officer*

So overall for next year, our guide for gross profit is about 30 basis points increase year-over-year, which is primarily driven by both Ads business and Marketplace growing. The remaining parts of the gross profit rates are pretty neutral, even inclusive of the product margin rate. So for the year, product margin rates are going to be assuming pretty flat year-over-year.

So within that context, there could be some categories, some pressure on margins because of memory costs. But overall, we would expect to be able to navigate based on the list of things that we talked about in our prepared remarks, the ability to manage some of that pressure that might exist.

So overall, pretty, pretty neutral impact to product margin rates in total, but there could be unique areas within the company that might have some impact.

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**Operator**

Scot Ciccarelli, Truist Securities.

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**Scot Ciccarelli** - *Truist Securities - Analyst*

Two questions. First, can you talk about what you saw in the fourth quarter in big screen TV sales, especially as a big competitor was really aggressive in that category from what we could tell? And then secondly, I guess, a bit more open ended, how should we think about the growth opportunities around Meta and Google glasses? And any more details on how you're partnering with those vendors in that specific category?

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

From a TV perspective, both revenue and units were below expectations in Q4 from an industry perspective. We were actually happy with the way that we showed up from a positioning perspective, but there just was a little bit more softness than expected. But we are excited and optimistic as we move into next year, and there is a new technology trend, as Corie mentioned, as we get into the middle of the year with RGB technology across all of our major suppliers. We do think that's going to drive a lot of demand. It's going to drive a lot of interest in our store.

It is really something that you need to see in person. And we'll be there with our vendors to make sure that we put that on display in the best way possible. From a Meta perspective and just AI glasses in general, it is a significant growth trend for us. It does show up in gaming when we talk about it. We do think we have the best relationship with vendor partners, and our relationship with Meta is phenomenal.

The way that they show up in our stores and the way we've been able to bring their new products to market, and then even locations that are even more of a showcase where the way that we were able to represent and partner with them on the display product and bring that to market.

There are other things happening from an AI glasses perspective. There's a lot of noise at CES. And we expect that there'll be even more products, not only from partners that we already do, but probably also from new partners as this continues to be a growth category for us.

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

Scot, strategically, just to build on that a bit, I think the idea of AI for the consumer is kind of a long-tail space where we will have a unique advantage. Some of that we've already been leaning into, which is think about like enhancing existing technology.

That's like Copilot+, it's AI and computing, it's AI and phones. It's our ability to explain that and bring it to market. Some of it is what Jason is hitting on, what you asked about, that lifestyle tech example, and there'll be lots of different ways we'll see that, interactive gaming, we'll see it in glasses.

Then you're going to see some -- probably some reinvigorated categories, things like smart home, where there -- it's actually just going to get a lot smarter. There's a lot more use cases that you're going to see for consumers.

And then ultimately, I think there's the question of what I would call always-on AI support. So what is right now open AI, connected TVs, talk about air pods with cameras, kind of this idea of how do all these platforms start to show up actually in hardware and our experiences. And our goal is, and this is our sweet spot, as this technology comes to life, we want to be that key partner for our vendors to really help explain it to customers.

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**Operator**

Michael Lasser, UBS Financial.

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**Michael Lasser - UBS Financial - Analyst**

Do you think you've appropriately embedded enough margin flexibility in your guidance in order to compete effectively in the year ahead? It seems like the industry just gets a little bit more competitive each day and 30 basis points of gross margin expansion may not be sufficient in order to drive the top line?

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**Matthew M. Bilunas - Best Buy Co Inc - Chief Financial and Strategy Officer**

Yes. I mean, I think we'll obviously navigate the year as we know more, Michael. I think a couple of points. Our space is always very competitive. If you think about just FY26, it was already a very promotional year, and on top of a high promotional year, we had a sales mix impact on the margin rates as well.

I think as you think about next year, we're certainly not expecting to not be promotional, probably a similar level of promotionality, but maybe in some quarters a little less sales mix pressure potentially, so which helps mitigate some of the potential product margin rates that might come with memory cost adjustments.

So we'll clearly navigate as best we can. But I think right now, we feel like we've appropriately built in the product rate pressure that we need to be competitive.

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

Two things I would add, Michael. We've made it very clear that we want to position ourselves to make sure we are driving particularly unit share. And I can see that happening for us as we come out of Q4. So you can imagine, we're trying to build enough flexibility to be able to do that. Matt also hit on it in his prepared remarks, I did as well.

This is where Ads and Marketplace are also very helpful to our model, especially on the gross profit side of things because this is the fuel we are looking for to continue to be able to reinvest in the base business. So you have to remember, it's all those things put together that shows up in that gross profit expectation.

**Michael Lasser** - *UBS Financial - Analyst*

Understood. And it seems like your message this morning is, listen, we expect 2026 to be a bit more challenging year because of these memory shortage challenges, but you'll navigate through it appropriately. Can you anchor the market to a longer-term expectation? Is 2026 just a transition year and the company can get back to positive same-store sales growth at the midpoint of whatever you would expect in the year after that? And what would be the key driver of that?

Because presumably, this memory shortages are going to persist for an extended period of time and the industry landscape is not going to get any easier.

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

If we take a step back, this is an industry that, let's call pre-COVID was, let's call it, flattish to up single digits, pretty consistently. And what that relied on was also a pretty consistent kind of replacement behavior by consumers and a consistent innovation arm from our vendor partners.

And as long as there was kind of the innovation and the replacement that really sustained a pretty decent growth trajectory for the industry and then our job is to continue to maintain our position, if not grow our share position in that industry, obviously, there's been lots of puts and takes over the last 6 years. Lots of pull forward.

Now what we're getting back into is an interesting situation. You called out some of that kind of mixed macro that we had also called out, whether it's the ongoing tariff situation or whether it's memory. On the flip side though, we also are starting to see more innovation and more, I'm going to call it, replacement behaviors, especially in computing and even mobile, than we've seen in some time.

So I think for our fiscal '27, calendar '26, what we're trying to do is put all of that together and say for the coming year, here's what we see. And you're right, some of that may persist. But the good news is there is also some of that innovation, some of that replacement behavior that is an interesting countervailing wind to some of the mixed macro impacts that we talked about.

So I still believe over time, over the longer term, this is a great industry where, certainly, the world's biggest companies are innovating to bring incredible new products to market, especially with AI coming to life the way that it is. I think it's just how do you navigate some of the challenges we see in front of us.

And the last thing that I would say is, this is a team that has proven they're quite good at navigating in partnership with the vendors, if you just think about the year we went through. So I have a lot of confidence in our ability to do that.

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**Matthew M. Bilunas** - *Best Buy Co Inc - Chief Financial and Strategy Officer*

The only thing I'd add would be on the guide for next year, clearly at the high end of our guide, we are factoring some level of memory cost impacting units, but we also potentially get the benefit on the ASP side too. So that ASP could potentially mitigate some of the unit declines on the high end of any sort of outcome.

And the low end, obviously, there could be a situation where you have more constraints just broadly within the computing industry that it could bring to the bottom of the guide. I'd also say during the last couple of years, we've seen that we have price points across computing in all of our areas. So to the extent that there are cost increases, what we've learned is that people come in with a budget, they look to buy a certain product, we always have something in a range of products that customer wants.

And so we're seeing some of that mitigate the potential impact of cost increases. We've just proven that over the last couple of years with the tariff situation.

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**Operator**

Brian Nagel, Oppenheimer.

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

So my first question, I guess, shorter term in nature, just as we look at fiscal Q1, and I guess I want to make sure I heard this correctly, so you said your comps were down 1% in February, but you're planning for a plus 1% for the full fiscal quarter. I guess what underpins that expected acceleration here through the balance of the quarter?

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**Matthew M. Bilunas - Best Buy Co Inc - Chief Financial and Strategy Officer**

We are expecting the full year -- the full quarter to be about a 1% comp for Q1. We -- in the quarter, we expect to see continued growth in computing and gaming and mobile phones. We also expect to see improved trends within the TV based on the vendor pads that we've added and the specialty labor and just making sure we're priced in the right spot.

From a phasing perspective, like I said, we are seeing February down approximately 1%. There are a few unique things that impact the monthly phasing. First, we are -- as Corie talked about in the prepared remarks, we are expecting the benefit of tax refund spending.

More of that is weighted towards the month of March and April for us than it is February. Secondly, there are actually a couple of more material phone launches, timing shift from the beginning of February to the beginning of March.

Those actually have a pretty significant impact to a certain month's comp. So that phasing accounts for a lot of that start to the quarter. And we expect other more important launches that kind of hit in the back half of the quarter as well. So that really kind of accounts for the majority of the phasing between February, March and April.

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

That's very helpful. I appreciate it. Then my second question, I think you mentioned tariffs in response to Michael's questions previously, but I guess I just want to hit harder on tariffs. So where are we right now as far as dealing with tariffs, mitigation efforts? I mean, how does anything with tariffs and what Best Buy is doing to deal with them a factor impact the guidance you laid out for -- now for the current fiscal year?

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

Yes, Brian, thanks for the question. I'm just going to start with it, and I always start this way, but I think it's important. Our number one focus is always our customers and meeting their budgets wherever they are. And our approach has then been to deliver the right assortment to match the customer needs and the budgets while we partner with our vendors to make sure that there's a good outcome for all of us. And I have to say I'm really proud of the way the team has been navigating.

I think right now where we are, the recent Supreme Court ruling led to a lower effective tariff rate for our products at this point. And at this point, we haven't modeled major impacts to our year based on that. I think there's still a lot of moving pieces and there's still a lot to be figured out.

But I think what's important here, and you can see it even in our results, we gave a lot of the reasons why our industry is a bit different. And things like this is a really highly promotional category, it's relatively low frequency, so it's not like you're comparing prices week on week on week.

It's an always-changing assortment with different components and features. Innovation tends to drive price points up, while older price points kind of decline. These are global supply chains, so vendors are making decisions across the entire globe. And we have this immense depth of product at all the different price points. So whatever your budget is, when you come in, we're going to have something for you.

And so while there's been lots of moving pieces, at the total company level, we aren't seeing -- our ASP has actually been relatively flat, is what we saw in Q4. And so I think that what that leans into is customers are able to find what matches their budget, and we continue to work with our vendor partners to do that.

So we know there will continue to be some changes in this space, but I think the team has done a really nice job working with our vendor partners to make sure we show up for our customers.

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**Operator**

Steven Zaccone, Citigroup.

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**Steven Zaccone - Citibank Cameroon SA (Douala Branch) - Analyst**

First one I wanted to ask was just, how should we think about the same-store sales cadence for the year? Would we expect every quarter to kind of be within the range? And then you gave the commentary on the memory impact, which is very helpful. Is there a cadence to be mindful of when it comes to ASPs and unit volumes just given the disruption?

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**Matthew M. Bilunas - Best Buy Co Inc - Chief Financial and Strategy Officer**

Yes. I think broadly, if I look at the year, we're clearly talking about a 1% comp for Q1. We clearly haven't guided the rest of the quarters. But if you think about where maybe the more opportunity for us on the comp is probably in Q1 and Q4. Some of our stronger quarters last year were in Q2 and Q3.

So that might be a space where you might see a little bit of -- a little bit lower comp than maybe Q1 and Q4 as we're looking at it today.

I think in terms of the memory, I think we already started to see some costs, some prices go up because of the memory in some small parts of categories. So it has begun a little bit. I would imagine that continues to kind of roll through as we move into the future into the upcoming quarters. Hard to say exactly at what pace does it change ASPs, but we are seeing signs that some spots are actually starting to increase.

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**Steven Zaccone - Citibank Cameroon SA (Douala Branch) - Analyst**

Okay. The follow-up I had was you gave a lot of detail on the Marketplace and Best Buy Ads, thanks for that. As we think about the opportunity for contribution to EBIT margin and next year and the out year, can this be a material driver that the business can get back closer to a 5% operating margin in time?

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**Matthew M. Bilunas - Best Buy Co Inc - Chief Financial and Strategy Officer**

Yes. I mean I think as we think about past this year, clearly, we believe strongly in these two initiatives, and we're talking about how this year is still an investment year for both of those two different areas. But they are scaling pretty materially and they are beginning to -- you're seeing signs of it adding to the gross profit rate. It's just taking a bit of SG&A investment this last year and in FY27 to kind of build into different new areas to scale it.

As we look beyond this year, we do expect both of them to not only add operating dollars to the bottom line, but also help us generate a better rate as we look forward. Now exactly how much and when we get to that type of OI rate in total, can't really say at this point.

But we do believe it will be a great contributor to our ability to expand our operating rate in the future. And we will keep -- stay focused on just on scaling those two things in the right responsible way and continue to invest as we see fit to unlock that growth in the future years.

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**Operator**

Steve Forbes, Guggenheim.

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**Steve Forbes - Guggenheim - Analyst**

Corie, Matt, maybe just following up on Michael's comment from before. You mentioned the average sales price flat, I think, in 2025. And then you also talked about configuration changes in conjunction with the vendors to meet certain price points. I don't know if maybe you can just baseline the outlook for average sales price for the company as a whole in 2026, and if you can maybe just talk about computing, in particular, as we marry together all these elasticity concerns.

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

Steven, I wish I had the perfect organic forecast for you. To be clear, ASPs were flat in Q4. They actually were kind of down a bit, and some of the other quarters up a bit, but that was a Q4 quote. In terms of what we see going forward, we're not going to guide based on organics because, again, the goal here is have as many different price point opportunities available for the customer.

That's true across our assortment, whether it's television, back to the earlier question, where we continue to play really strongly in large screen, whether that is computing, whether that's mobile phones. The goal here is to have as many price points as possible and then have customers opt into what they want.

So it's not even as easy as, all right, if all the SKUs go up x percent. That's probably not how it's going to work. Because the customer might come in with a budget, and they're not going to look at a certain SKU. They're just going to look at how do I fulfill that budget. And so what we're focused on is less about exactly how much does the ASP per item go up.

What we're focused on is how do we work with the vendor partners to make sure we have as many different price point items available with the right and best configurations possible, so people can opt into what's most important to them.

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**Steve Forbes - Guggenheim - Analyst**

That's helpful clarity. And then just I guess a second question around vendor support. You mentioned vendor-sponsored labor hours up, I believe, 20%. And I think there's some concerns out there around just promotional support. So I don't know if we can just talk about the various sort of components of vendor support and if there's any factors where you anticipate change, promotional support maybe being one of focus for investors.

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

Yes. So thanks for the question. There's a couple of things. Our vendors continue to make more investments in Best Buy. That's in physical experiences in our stores.

There was a long list of vendors that continue to contribute and want to grow that presence. There's also been a significant uptick in the amount of vendor labor that's supported, and that doesn't even include the training that they do throughout the year with our labor in total.

From a promotionality perspective, we're not seeing a dramatic change there. I think there is one adjustment that you see naturally happen, and you are probably seeing it in computing first, which is price increases are not the first thing that happens.

The first thing that happens is promotions are pulled back a little bit. And that's not that there's less of an impact or less of a funding of promotions, that is that there is less promotions. And in computing, you've actually seen less pure cost increases and more of a general slight pullback in promotions from computing vendors, which is the first thing they'll do under this memory situation.

The second thing is that the cost changes will come through. That's really the only area where we've seen any difference. And it's not a difference in level of support to Best Buy. It's actually an industry difference in level of promotional aggressiveness in a particular category.

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**Matthew M. Bilunas** - *Best Buy Co Inc - Chief Financial and Strategy Officer*

And just to be clear, the 20% reference was 20% growth in labor last -- in the second part of last year. We would expect vendor-provided labor to grow this year as well, but that 20% reference was specific to the -- a half of last year.

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**Operator**

Simeon Gutman, Morgan Stanley.

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**Simeon Gutman** - *Morgan Stanley - Analyst*

I'm going to ask two questions in one. So first, the positive comp trends in the first quarter, can you talk about the complexion? Is there any difference from the way the year ended? And then if you can merge that into thinking about the comp outlook for fiscal '27 in totality.

And then Matt, I know you mentioned promotionality when we saw you in December, you talked about reserving the right to be more promotional, if needed be. So can you talk about how that tone progressed through Q4 and then the position you enter -- or fiscal '27 with?

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**Matthew M. Bilunas** - *Best Buy Co Inc - Chief Financial and Strategy Officer*

Sure. Yes. So as we enter Q1, we do expect Q1 to see growth in areas. They're pretty consistent with what we had been seeing in places like computing and gaming. We haven't quite lapped the Switch launch in Q2 of last year.

Mobile phones, we'd expect it to be a growth area for us as we look here into Q1. We do expect improved TV trends. That would be something that we would carry through the remainder of the year as well. And then like I said, we have some easy timing shifts between the months here in Q1 between some of the mobile phone launches and other product launches.

So those carry, as you get into the latter part of the year, continue to expect computing to grow at high end of that guide. At the low end, we'd assume a level of constraints that we can't foresee at the moment. But that's supported by a continued end of support for Windows 10 and improved use cases for AI and general replacement cycle continued need.

The growth in mobile phones will continue to be fueled this year through the new carrier labor models and system enhancements that we have implemented last year.

Interestingly, as you look into this year too, there are a lot of newer emerging categories that we've talked about, like AI glasses, 3D printers, collectibles, toys, health rings. Those are all small individually, but collectively, they're about -- they're even more -- they're about 0.5 point or more of our growth next year. That will add up to something that's very nice that can support our business. And like I said, improved TV trends as the year progresses.

Like Corie mentioned earlier, we haven't contemplated any changes related to the tariff moves that we've had. But I think, again, building on continued momentum, the other thing I'd note is gaming, we should expect to see gaming growth in Q1.

We do expect GTA in the back half of the year to help us in the back half. We will be lapping that switch launch in the mid part of the year, so you we'd see a little bit of a difference in sequenced growth there for the gaming category.

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

As it relates to promotionality, we've been pretty clear and pretty consistent. Customers have been drawn to key value events. And what we have also been clear about is we will lean into those places in partnership with our vendors and make sure that we are competitive.

And so I think to Matt's point, when you heard it last, we know that these key moments, whether it's holiday, whether it's fourth of July, whether it's Super Bowl, those are the moments where customers are really in the Marketplace, and we are going to lean into those. But we have lots of tools also in our arsenal to lean into those.

We've done a nice job really working hard on our more strategically personalized promotional levers as we can see signals now that we use to try to reengage customers back into the brand. Those have been very effective. And so I think what we're trying to do is make sure that when the customers in the Marketplace for a good value, we are there and we are competitive, and we are using other tools like trade-in and refurbish product and outlets and financing, to make sure that we have the very best values there for them. And it seems to be resonating.

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**Operator**

Zachary Fadem, Wells Fargo.

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**Zachary Fadem** - *Wells Fargo Securities LLC - Analyst*

So with the SG&A moving parts around vendor labor as well as investments, could you update us on your leverage point in 2027? And then as the investment cadence dials back in 2028, how does that impact your leverage point and incremental margins going forward?

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**Matthew M. Bilunas** - *Best Buy Co Inc - Chief Financial and Strategy Officer*

Yes. I mean I think what you've seen us be able to do as sales, broadly speaking, move from positive to negative, we've been able to adjust our SG&A in a responsible way to kind of mitigate the impact of OI rate, continue to lever on a relatively big fixed cost base that we have. And so you see us in those situations, we responsibly, we'll always measure and look at customer experience to make sure we're not doing anything that's damaging.

But we'll scale that -- first thing is scales back as incentive compensation as you move down on the scale of sales performance and OI performance, you remove a level of incentive compensation within the year, and that is certainly represented in our guide. So at the bottom end of our guide, we'll probably remove about \$100 million of incentive compensation at the minus 1% sales guide.

We also will responsibly move down in terms of store labor and marketing and other variable expenses to make sure that we're putting in the right of SG&A to support the sales outlook that we see. So those are a couple of examples. And then you see other changes to supply chain costs. If dotcom comes up and down, you can -- it can impact your parcel costs and bad debt expense.

So there are things that just naturally flex down and then there are things that you just responsibly move down because you're trying to match what you see in terms of demand.

And you've seen that for us, be able to manage our sales when sales do go down in a pretty responsible way to deliver an operating income outcome that is actually as good, in many cases, as what it would have been at higher net sales.

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**Zachary Fadem** - *Wells Fargo Securities LLC - Analyst*

Got it. And then on the appliance category, you've had some challenges there. Curious, any thoughts on the game plan for fiscal '27 to return to share gain? And how should we think about the glide path towards returning to positive comps?

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

Yes. Thank you for the question. Appliances continues to be a tough environment. Obviously, home sales and remodels are down, so the vast majority of the market, it continues to be duressed, and replacement is something that has broken. It also has been very promotional, not necessarily promotional that's led to an increase in business.

So we're watching very carefully with our vendor partners around what promotions are actually doing to drive the business in total. Because the market is shifting to more the duressed and has been duressed for a very high percentage, we are focused on a couple of things. Investments from our vendor partners in more specialty-specific labor to appliances, which we think will be helpful in investing in that experience.

Investing in the ability for customers to take an appliance with them if they'd like to do that, which is something that customers are showing more interest in doing in particular stores.

And then we're really, really focused on delivery speed because it is around something broke, I need to have it replaced in a relatively short amount of time, and making sure we have that core set of SKUs that customers are able to get as quickly as possible and we're able to actually get it to them as fast, if not faster, than what our competitors.

And those are really the areas that the teams are focused on as we move into next year just based on where the market is. And then when it flips, obviously, we will be very focused on the other part of the market, which is more experience-driven, more bundle more upgrading. But we'll make sure that we serve both those segments of customers and be very, very focused in the first part of the year on that speed component.

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**Operator**

Jonathan Mateuszewski, Jefferies.

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**Jonathan Mateuszewski** - *Jefferies - Analyst*

Great. Matt, two questions. First one, you're in top-to-top meetings with vendors frequently. Do your supplier conversations your plans to slow the pace of innovation and product launches in '26 given the memory chip shortage distraction?

And my second question, there's conjecture that recent computing and smartphone category performance could be aided by a pull forward in demand with consumer awareness of potentially higher prices ahead. Are you seeing any evidence that would support a thesis of pull forward?

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

Great questions. On the first one, we're seeing nothing from our vendor partners that would slow down innovation. In fact, when you have something, like we have in front of us with memory, there's actually a large push to try to find other things that are very valuable from a feature and benefit perspective to customers that will actually continue to drive the growth in the individual category.

So looking at actually other parts of technology and computing, it could be size of screen, quality of screen, some of the AI features, but really other things that will drive interest into the category and make up for some of the pressure that we're going to see from a memory perspective in total. So there is absolutely nothing that would indicate that.

And then as far as the pull forward, where possible, we will pull in inventory. But from a demand perspective, we've actually seen continued stability in growth. We talked about computing. We've grown for the last 8 quarters, and in mobile phones, we've grown for the last four quarters.

There's not anything that's indicating that customers are actually trying to pull forward. It's actually just continued demand in two categories that we're actually seeing customers want to upgrade.

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

There's one more thing that I would want to add to that before closing the call, and that is the concept of rising memory or component costs or shortages is not something that's new to the industry. It is something that we have dealt with in peaks many times over the last 25 years.

And so to reinforce some of what Jason said, our vendor partners are really excellent at pivoting and thinking differently. And by the way, there's no vendor partner out there that doesn't want to also drive consumer demand and continue to make sure their products are front-end leading.

And so this isn't a brand-new space. It's just one more, I think, set of features that we need to work through with our vendor partners. And with that, I think that was our last question. We thank you for joining us this morning, and we look forward to updating you on our results and our progress on our next call in May. Thanks, everyone.

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**Operator**

Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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