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BBY.N - Q1 2027 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 first quarter fiscal 2027 earnings 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 over to Mollie O'Brien, Head of Investor Relations. Mollie, please go ahead.

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

Thank you. And good morning, everyone. Joining me on the call today are Corie Barry, our CEO; Matt Bilunas, our 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.

Before turning the call over to Corie, I want to note the revenue reclassification referenced within this morning's release. Starting this quarter, we have reclassified certain revenue among our categories. The most notable changes were credit card revenue and digital content which includes digital gaming, software, and subscription. Previously, these items were included within our various product revenue categories, and now they are fully included within the services category.

The reclassification only impacts the presentation of revenue by category and does not affect total revenue or total comparable sales as previously reported, nor does it affect our previously reported earnings or cash flow. The information and related schedules were in our 8-K filing this morning and are also available on our Investor Relations website.

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 pleased to report better-than-expected results for the first quarter. Our comparable sales grew 2% versus last year, higher than our outlook with positive comps across the majority of our major product categories. We also drove operating income rate expansion and earnings per share growth. Specifically on revenue of $8.9 billion, we delivered an adjusted operating income rate of 4.1% and adjusted diluted earnings per share of $1.28, which was up 11% versus last year.

I want to give a big thank you to our employees across the company for their dedication to our customers and commitment to our strategy. We are delivering on our strategy to strengthen 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.

Our Best Buy ads and marketplace initiatives exceeded their performance targets. We are pleased with our progress, and both delivered another quarter of positive contribution to gross profit rate. Our domestic marketplace GMV reached approximately $250 million in the first quarter. In fact, when including our marketplace GMV, our domestic sales growth for the quarter was more than 4%.

From a category perspective, we delivered stronger-than-expected sales performance in the gaming category across the three major consoles. Switch 2, PS5, and Xbox. This gaming growth was supported by demand for popular software titles like Pokemon Pocopia. We also saw strong growth in newer and emerging categories including AI glasses, 3D printers, collectibles like trading cards, health rings, and PC gaming handhelds. Sales for this group of categories doubled versus last year.

In computing, we delivered our ninth consecutive quarter of positive comparable sales, driven by a combination of customer need to upgrade and replace and product innovation. Our Q1 computing sales were also supported by strong performance from our Best Buy business team, which grew 15% overall, and their education, corporate, and healthcare clients.

In mobile phones, we delivered our fifth consecutive quarter of growth, driven by our expanded partnerships and in-store operating model improvements with large carriers. In addition, we saw better than expected customer reaction to new phone launches in the quarter.

In the home theater category, we showed a material improvement in TV growth trends in the first quarter. While sales were still down slightly versus last year, we saw growth in units and market share throughout the quarter. The improved performance was across tiers and price points. We believe the momentum in Q1 is a positive sign heading into Q2 with the industry-wide launch of RGB TVs, which we will touch on more later. We will also share plans in a moment to improve the performance of our appliances category, where Q1 sales continued to be pressured and declined versus last year.

Our online mix of domestic sales was steady at 32%. We continue to drive faster delivery for our customers. In Q1, 65% of online purchases were delivered or available for pickup within one day, up from approximately 60% last year. Our in-store pickup experience remains an important asset, with roughly 45% of online purchases picked up in a store. As expected, our sales growth increased as we progressed through the quarter, in part due to new product introductions and customers choosing to spend their higher tax refunds with us.

Our Q1 results did not materially change our existing thinking around the customer. Consistent with the past several quarters, we see a customer 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 are pleased with our first quarter performance and are maintaining our guidance for the year. This underscores the momentum in our business and provides multiple proof points of progress against the priorities that Jason will lay out shortly.

As it relates to Jason, I would like to talk about the CEO succession news we announced last month. After much thought, I made the decision that now is the right time to step aside for me, for Best Buy, and for the next generation of leaders. While this was a difficult decision to make, it is made easier knowing that the board, through an extensive succession planning process that looked inside and outside these walls, has found the right person to serve as our next CEO.

Jason will officially assume the role on November 1, and he and I are working side by side until then to transition not just seamlessly, but in a way that continues to drive progress. He is the right person with the right vision to further accelerate our strategic priorities and to do so with urgency.

I've had the privilege of seeing Jason grow from his role as a merchant to an executive leader whose industry expertise, vendor partnership and influence, maniacal customer focus, innovative thinking, history of driving strategic initiatives, and thoughtful decision-making will usher in an exciting and meaningful chapter at Best Buy. Most importantly, he shares my deep passion for this brand and our people and will work tirelessly to see it become even more successful.

I would now like to turn the call over to Jason to discuss his priorities and provide key business updates for Q2 and the rest of the year.

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

Good morning. I want to start by saying how honored and privileged I am to be taking on the CEO role later this year. I'm grateful to the Board of Directors for the trust, confidence, and encouragement they have shown me. To Corie, I extend my admiration and appreciation. We are so fortunate to have had you at the helm for the past seven years.

Best Buy has been a part of my life for almost 27 years. In that time, I've been lucky to work in many different areas of the business, from merchandising, e-commerce, and marketing to supply chain, Best Buy Ads, and in our Canada business. I want to take a few minutes to talk about where Best Buy is headed and the four priorities that will define how we win in the months and years ahead.

Before I get to them, it's important to acknowledge the world we live in. The retail landscape is shifting faster than at any point in our history. Customer expectations are evolving. Technology is reshaping how we shop, learn, and live.

Our competitors are not standing still. We do not see this as a threat to us. We see it as an invitation. When the world changes this quickly, the companies that move with intention, clarity, and unrelenting focus on the customer are the ones that come out stronger. That's exactly what we intend to do.

Our first priority, we are advancing Best Buy as a retail, media, advertising, and technology company. This signals where we're headed as a business. We're not just a retailer anymore. We're becoming a retailer, media, advertising, and technology company. Each of those words matters.

It means deepening how well we understand our customers, their needs, their interests, the pain points we can solve better than anybody else. It means continuing to accelerate Best Buy Ads as a meaningful growth engine. It's high margin, high growth, and uniquely powered by the customer understanding that only Best Buy has. It means expanding our presence across platforms, content, and high-value touchpoints.

The second priority, we're going to expand and grow our reach. Our marketplace and strategic partnerships are accelerating, including deeper work with our vendors and select retailers. We're opening Best Buy up to a broader assortment, a wider set of partners, and new ways for customers to find exactly what they need.

We'll continue to expand what we offer, not only through Marketplace but also in our 1P business, capitalizing on key customer trends such as trading cards and collectibles, and creating the experiences that drive relevancy and frequency with our customers. The goal isn't simply to explore new areas of business, but it's about using our unique insights about customers to become a major player in new and growing categories.

We will continue to partner with AI companies like OpenAI and Google to make sure we're showing up in the places where customers look for technology and advice. These AI partnerships and others to come will enhance our experience, and by participating and showing up on those touchpoints, we reinforce the trust we've built and continue to build with our customers every day.

The third priority, we are elevating the Best Buy experience. This priority is truly foundational to our vision, nearly 60 years in the making. Without elevating the Best Buy experience, none of the other priorities can succeed. No matter how we evolve, we're committed to being competitive on price and delivering excellence across every customer experience.

Every decision, every process, every customer interaction should begin with one question: How does this make the customer experience better? It's about the unique mixture of human, physical, digital, and AI, and how we amplify it.

For example, our stores are evolving into activation and experience hubs. Places where customers come to discover, connect, and get their hands on technology in ways they simply can't anywhere else. They're vendor showrooms, service centers, fulfillment points, community spaces all in one.

As we mentioned last quarter, starting this summer, we are growing our store footprint through medium and small format locations. These aren't scaled down versions of what we already have. They are purpose-built formats designed for how customers actually shop today.

The medium format gives us flexibility to enter markets and trade areas where full-sized stores don't fit the opportunity, but where customer demand is real and growing. These are in the 20,000 to 25,000 square feet range. The small format lets us get closer to the customer in dense urban neighborhoods, suburban centers, and communities that have been underserved. These are in the range of 12,000 to 15,000 square feet.

Both formats are built around speed, curated assortment, expert service, and a seamless connection to our broader fulfillment network. This is a major step forward because it expands our reach without compromising our experience. It gets us closer to more customers more often.

When we place a store closer to a customer, not only does it see our sales and share lift in that market, but it also sees a notable online growth and material lift in our multi-channel engagement within the first six months. Proximity also expands our fulfillment footprint, enabling faster small parcel ship-to-home delivery while broadening the reach of our large product delivery and installation services. We will highlight some of these locations later this summer, and we're confident this will lead to additional store growth.

Beyond the footprint itself, we'll be continuing to build differentiated value through our services, our membership, and our fulfillment capabilities, and also the upgrades we offer. We're going to move faster because customer behavior is changing quickly and so will we.

The fourth priority, we're continuing to be a human-powered and customer-focused company. At Best Buy, our shared company values reinforce our commitment and determination. Our people fuel this company. They're the reasons customers come back, the reasons our partners trust us, and the reason we've been able to navigate every shift this industry has thrown at us.

Looking forward, we are committed to ongoing investment in our people while embracing technology, including artificial intelligence, that will empower our people to deliver even more remarkable experiences for our customers.

Bringing it all together, these four priorities aren't separate tracks. They reinforce each other. A better experience delivered through the right footprint and formats drives reach. Greater reach generates the customer insights that fuel our media and technology business, and all of it is powered by our people, equipped with the best training and technology in the industry and doing what only Best Buy can do. I've never been more confident in where we're headed, in the team that's going to take us there, or in our ability to deliver value for our customers, our partners, and our shareholders.

Now I'd like to share some key business updates for Q2 and the rest of the year. As Corie mentioned, we saw improved TV sales trends in Q1 and are excited to continue that momentum in Q2 and the rest of the year with the RGB launch. While some RGB televisions are already on display in our stores and online, we expect the full assortment to launch mid-June. For the next year, Best Buy will be the only national retailer where you can shop, experience, and buy this new technology.

RGB provides accurate, full, lifelike color never before possible, sharper image clarity for more detailed images, and peak brightness for enhanced contrast and dynamic range. It also provides wide-angle viewing with consistent picture quality and color from any seat in the room.

The launch of RGB will be supported by a robust marketing plan aimed at driving awareness of this new technology. Launching next month, our campaign is called Believing is Seeing. The message will also highlight our easy upgrade process, which includes free Geek Squad delivery, installation, and haul away of a customer's old TV.

In partnership with our vendors, we've been training tens of thousands of store associates on this new technology. This, in combination with an elevated marketing across stores, TV, digital, social media, influencers, brings an increased level of energy and excitement to the whole category.

Moving to appliances. Our sales in this category have been pressured for quite some time due to the stagnant housing market and a very competitive retail environment. We've been testing several initiatives and are taking decisive actions in Q2 that we expect to drive improved results. These include investments in pricing, marketing, product availability, and delivery speed.

We've already seen material improvement in our trends this quarter with month-to-date growth and demand versus last year. Later this quarter, we also expect to implement material improvements in our digital sales experience for major appliances online.

Earlier, I mentioned opening new small format and medium-sized stores. In our larger stores, we continue to improve the look and feel by using our space and square footage more strategically. Specifically, we're consolidating empty space in approximately 70 stores and then using those new open spaces for value generation initiatives.

In 50 stores over the next two quarters, these open spaces will be filled with a new Meta experience that spans their AI glasses and VR categories. Branded Meta at Best Buy, these 900 square foot areas will be staffed by employees specialized and dedicated to the Meta experience.

In the other 20 stores, depending on location, we are leveraging the space for our Yardbird outdoor furniture shop or our outlet assortment. We are excited about this strategy and have hundreds of stores where this can be employed over the next few years.

Last month, we announced an exciting development in our membership program. Starting next week, we are introducing rewards points for 8 million paid members. Our My Best Buy Plus and My Best Buy Total members will earn 1% back in rewards on every eligible purchase and 6% back in rewards when they use their My Best Buy credit card. Points will provide customers with an always-on benefit for their Best Buy purchases, including Marketplace.

The rewards points will be in addition to the many popular benefits our paid members already receive today, including fast and free shipping, extended product return windows, exclusive prices, and for our Total members, product protection and 24/7 support. No membership program is static. And it's always been our intent to iterate and improve the program as we learn more from our members.

Before turning the call over to Matt, I will touch on how we are navigating the impacts of memory cost increases, which mostly impacts our computing category. As expected, product costs have been increasing. And product price increases have been flowing into our assortment.

In Q1, our blended computing ASP was flat to last year, largely as a result of product mix and the staggered implementation of these product price increases. As we look into Q2 and the rest of the year, we expect our blended ASP in computing to rise, and we expect some elasticity to lead to lower units. However, we expect the magnitude to be significantly muted due to our assortment strategy.

Most customers come to us with a budget, and through our broad assortment of products and price points, find a great product within that budget. We've seen evidence of this with our customer behavior in the past situations, most recently in response to tariffs.

We have also made some strategic decisions to pull forward supply in certain areas to alleviate these impacts, as you can see from the growth in our inventory and our balance sheet in the first quarter. At this point, we do not see indications of material inventory supply constraints for the rest of FY27. This is a dynamic situation, and we will continue to partner closely with our vendors to mitigate impacts.

I will now turn the call over to Matt.

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

Good morning. Let me start with how our first quarter performance compared to the expectations we shared last quarter. Enterprise comparable sales increased 2%, which exceeded our guidance of approximately 1%. Our adjusted operating income rate of 4.1% was better than planned and was primarily driven by SG&A leverage from higher revenue.

I will now talk about our first quarter results versus last year. Enterprise revenue of $8.9 billion increased 1.9% versus last year. Our adjusted operating income rate increased 30 basis points compared to last year, and our adjusted diluted earnings per share increased 11% to $1.28.

By month, our enterprise comparable sales were down approximately 1% in February, before growing to 3% in March and 4% in April.

In our domestic segment, revenue increased 1.5% to $8.2 billion, driven by comparable sales growth of 1.8%.

From a category standpoint, the largest contributors to the comparable sales growth were gaming, computing, mobile phones, and services, which were partially offset by a decline in appliances. Our online revenue of $2.6 billion increased 1.4% on a comparable basis and represented 32% of our domestic revenue.

From an organic standpoint, the blended average sales price of our products was once again very similar to last year, with an increase of less than 1%.

International revenue of $687 million increased 7% versus last year. The revenue increase was primarily driven by comparable sales growth of 4.7% and the favorable impact of foreign exchange rates.

Our domestic gross profit rate increased 20 basis points to 23.7%, driven by Marketplace and Best Buy Ads growth and improved performance from our traditional services offerings. These items were largely offset by lower product margin rates.

Our international gross profit rate decreased 50 basis points to 21.5%, primarily due to lower product margin rates.

Moving to SG&A, where our domestic adjusted SG&A increased $17 million. This was primarily driven by higher expenses related to Marketplace and Best Buy Ads and the lapping of a favorable indirect tax settlement. The previous items were partially offset by lower Best Buy Health expenses.

During the quarter, we returned a total of $202 million to shareholders through dividends. We have raised our quarterly dividend for 13 straight years and remain committed to being a premium dividend payer. We ended the quarter with our inventory balance up almost 8% and our accounts payable up almost 10% versus last year. The higher inventory balance primarily includes the pull forward of computing product.

Before moving to our guidance, I would like to touch on a key aspect of our financial model, which is driving efficiencies and identifying cost reductions. In order to invest in initiatives that we expect will bring long-term value and to offset pressures in our business, this longstanding business priority is crucial. In FY27, our key opportunity areas remain supply chain, customer care, reverse logistics, and the continued optimization of our Health business.

Now moving on to our full year fiscal '27 financial guidance, which remains unchanged and is the following. Revenue in the range of $41.2 billion to $42.1 billion. Comparable sales of down 1% to up 1%. An adjusted operating income rate of 4.3% to 4.4%. An 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.

Next, I will cover some of the key working assumptions that support our guidance. On the top line, as we mentioned last quarter, we expect growth in a number of categories such as computing, mobile phones, and the collection of our newer emerging categories that Corie listed earlier.

We expect our gross profit rate to improve by approximately 30 basis points, driven by growth from Best Buy Ads in our US Marketplace. As we mentioned last quarter, we expect ad collections to grow 10% to nearly $1 billion. We expect the US Marketplace GMV to be at least $1.2 billion for the year. We continue to expect our traditional services, and membership offerings will be neutral to our gross profit rate this year versus last year.

Now, moving to our 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 of $30 million at the high end of our guide.

Store payroll expenses are expected to increase 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 second quarter. Comparable sales have started strong in May, with a month-to-date growth of up high single digits. Our comparable sales outlook for the full quarter is approximately 1% growth as we start to lap last year's very successful gaming launch in June. We expect our Q2 operating income rate to be approximately 3.9%, which is flat to last year.

I will now turn the call over to Corie for summary comments before the Q&A session.

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

Thank you, Matt. I'm proud that after several years of sales volatility during and after the pandemic, innovation is accelerating, and our business has returned to more stable performance over the last six quarters.

In addition, we are driving momentum based on the investments we have been making in our customer experiences and in our initiatives to drive incremental profit streams. Our Marketplace is driving unit share gains, our Best Buy Ads is accelerating, and we are driving growth through our ability to uniquely commercialize new technology and serve our customers as they upgrade and replace their tech, no matter their budget.

In this moment of acceleration, I believe Jason is the right leader, and now is the right time for us to lean into our next chapter.

And now operator, we would like to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Peter Keith, Piper Sandler.

Peter Keith - *Piper Jaffray Inc - Analyst*

Corie, wish you nothing but the best, and Jason, look forward to working with you going forward here. I thought maybe just focus first on the home theater category. You did cite some pretty nice improvement during the quarter. I wonder if you could talk about what drove that in Q1.

And then to clarify on the RGB TV technology that I think you said you have exclusive distribution rights on a national basis for the next year. Does that imply until May 2027?

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

Yes. Thank you for the question, Peter. I think first I'll start with the TV performance. We saw a strong Q1 that obviously was a change in our trend. We do believe we've gained share with that improved trend. And we saw strength across many different parts of the business. There was a situation where ASPs did decline pretty substantially. So we're making sure we're competitive across all the different price points that customers are interested in.

The RGB launch, we're extremely excited about. Again, there are products that are on our website and in our stores right now, but it'll more materially be fully launched as we get to the middle of June. You are right, we do have an opportunity where we're the only national retailer that has this product. And that is a timeframe that's a year, which it actually depends on exactly when the launch date was so between May and June timeframe, depending on the vendor.

But then there's also continued conversations of this is about making sure we represent the latest and greatest in a way that our vendors want us to highlight that technology. That's exactly what we intend to do, not only through what we do in store and online, but also through marketing and training and partnership with our vendors. And we'll continue to have conversations about how to make sure that that technology gets represented in places like Best Buy on a basis that's maybe more exclusive moving forward as well.

Peter Keith - *Piper Jaffray Inc - Analyst*

Okay. Great. That's encouraging. And then maybe another product category that might pique my attention on appliances, which has been our pressure for a while, I think you said a flip positive in May. Wondering if you could highlight what's working there. We continue to hear that we're just in a direct replacement market. So you're able to shift to faster delivery. What's driving that improvement in appliances and that's something that can continue to comp positive in Q2?

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

Yes. Thanks again for that question. I think there's a lot of things that are driving appliance, which is maybe why it's taken us a little bit longer to be able to fix this particular trend. There's a lot of aspects of that business that are required to make sure we're competitive, and every customer is a little bit different. In a market that is more duress and speed does matter, the delivery speed in particular and availability is a critical aspect. When you mix that with making sure customers understand that through marketing messages, as well as making sure we're competitive on price, that combination seems to be working pretty effectively in what the team's done in May, really around the Memorial Day holiday kind of buying season, so to speak.

So we want to continue to learn from the positive trends that we're seeing in May and figure out how we can continue to refine that, double down on that, make sure that the availability and delivery speeds are top of mind because we've seen that as being probably the -- it's all of it in combination, but those are probably the two biggest things as we move forward into additional holidays like July 4th.

Operator

Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Congratulations, Corie and best of luck in your next chapter, and looking forward to working with you, Jason. So my first question is, can you talk about the drivers of the May strength? You talked about major appliances improving, but what other categories are accelerating relative to 1Q? Did TV turn up? Is computing accelerating as well?

And how does this make you think about the Switch 2 lap? Because if you look at the monthlies and look at the stacks or CAGRs, you had this sharp acceleration in May, and you're really decelerating that hard to get down to the 1%. So what informs that overall judgment?

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

Thanks, Chris. Yeah, we expect Q2 to be approximately 1% in comps for the full quarter. Like we said, month to date through Memorial Day, we're sitting at high single digits. And that's actually coming across most of our categories. So we're seeing continued growth in computing, mobile phones, the collection of a number of emerging categories.

And to your question, we are continuing to see sales trend improved. And as we talked about, major appliances has turned to growth in the month of May so far. So we do see it across a lot of categories.

But to your point, as we get into June, we are going to start lapping the Switch launch last year, which was roughly $200 million of sales in Q2. We'd also say in May, we continued to benefit a bit from the tax refunds so most of that benefit came in the month of March and April.

As you get into May, there's still, as we expected, a little bit more in May as well that sits within that May performance. But it's a pretty significant lap in June and July in terms of lapping that Switch 2 launch, which is a disproportionate amount of sales in one quarter of a launch that you would see on a normal run rate.

I'd also say as we get to the back half of the quarter into July, we started seeing really strong back-to-school and Win 10 type of product sales increases within the computing category last year. At the back end of this quarter, we started to see a little bit more lapping pressure against that computing category. We still feel like computing is going to grow and still feel great about the category, but the sequentials get a little tougher in that category as you get to the back half of the quarter.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

So my follow-up is, it seems like the US consumer has become really in tune with supply chains and prices, in this post-COVID world with the experience of shortages during COVID and big price increases. The question is, have you thought about any of the strength in May, given memory touches all of tech and this is something that's in the news cycle, that there's this urgency to buy and get ahead of potential shortages later in the year and potential price increases later in the year?

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

It's actually very interesting, Chris. In our research around the consumer, we are not seeing any indicators that would say the customer's pulling forward purchases. And in fact, very few really are worried about memory, as I say in air quotes. We've been keeping a really tight eye on this.

So I think, again, I said it, we continue to see very consistent customer behavior, which is a customer that's under a little more pressure, but still resilient, attracted to deals and sales moments, shopping within their budget, which is where our broad assortment really plays in our favor.

And while they're thoughtful about the big-ticket buys, they're absolutely willing to spend on those high price points when they need to or when the technology is compelling enough. So we just are not seeing in our data this pull forward behavior, which is great because it's just showing overarching strength and a propensity to want to spend those tax dollars with us.

Operator

Joe Feldman, Telsey Advisory Group.

Joseph Feldman - *Telsey Advisory Group LLC - Analyst*

Thank you for the color on the store format, and I was just wondering if you could share a little bit more there. Should we expect to see you guys maybe repositioning stores more, so more relocations or even closures of some of the older legacy stores to kind of shift into this newer format that you're talking about?

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

Thanks for the question. I think there's two parts here. The first part, which we covered, is we think that in our larger stores, there are opportunities to strategically use some of the space in more effective ways, which we highlighted a partnership with Meta in 50 locations, and we talked about things like Yardbird shops.

We do think there's hundreds of additional stores where we can use some of that space in a more effective way. The rest of what's in that store is actually highly effective. It's in the right location. The stores are in a great place. It's just we actually have a little bit of space that we can use more strategically.

The small and medium store is actually about expanding our reach and putting us in places that we're not today. So we're really excited about. We're going to actually highlight some of those locations as we move through the summer and some of them grand open, and then we'll talk in the future about what we think that strategy can be from a growth perspective. But it is not about replacing. It's really about reaching new markets and customers that we haven't been able to reach before with a store.

Joseph Feldman - *Telsey Advisory Group LLC - Analyst*

Got it. That's really helpful. Thank you. One more sort of separate question. I know you talked about the inventory pulling forward some of the goods. I guess, how should we think about inventory for the balance of the year? Should that growth rate that you have want to sort of slow down or match sales better? Or just any color you could share would be helpful.

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

Yeah. I think we'll continue to play it as strategically as possible. I mean the pull forward is almost entirely driven by the fact we want to bring in as much computing inventory earlier at lower cost as much as we can, and that's what's represented in the quarter and inventory balance. You can see our payables are actually up more than our inventory, so we're in a good working position.

As we get into Q3, there could be a continued level of elevated inventory, all really healthy inventory, but those are going to be places for us to be strategically well-placed in terms of the product we have, the cost profile that we like. Over time, for sure, our goal would be back to get down to inventory balances that is more in line with what's sitting in a four days of supply need for the quarter ahead of it.

So for sure, over time, we'll get there. Exactly at what point in Q3 or Q4, hard to say. As we've proven over the years, we're really tight at managing our inventory. We run our inventory a lot leaner than a lot of competitors do. Teams got their hands all over it. But yeah, this is a very strategic decision to make sure we have the right product at the right time, making sure we're taking advantage of the cost.

Operator

Anthony Chukumba, Loop Capital Markets.

Anthony Chukumba - *Loop Capital Markets LLC - Analyst*

Let me extend the same sentiments to Mollie and Jason. Sorry, to Corie and Jason. A lot of good information. I really appreciate all the color.

As you think about, once again, the fact that you got off to such a strong start in May. I know you've talked a little bit about this, but was it really just sort of like appliances and the end of, I guess, the sort of long tail of the larger income tax refunds, or was there anything else specifically that you saw in the month of May that drove that strength?

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

Yeah, I think, like I said earlier, we saw actually strength across most all of our categories. For sure, majors trends improved, TV trends continued to improve. But we saw continued sales improvement from computing in a lot of our other smaller categories. There was some, like we've talked about a little bit of, we believe, tax refund benefit that's sitting there in May. Proportionally a lot smaller than what we would have seen in March and April.

So there is some, but I wouldn't say that was the significant driver of the sales so far in May based on our estimation. But I think it was pretty broad-based. I think the Memorial Day sale has been successful for us. Again, that's across a lot of our businesses.

Anthony Chukumba - *Loop Capital Markets LLC - Analyst*

Got it. And then just one quick follow-up. So I thought it was interesting about 65% of your online orders either being delivered or available to pick up in a day and in fact, it was up 500 basis points year over year. Do you think that that's driving any sort of improvement in your online business, that higher availability? Or does that just kind of take the stakes at this point?

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

My point of view is that it's ongoing table stakes. I'm very proud of the improvements we're making. I think across retail, you're seeing improvements.

I think what's more important, Anthony, is our ability to deliver on the terms the customer wants. And constantly, I give the team a ton of credit for tweaking, not just is it available, but is it available in the way that I want? That's why we also include available for pickup, because with 45% of people still going to the stores to pick things up, that highlights that our customer wants to be in control with items that are often high price points, sometimes breakable, and obviously very valuable.

So the team's focus is just maniacally on, yes, if they want it within that day, let's make sure we have every mechanism to get it to them, but more importantly, let's just make sure we get it to them in the way that they want.

Operator

Greg Melich, Evercore ISI.

Gregory Melich - *Evercore Inc - Analyst*

First, Corie, thank you, and Jason, congrats. I wanted to dig a little deeper on rebates and tariffs. So last year, that went through a lot. I'm just curious, do you guys, have you applied for rebates? Do you expect to get any through the course of the year?

And perhaps more importantly, how are some of your vendors thinking about using any rebates or the suspension of IIFA to improve the value prop and sort of fight back against some of the AUR increases you talked about?

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

I'll start, then Jason can build. At the highest level, we've been crystal clear that throughout all of this discussion, our number one priority has been our customers. And our approach has been to deliver that right assortment to match the customer needs and budgets while we partner, to your point, with our vendors to make sure we navigate what's been really dynamic conditions. And I have to say, I'm incredibly proud of the way our teams have been successfully, over the better part of a year now, navigating tariffs.

Now, more explicitly to your question, we've said it before, we're the importer of record for only about 2% to 3% of what we sell. So that means on the refund topic, we are currently complying with the phase one of the refund process. But I think it's important to note, obviously, based on how much we import, our refunds are small in the context of our sales.

So to be crystal clear, our goal is that any recovery of duties we have will be used to deliver value back to our customers. That's really important to us. Of course, we also plan to work with our vendors over the next several months as this plays out.

And Jason, maybe you can add a little color.

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

Yeah. As Corie talked about, obviously, the vast majority will be flowing back to our vendors, and we're in conversations that as they want to deliver value back to our customers, especially customers that purchased in Best Buy locations and made that choice, we have a lot of tools, both not only in our physical store environment, but also through our digital channels to allow them to do that.

And if they decide that they want to invest back in giving customers value as well, we can be an outlet for that to happen very quickly and hope that a lot of them make that decision. But we'll talk about that in the future when they do.

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

The last thing that I would say is if you think about tariffs as a little bit of a corollary to the memory situation, obviously, we talked about making price adjustments as a last resort throughout the better part of the last year, but I think it's important to note while it impacted some parts of the assortment, it did not result in overall ASP increases at the blended enterprise level, which I think just underscores the point that we've been making that our customers come with a budget. We're going to have a wide range of price points and a wide range of availability, and we'll be there to meet the customer needs no matter what their budget is.

Gregory Melich - *Evercore Inc - Analyst*

Great. Thanks. A quick follow-up. In terms of the larger format stores, I understand the reallocation to the Meta labs and other things. Are we still planning on probably rationalizing a dozen of the larger stores a year? Or does that sort of level out at this point?

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

Yeah, I think we've got a pretty tight process around understanding the profitability of our stores. As it exists today, our large stores are still extremely profitable, cash flow positive. We like generally where a lot of them sit to the extent that we have a better location to move them to, we will certainly entertain that. And if they end up not meeting the economic hurdles, we will certainly make decisions to close them.

I think that the pace of those closures might be slow compared to where they've been in the past. In some cases, you want to close a store to open it up maybe in a stronger retail node in another part of the market. So we'll continue to make those decisions. We feel like the store is extremely valuable.

Convenience for our customers enables very quick delivery and fulfillment options for us. And so that experience is super important, and they're all very economically profitable for us. So feel good about that. We'll continue to refine that over time.

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

Greg, I think you even saw that in the fiscal year that we're in, where we actually said, for the first time in a very long time, we're going to have a net store additions this year, which reflects a bit of that slowdown in pace that Matt was referencing.

Operator

Mike Baker, D.A. Davidson.

Michael Baker - *DA Davidson & Co - Analyst*

First question on the memory topic. It sounds like customers come in for a budget. Maybe if costs go up, they trade down to a different machine. How does that impact margins? And then follow-up is, you don't expect any supply chain issues for 2027 this fiscal year, but what about next year as we think ahead?

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

I'll start, maybe Jason can jump in. I think from a margin perspective, we don't see it having a large impact to the margin rate overall. What's been actually a bit of pressure this year in terms of margin rates on the product margin rate side is more of the mix pressure in the early part of the year of not having lapped the gaming release last year, but also just making sure we're being sharp on promotions, particularly in the majors business and a little bit on some other categories. So that has more of the product margin pressure for the year versus the memory cost issue.

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

And as far as supply chain goes, I mentioned this is a dynamic situation. We have great partnerships with our vendors. For the rest of this fiscal year, we do not expect to have material product shortages in the category that's most affected, which is computing. We'll continue to watch it closely. Again, if that changes, we'll make sure to communicate it.

At this point in time, visibility through the end of the year, we feel like we're in good shape. What's going to happen in previous years, I think, is more people trying to make predictions, and we'll work closely with the vendors to try to figure that out as we move into next fiscal year.

Michael Baker - *DA Davidson & Co - Analyst*

Okay. Thanks for that. One more follow-up, if I could. On TVs, understanding it sounds like you're winning back some share, can you talk about the industry in general, what you've seen so far? Has there been a tax refund bump on that? Or are we finally hitting a replacement cycle, what, six years after everyone bought a new TV during COVID?

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

So I think there's a couple things. We think we gained market share in Q1, but obviously, our revenue was still not positive, so that would indicate that the industry didn't grow in Q1.

I think the second thing is we're excited about RGB and the ability for that to be an accelerator for the business. There has not been a material new display technology in television since 2013 with the launch of OLED. It's a long time, which was one of the reasons that we're so excited about it.

And then the other stat that I think is a really interesting one is in 2020, there were about 49 million televisions sold. The upgrade cycle is somewhere between five and seven years. So we're getting to that point where we have a lot of customers that have products that are ready to upgrade, and there's a new technology that's being introduced that can be accessible to a lot of customers.

So we're excited about where that business has the potential to go. Not that dissimilar to where computing was when we started this trend of nine straight quarters of growth. So I think we're getting into an upgrade cycle. We have new technology, which is where we excel. Those are all really good things, but the category didn't grow from an industry perspective in Q1. We're optimistic about Q2, but we'll see what happens.

Operator

Steven Zaccone, Citigroup.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Corie and Jason, congrats on the next step in both of your careers. I wanted to ask about some of the emerging categories. You mentioned they doubled versus last year. Trading cards was mentioned. It's kind of popular right now. Can you talk about the growth a bit more? Is this bringing in a different customer? Do you see this as a one-time lift or is this some categories that can continue to see growth over the balance of the year?

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

I think what's interesting about this is the breadth of things that we mentioned within this. So to slow down a little bit, we talked about AI glasses, 3D printers, collectibles, which is where the cards come in, health rings, and then we talked about PC gaming handhelds.

The reason I want to slow down on that is those are all very different use cases. They're very different customers. They definitely target the demo that wants to come in and shop with us and take in some of those experiences that Jason talked about.

And what we can see is across those, take cards as an example, definitely drives demand, drives footsteps, and that's a customer who we're seeing come back to us. And so in some cases, it's an incremental customer. In some cases, it's an incremental visit. In some cases, it's just something new that we didn't have before that adds some of that excitement to the stores. But across the board, this is becoming a pretty material growth driver for us.

And I think more importantly, represents some of what Jason talked about, which is bringing the excitement into the stores, using our space in different ways, lots of opportunities to highlight some of these fun products, especially to get better at maybe swapping some of these things in and out of the stores.

I don't know, Jason, if you have anything to add.

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

I think the other thing is we just want to stay close to where we see customer trends. I think cards and collectibles is, there's a lot of categories there that are growing, but cards and collectibles is an interesting one, and we're finding ways to use the uniqueness that we have with both great digital properties, but also a physical property to make sure that we can try to meet customer demand in a little bit different way.

It's one of the things that's driving lines in front of our stores. Many mornings when we have a drop, which many other retailers don't have the physical locations to be able to play in that area in a particular way, making sure that the customers who want to stand in line are able to get the particular cards that they're interested in.

So we're excited about it. Want to make sure that we continue to listen to our customers and then make adjustments to how it shows up, not only on our website, but also in our stores. And there may be opportunities where we can continue to expand that category as well, which is something the team's looking at and working on.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Great. Thanks for that detail. The follow-up I had was just, you mentioned ASP likely to go up and you expect some elasticity. Can you just help us understand the cadence of that as we go over the course of the year? Is this something that's more of an ASPs peak in the second half? Just help us understand that dynamic.

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

Yeah. I think, as it relates to computing, I think we expect the ASPs to grow as we get into the next few quarters. Exactly how much we're not guiding, but we would expect that based on the cost increases that we have seen and continue to expect to see as we get into Q2 and Q3.

But again, what it's meant so far for our whole company, the blended ASP has been pretty muted. It's been pretty flat. Does this rise the overall? Yet to be seen because a lot of things go into the overall ASP calculation in terms of the mix of products. So on the computing side, for sure, probably expect to see a little bit of ASP increase.

But I would reemphasize the point that consumers aren't all generally aware of the cost of some of these items because it's been so long for them to shop. They come in with a specific budget and purpose in mind. They don't necessarily trade on specs. They trade on the use cases and the devices. So we feel good about navigating that when it does come. We've seen some evidence of that as it relates to tariffs in terms of they come in for a budget, and we continue to drive strength in that category.

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

I would also add, I mean, you see it in our inventory growth. We're looking at ways to partner with vendors to mitigate this as much as possible. So predicting exactly which quarter the peak is going to happen. I mean we actually want to influence that.

So we brought in more inventory, you saw that in Q1, because we think it allows us to have that broader assortment and have those choices for our customers, and we'll continue to take that stance wherever it is beneficial to customers and the way that our assortment shows up.

Operator

Brian Nagel, Oppenheimer.

Brian Nagel - *Oppenheimer & Co Inc - Analyst*

So Jason and Corie, congrats on your new roles. I guess the first question I want to ask, I appreciate all the commentary on RGB. I guess more of a maybe a longer term, philosophical question. As you look at this launch, and I think you did in response to a prior question, you talked about the OLED launch more than 10 years ago.

The question I want to ask is, how significant could this be? From either the driver replacement demand or just improved demand overall. Then you mentioned the exclusivity that Best Buy's enjoying here for a year. Remind me, is that unique, or has Best Buy seen this type of dynamic in prior TV launches or in other significant launches?

Jason Bonfig - *Best Buy Co Inc - Senior Executive Vice President, Customer Offering, Fulfilment & Best Buy Canada*

Yes, it's a great question. I think first, RGB is a really good example of where our differentiation gives us the ability to win. The fact that we are an extension of our vendors for the latest and greatest they have in technology and all the investments that they make to bring it to market, and we're the place that, as our marketing campaign says, Believing is Seeing in this particular example. This is where we shine, this is where our vendors shine.

I would say that, as much as it's taken a really long time, the industry has gotten a little bit kind of flipped in different places from an innovation perspective. Because of what happened during the pandemic, innovation at one point in time completely stopped, and it was more about just getting as much product out as possible. And now I feel like we're starting to get back to what I would consider to be a more normal cycle, where innovation will continue to happen in many different categories.

What I would tell you is what you're seeing in TVs right now is an example of where we win and where we can represent it better than any place else, and we want to make sure we take advantage of that with our vendors. You should see that continue in other categories. It's always been something that you've seen in the computing category over the years.

So as much as I'm excited about what's happening in the TVs, it is a part of our strategy and something that our merchant teams work with our vendor partners to show up when there's something that's new, something that needs to be seen, something that's the latest and greatest. We want to make sure we're there, and we want to make sure that we're there in a differentiated way, whether that's through having it be more exclusive or differentiated in some other way. It's something that the teams work very hard every day to do.

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

I know we're talking explicitly about RGB here, if I kind of take it up a notch, this is the example of where our model shines, period.

When there is innovation, we are able to lean in. That means our employees are getting specialty training, and they're all invested. That means we use our services backbone so that we can provide that super easy upgrade experience that Jason talked about. And you can see it across more of our categories, kind of getting back to that normalized state where we get the chance to commercialize new technology better than anyone.

Brian Nagel - *Oppenheimer & Co Inc - Analyst*

That's all very helpful. I appreciate that. My second question, I guess a little nearer term. There's a lot of talk out, broadly in discretionary about tax refunds, larger tax refunds. As you look at Best Buy's business, from Q1 then maybe in particular that the acceleration in sales for growth we saw into May. Is there any way that you can look and say how much these larger tax refunds have likely added to this?

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

Yeah. We certainly tried to estimate what we thought our amount of the tax refund coming would be for Q1 and also for what would extend into May. So we certainly had an estimate.

You can imagine we had an idea of what we thought would be the impact, in Q1. How specific were we close to that? It's really hard to do that math. We know that we did probably enjoy a benefit from it, feel like it's about what we thought it was going to be. Certainly as we got into May, we do feel like there's a little bit of what's sitting in May strength as well related to it.

Again, more of that was March and April, for our consumers, which tend to gravitate to the more higher income to kind of to your point as well. So definitely was part of it, something we had planned for, about what we thought it was going to be, and for sure helping a little bit as we get into May.

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

And I think that is our last question. So thank you all so much for joining us today, and we look forward to updating you on our results and progress during our next call in August. Have a great day.

Operator

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