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BBY.N - Q2 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 second 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 call over to Mollie O'Brien, Head of Investor Relations. Mollie, please go ahead.

Mollie Obrien - Best Buy Co., Inc. - Investor relations

Thank you, and good morning, everyone. Joining me on the call today are Corie Barry, our CEO; and Jason Bonfig, our Chief Customer Product and Fulfillment Officer and incoming CEO.

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 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-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. Earlier this month, we announced the appointment of our new CFO, Anne Bramman.

As Anne started at the company just eight days ago, Corie will cover the financial portion of today's 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. This is my last earnings call as Best Buy's CEO. And before I discuss our results, I want to express my sincere gratitude to the incredible employees of this company who have made the past 27 years truly extraordinary. It has been a privilege to work alongside such talented, dedicated and customer-focused teams throughout my career. I also want to thank all of you on the call.

Over the years, I have greatly valued the opportunity to share our progress, discuss our strategy and build relationships with many of you in the investment community. Your engagement, insights and support have meant a great deal to me. It has been a joy to transition with Jason, not just seamlessly, but in a way that continues to accelerate progress. And as I hand the baton to Jason and the leadership team, I do so with absolute confidence. They are experienced and talented leaders guiding a business that is well positioned for continued success.

Thank you for being part of this journey, and I wish you all the very best. Next, on to our second quarter results. Today, we are very pleased to report better-than-expected Q2 results. Our comparable sales grew 4.1% versus last year, with positive comps across almost all our major product categories. We also drove operating income rate expansion and earnings per share growth.

Specifically on revenue of \$9.8 billion, we delivered an adjusted operating income rate of 4.3% and adjusted diluted earnings per share of \$1.47, which was up 15% versus last year. I want to extend my appreciation to our employees across the company for their commitment to our customers and for the strong execution of our strategy.

We are 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. Our Best Buy Ads and Marketplace initiatives continued to hit their performance targets and contributed to our gross profit rate expansion.

From a category perspective, computing growth led the way this quarter. We delivered our tenth consecutive quarter of positive comparable sales, driven by a combination of customer need to upgrade and replace and product innovation. Our Q2 computing sales continued to be supported by the strong performance of our Best Buy business team, which increased its sales by 21% versus last year.

We are excited to announce that home theater was the second biggest weighted comp driver this quarter, with the highest sales growth since Q2 of fiscal '22. We drove market share gains throughout the quarter, and our performance was broad-based across product tiers and price points.

We saw continued strong growth in the group of newer and emerging categories, including AI glasses, trading cards and health rings. Sales for this group of categories in Q2 more than doubled versus last year. In mobile phones, we delivered our sixth consecutive quarter of growth, driven by our expanded partnerships and in-store operating model improvements with large carriers.

In major appliances, we continued the strength we saw in May and delivered slight sales growth for the full quarter. This material improvement in growth trends compared to prior quarters was due to the combination of our investments in pricing, marketing, delivery speed and product availability. As expected, we saw comparable sales decline in our traditional gaming category as we lapped the successful launch of the Switch 2 in June of last year.

Our Q2 results did not materially change our existing commentary on 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 half results and our momentum as we enter the second half of the year, and we are raising our annual financial guidance. I am beyond excited to turn the call over to Jason to provide further details on our performance and key business updates.

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

Thank you, Corie. Good morning, everyone. The strength of our results reflects both deliberate actions we have taken to position the business for growth and a healthy demand environment for our category. Over the past several years, we have invested in areas that matter most to our customers, including elevating specialty expertise in our stores, partnering closely with our vendors to bring innovation to market and improving fulfillment, speed and execution across our supply chain. These initiatives, along with replacement and upgrade cycles, innovation and external demand drivers such as higher tax refunds supported the top line performance.

On our last earnings call, I discussed four priorities that will define how we win in the months and years ahead. As a reminder, they are as follows: First, we are advancing Best Buy as a retail media, advertising and technology company; second, we're going to expand and grow our reach; third, we are elevating the Best Buy experience; and fourth, we're continuing to be a human-powered and customer-focused company. These four priorities aren't separate tracks, they reinforce each other.

A better experience delivered through the right footprints and formats drives reach, greater reach generates customer insights that fuels us as a media and technology company, and all of it is powered by our people, equipped with the best training and technology in the industry, doing what only Best Buy can do.

I'd like to provide key highlights and updates on the progress. Regarding Best Buy Ads, we are on track to deliver 10% growth this year on top of \$900 million in collections last year. The Best Buy Ads team will host our second ever showcase on September 23 to highlight our growing scale, performance and innovation to key decision-makers across agencies, brands, partners and press.

Last week marked one year since our launch of the US marketplace, and we are pleased with how it's expanding our reach with new SKUs and categories. Key experience indicators like Five Star customer rating and return rates are in line with our first-party business, and we are vetting and adding new sellers constantly.

Our domestic marketplace GMV reached approximately \$300 million in the second quarter. We now expect our marketplace to reach \$1.3 billion GMV for the full year driven by a stronger-than-anticipated performance. We will begin adding international sellers later this quarter, which opens us up to a materially new group of sellers as previously all sellers needed to have a US physical presence.

Another way we are expanding our reach is through smaller format stores that allow us to enter attractive markets that cannot support our traditional Best Buy store format, thereby extending the Best Buy experience to new customers and communities.

Although the strategy is still in its early stages, we are pleased with the customer response and encouraged by the performance we are seeing. What is particularly exciting is the way these stores accelerate omnichannel engagement. Customers often begin their relationship with Best Buy through a store visit, but quickly adopt our app, our digital channels, membership programs and services. As a result, these locations act as both retail destinations and customer acquisition engines.

I want to be clear that we continue to see significant value in our large-format stores. Through a series of targeted enhancements, we are utilizing these assets more effectively than ever, while improving the customer experience.

As we've discussed previously, we've been reallocating space to higher value experiences like Meta labs at Best Buy. We are more than halfway through the implementation of 50 dedicated spaces each spanning approximately 900 square feet and staffed by specially trained employees focused exclusively on the Meta ecosystem, including both AI glasses and virtual reality solutions.

Although still early, customer response has been exceptionally strong and has exceeded our initial expectations. Based on what we are seeing, we believe there is significant potential to expand this model to additional vendor partners.

At the same time, we're repurposing space to enhance our own offerings by integrating outlet experiences into some large format stores. We replaced many stand-alone outlet locations. Customers benefit from greater convenience, while we benefit from stronger utilization of our existing footprint.

Now I'd like to highlight other areas where we've been particularly focused on elevating the Best Buy experience. I'll start with home theater. We are seeing tangible results from our efforts. In the second quarter, we delivered domestic TV sales growth of more than 10% year-over-year. This performance reflects improved execution across multiple areas of the business, including compelling assortments across a wide range of price points and screen sizes, strong in-stocks and continued improvements in delivery and installation services.

Another driver of the excitement in the category has been the mid-quarter launch of RGB TVs. For the next year, Best Buy is the only national retailer where customers can discover, experience and purchase these TVs. We believe RGB represents the most significant innovation in the television segment in the last decade.

While it's still in its early stages of adoption, sales performance is progressing as expected and we anticipate this new technology will become an increasingly meaningful contributor to our revenue over the coming quarters. Importantly, related to this are the marketing campaigns and the extensive associate training that we've done in the category.

It creates a halo across the entire category. We think this is not only contributing to the momentum during the quarter, but it also positions us well to capitalize on what we believe is a multiyear TV replacement cycle driven by elevated units in the year 2020.

Major Appliances is another category where improved execution around the customer experience is translating into material improved growth trends. In the current housing environment where the majority of appliances purchased are driven by replacement, speed and convenience matter more than ever.

Customers need solutions quickly when an essential appliance fails, and our ability to offer competitive pricing, strong product availability and fast delivery and installation are imperative to compete effectively in the marketplace. For example, we provide next-day availability in almost all metro delivery locations compared to less than half of those locations in Q1.

We also see significant opportunity to further enhance our digital experience around appliances in this quarter. By simplifying how customers view delivery availability, understand pricing and schedule service, we are making it easier and more convenient to complete these complex purchases.

Speaking of online experiences, I'm excited to announce the launch of Ask Blue, our new conversational AI shopping and support assistant. It brings together expertise from across Best Buy's website in one easy-to-use experience. It combines product knowledge, support, resources, customer reviews, availability and pricing to help customers make informed decisions. Ask Blue will help customers figure out what tech is right for them.

For example, it can quickly compare products, find important differences between them, check fit or compatibility and get support for common questions. Depending on the need Ask Blue can guide a customer to self-service resources or connect them to a live support specialist. We've begun rolling this out to customers in a phased approach.

We're also continuing to partner with AI companies like OpenAI to make sure we are showing up in the places where our customers look for technology and advice. We recently completed our commerce integration with OpenAI. Customers can now discover products, receive recommendations and complete purchases for Best Buy directly within ChatGPT. We view this as an important step in expanding our digital ecosystem and positioning Best Buy at the forefront of emerging AI-enabled commerce experiences.

Moving on to membership. We are encouraged by the early results from our recent program updates. Our My Best Buy Plus and total members now earn 1% back in rewards on every eligible purchase and 5% back in rewards when they use the My Best Buy Credit Card.

We have already seen an uptick in membership sign-ups and expect to grow from just over 8 million paid members in February to approximately 9 million by the end of the year. These reward points are in addition to the many popular benefits our members receive, including fast and free shipping, extended product return windows, exclusive prices and for total members, product protection and 24/7 support.

We continue to enhance the value of the membership program. In Q2, we introduced discounted YouTube TV subscriptions for members. And earlier this month, we kicked off our popular NFL Sunday Ticket offers.

Looking forward, as Corie mentioned, we are raising our financial outlook. We now expect comparable sales growth of 1.9% to 3% and adjusted operating income rate expansion of 10 to 20 basis points for the year. In the back half of the year, we expect to drive continued sales growth in phones, TVs and the collection of emerging categories mentioned earlier. We also expect to drive continued sales trends in major appliances and that demand for Grand Theft Auto VI will benefit the gaming category in Q4.

We expect sales growth in the computing category to slow in the back half of the year as we lap two years of growth and a particularly strong Q3 last year, which included tailwinds from the end of support for the Windows 10 operating system.

We continue to navigate impacts from the industry-wide memory cost increases. As expected, product costs have been increasing, and higher prices have been flowing into our assortment. In Q2, our ASP growth in computing was in the mid-teens, with units down high single digits. Overall, we expect continued customer demand for the category as we focus on helping customers find great products within their budgets. We also have tools across trade-in, credit card financing and strategic promotions to help ease this impact on price increases.

From an inventory standpoint, at this point in time, we continue to feel well positioned to meet customer demand. This is a dynamic situation, and we will continue to partner closely with our vendors to mitigate impacts.

Last week, we celebrated Best Buy's 60th anniversary, marking six decades of helping customers discover, enjoy and get the most from their technology. Throughout our history, we have remained anchored by a single guiding principle, putting the customer at the center of everything we do. As we look to the future, we are executing a thoughtful and orderly leadership transition designed to ensure a smooth handoff as well as an opportunity to accelerate the business now.

While I formally assumed the CEO role on November 1, Corie and I have been working closely to align the leadership team and ensure continuity of execution. The leadership team is largely in place, energized by expanded responsibilities and focused on delivering against our four priorities. This strong foundation will enable us to move with speed, clarity and discipline.

I'm pleased to welcome Anne Bramman as our new Chief Financial Officer. Anne brings more than 30 years of public company leadership experience spanning financial operations, strategy and transformation. Her background aligns exceptionally well with where Best Buy is headed and the opportunities that we see ahead. As Mollie said, with Anne officially joining the company last week, Corie will continue the financial portion this morning.

I want to thank Corie for providing continuity and leadership during this important transition period. Seven years ago, Corie Barry joined Best Buy and for the last seven of them was the second longest tenured CEO in our history. She led this company through more challenge than any single chapter deserved, a pandemic, a reinvention of how we work and the rebuilding of what the brand means to customers.

She never claimed the credit for it. Her instincts were always the team gets all the credit, and she built a culture that was learning from challenge and change was not a slogan, it was actually the way we operated. Corie taught us that leaders don't have every answer, they create the conditions where people can do the best work of their careers. Best Buy is stronger, more resilient, more clear eyed about who we are because of her, and every one of us who leads in the future is doing so on the foundation that she laid.

With that, I'll turn the call over to Corie for more details on the quarter and our outlook.

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

Jason, thank you. And to Anne, welcome. I know your skills and experience will be a valuable asset to Best Buy. So let me start with how our second quarter's performance compared to the expectations we shared with you last quarter. Enterprise comparable sales increased 4.1%, and exceeded our guidance of approximately 1%.

Our adjusted operating income rate of 4.3% was also better than planned, driven by a higher gross profit rate that included a \$34 million benefit from tariff refunds. Higher-than-expected SG&A, largely driven by incentive compensation, partially offset the favorable gross profit rate.

I will now talk about our second quarter results versus last year. Enterprise revenue of \$9.8 billion increased 3.6% versus last year. Our adjusted operating income rate increased approximately 40 basis points compared to last year. And our adjusted diluted earnings per share increased 15% to \$1.47. From a monthly cadence perspective, as expected, May was the strongest month of the quarter with comparable sales growth of 8%.

June's comparable sales were approximately 5% as we began to lap the successful Switch 2 launch last year. At the same time, June was positively impacted by the timing shift of our sales event that runs concurrently with Prime Day. July's comparable sales were approximately flat.

In our Domestic segment, revenue increased 4.3% to \$9.1 billion, driven by comparable sales growth of 4.5%. From a category perspective, we generated comparable sales growth across most of our categories with the largest drivers on a weighted basis, being computing, home theater and the collection of emerging categories such as AI glasses and trading cards. These drivers were partially offset by a decline in the traditional gaming category.

Our online revenue of \$3 billion increased 5.1% on a comparable basis and represented 33.1% 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 a decrease of less than 1%. It is important to note that price increases in categories like computing and phones are being offset by mix into lower-priced products like trading cards.

International revenue of \$709 million decreased 4.2% versus last year. The revenue decrease was primarily driven by a comparable sales decline of 1.8% and the negative impact of foreign exchange rates.

Our domestic gross profit rate increased 60 basis points to 24%, which was driven by growth in our Marketplace and Best Buy Ads initiatives and tariff refunds. These items were partially offset by lower product margin rates that were primarily driven by investments in major appliances. Our international gross profit rate increased 50 basis points to 22.3%, primarily due to improved product margins.

Moving to SG&A. Our domestic adjusted SG&A increased \$94 million and was primarily driven by; one, higher compensation expense, including incentive compensation; two, increased Marketplace and Best Buy Ads-related expense; and three, higher advertising expense. The previous items were partially offset by lower Best Buy Health expenses.

Now moving on to guidance. we are raising our full year fiscal '27 financial guidance to the following: revenue in the range of \$42.3 billion to \$42.8 billion, comparable sales growth of 1.9% to 3%, an adjusted operating income rate of 4.4% to 4.5%, an adjusted effective income tax rate of approximately 25.5%, adjusted diluted earnings per share of \$6.70 to \$6.90 and capital expenditures of approximately \$750 million.

Next, I will cover some of the key working assumptions that support our guidance. On the top line, we now expect enterprise comparable sales growth of 1% to 3% for the second half of the year. We expect our annual gross profit rate to improve by approximately 30 to 40 basis points compared to last year.

The primary drivers of the expansion remain growth from our Best Buy Ads and our US marketplace. In addition, our guidance assumes a similar level of IEEPA tariff refunds in the third quarter as the second quarter, along with continued major appliance investments.

Now moving to our adjusted SG&A expectations. As a percentage of revenue, our annual adjusted SG&A is planned to increase by approximately 20 basis points compared to last year. When comparing to last year, the most notable puts and takes for the second half of the year include the following. The high end of our guidance assumes incentive compensation increases by approximately \$70 million in the back half of the year and \$130 million for the full year.

SG&A is expected to increase in support of Ads and Marketplace, which includes advertising, technology and employee compensation expense. Store payroll and other variable expenses are expected to increase at the high end of our revenue guidance with minimal impact from a rate perspective.

Lastly, the low end of our guidance reflects our plans to further reduce our variable expenses, including incentive compensation to align with sales trends.

Before I close, let me share a couple of comments specific to the third quarter. We expect enterprise comparable sales growth of 1% to 3%, and we have started the quarter with August month-to-date comparable sales growth at the high end of this range. Our third quarter adjusted operating income rate is planned at approximately 4.1% to 4.2%, which is 10 to 20 basis points higher than last year.

And I will now turn the call over to the operator to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Ciccarelli Rely, Truist.

Scot Ciccarelli - Suntrust Robinson Humphrey Capital Markets - Equity Analyst

You noted some of your newer products and form factors doubled in the quarter. How big are those categories now in aggregate? And given the early successes from your store than a store concepts, is that something we might be able to see expand over the coming quarters?

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

Yes. So in total, we talked about emerging categories and specifically in that bucket are cards and collectibles, AI glasses as well as health rings. And I think those are really good examples of places where we can lean in around innovation with vendors. Some of those categories are supported by additional space. Mata would be a good example of that.

Some of those aren't. In total, the aggregation of those categories is worth about 1 point of comp, which is pretty impactful. So the teams continue to look for innovation from our vendors and are there ways that we can lean in, whether it be digital or physical, that is a great example where that category is becoming larger and larger, and the AI trend and the innovation that they've done is really allowing us to lean in, in a more a dramatic way where we're actually able to put locations at our largest 900 square feet in our stores with labor to support it because the customer trend is so strong. So the teams will continue to look for those things, but we're very excited about those emerging categories and how they're contributing to our business.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

So quick -- I guess, as a follow-up for a question on the comps. So I guess the detail into July, how do you look at that? What is your interpretation? Is there more of a tax refund story in the early part of the quarter? And then what does that mean for product cycle, replacement cycle? Is it as strong and vibrant as it should be?

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

Yes. So as we expected, that 8% May comp that we saw slowed in June and July. And there's a couple of things going on there. First of all, in June, we started to lap that Switch 2 launch. But importantly, we said this in the comments that Prime Day event switched into June.

So that helped bolster the June results. And then you had a comp last year's Prime Day event in July. So that is also part of what brought down the July to more of a flat comp. And I think part of why we wanted to give the August quarter-to-date comp, and we said it at the high end of the 1% to 3% range we gave for the back half is because we've seen that demand profile rebound as we headed into August, and we're happy with both our 60th anniversary sale and the back-to-school volume we're seeing. And I think that continues to support the narrative that we've been talking about as it relates to innovation and replacement cycles.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

Okay. And then maybe one follow-up. I guess, Corie, during your tenure, when we've seen the comps accelerate, there's been a lot of incremental margin and flow-through. It sounds like gross margins are now moving in the right direction. I don't know what happens with SG&A.

There were moments where Best Buy's cost structure was actually declining and/or just growing at a very small rate. So how do you think, Jason, about incremental margins? Do you have a sense of it that you have to wait for Anne to help put the financial plan together? Can you give us thoughts on that?

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

Jason will give some color on his general thoughts and approach, but I just want to reiterate that the pressure that we saw in SG&A was mainly related to two big buckets. One is Ads and Marketplace, which, at the end of the day, is we're going to call it a modest tailwind to OI when everything is all said and done. But the bigger impact here is the short-term incentive compensation.

Obviously, at the beginning of the year going from a guide of down 1% to up 1% on the revenue side, all the way now to up 2% to 3% -- basically 2% to 3% and seeing some expansion in that OI rate, so therefore, higher OI dollars, we are able to share in that with our team members. And it's that revenue and OI dollar combination that's about half and half the OI -- or excuse me, the SG&A impact.

So we said it on the call that increases year-over-year our incentive compensation about \$130 million versus when we started the early first guide, we said to reset back to zero, it was \$30 million. So that's the biggest, right now, impact to SG&A. And it's for, I would like to say, all the right reasons and the strength we're seeing in the business.

And obviously, as we head into next year, you would reset that incentive compensation back to the 1.0, which means that would lower the SG&A about \$100 million as you head into next year. So now I can hand it over to Jason to just talk more philosophically about kind of the approach.

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

Yes. Thank you for the question. At some point in time in the future, we'll talk in more detail about where we see things long term. But just in the right now, I just want to make sure we address your question specifically. So the teams are focused on two things.

First, they're focused on revenue and making sure that we maintain or grow our share. And I stress the word and improving our rate. And it isn't one or the other. It is both, and that is the way that the teams are going to continue to be focused and have been focused in the past. That balance is important because it allows us to do things like make investments.

One really good example of that is we did need to make some investments in appliances to change the trend and the trajectory of our business, and at the same point in time, balance that with things like Marketplace and Ads that are growing and new profit streams that actually help us improve our rates.

So the teams will always continue to be focused on that and, but it is about making sure we grow revenue, keep our customers and improve the rate over time is really where the focus will continue to be and has been historically.

Operator

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

Nice quarter, and I had one question and one follow-up. My first question was just in terms of the second half, Jason. I think there was reference to lapping the Windows 10 expiration last year and then GTA6 as modeling considerations for the second half. Is there any way to help clarify maybe what's embedded in the implied second half guide in terms of maybe that headwind and that tailwind? That's my first question.

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

Yes. I think, in total, obviously, Corie has laid out what the guide is. From a category level, I think the way to think about it is, we do see that home theater, mobile phones and that collection of emerging categories will continue to grow. We also think that there'll be continued trend improvement in our appliance business as we move forward and that Grand Theft Auto will have some impact, not only to software business in particular, but it will also impact the hardware business because that's where it can be played. And then it also does have some impact on accessories as well, and that is all factored in.

For computing, the Windows 10 end-of-life in Q3 did create a quarter that was obviously more substantial from a growth perspective for computing, and we are coming up against that. So we do have computing forecasted in the back half to soften from a growth perspective from where it has been.

Now again, it's grown for 10 straight quarters. So it's had a pretty nice run, but we'll continue to manage that with our vendors. There still is a lot of demand from customers in the back-to-school period, and I'm sure there will be as we move into holiday.

And our focus there will continue to be on budget, making adjustment to our assortment, partnering with our vendors around promotions to try to make sure that we keep that business as healthy as possible, but we do know that we are facing a little bit more headwinds because we are anniversary that end-of-life period.

Jonathan Matuszewski - Jefferies LLC - Analyst

Okay. That's helpful. And then just a follow-up on inventory trending up high single digits. I think just obviously, getting ahead of dynamics next year, can you just talk about your plans for the second half in terms of inventory management and pulling forward of SKUs?

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

Yes. Our inventory management strategy really has not changed. The teams are very focused at for days of supply number and managing to it. A lot of the uptick that you're seeing is very specific one category, and that's computing. And as we talked about, one of our strategies is where there are opportunities, and we actually have visibility that prices are going to go up and we have an opportunity to buy a little bit earlier, we will bring in that inventory a little bit earlier.

And we did that in Q1. You're still seeing that happening in Q2. As we move into the back half of the year, if those opportunities exist, we'll take advantage of them at the same point in time that they may not. So the teams may return to a more regular cadence of running that category at inventory levels that we have historically. So there's not a strategy to continue to front load.

It's actually very opportunistic in the computing category specifically, where there are opportunities from a cost perspective.

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

And the only thing that I would add, Jonathan, is that we turn that category really fast. And so it's not like these are inventories that are going to stretch out for years. This is with the teams Jason's plays constantly making these decisions and really doing an excellent job managing and getting ready for holiday. So these are really quick turning categories.

Operator

Michael Lasser, UBS.

Michael Lasser - UBS AG - Analyst

One could argue that this year, there's a collection of goodness between collectibles, RGB TVs that is driving a unique amount of comp growth for Best Buy. How do you expect to be able to drive this momentum next year when maybe the conditions won't be as favorable? And of course, best of luck, Corie Barry.

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

Thank you, Michael. I'm going to start with something and then maybe Jason can tie on. I think sometimes there is this misnomer that everything is just a launch or everything is just a moment in time. If you go back, let's go pre-pandemic. This industry is supported by constant innovation, constant development of new categories, constant sunseting of old categories and that wheel and cycle, combined with the need to replace and upgrade and the drive to go get that new innovation is what buoys the category.

I would argue we haven't seen as much of that as we came out of the pandemic because; one, you had the pull forward of all those replacement cycles; and two, you just didn't have as much innovation. And so I think my point of view, this is more a normalization back to how this industry more typically would work. It also absolutely plays to Best Buy strengths, which is when there is new innovation, we have an outsized role in the industry.

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

I would also add to that. I have a lot of confidence in the teams, and I'll use two examples of where this shows up and will continue to show up. I think Meta is a really good example of where we have a partnership with a brand-new technology, and the way that, that shows up in our experience, whether it be digital or physical, is best-in-class.

It's where we lean in. It's where we have opportunities to bring in increased growth. That's a new category and the teams will continue to find more and more of those and lean in faster than anybody else.

On an existing category, let's go to TVs because you mentioned RGB TVs, which we're very excited about. But at the same point in time, only launched in June. That particular technology, the impact on the quarter was probably more halo than anything else.

The over 10% growth in TVs is the team doing an amazing job of executing across in-stocks, assortment, price points, promotions and really getting ready for what we think is a replacement cycle in the TV category because RGB will have more impact as we move forward. It didn't have a dramatic impact in the existing quarter, aside from giving a really nice halo and providing more interest in the category.

Again, there were about 49 million TVs that were purchased in 2020 in the industry, and we think this is a multiyear replacement cycle. And you're going to see the team function on both of those paths. The new categories lean in really hard, existing categories making sure we're building the best assortment and encouraging customers to upgrade by featuring the latest and greatest from our vendors in those existing core categories as well.

Michael Lasser - *UBS AG - Analyst*

My follow-up question is, you've been pursuing the strategy where you're taking some of the proceeds of these high-margin initiatives like the third-party marketplace and advertising, investing that in key categories and the price of key categories like appliances and home theater. What are you seeing in terms of the competitive reaction and the consumer reaction? How far are you willing to go? And does this undermine the gross margin outlook if you have to invest more of the proceeds than you were actually getting to maintain competitiveness as you move through the rest of this year and into next year?

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

Thank you for the question. I think as we look at the promotional environment, our categories have always had very competitive promotional environment. And what we saw was very much in line with what we expected. We do compete with some of the largest companies in the world and will continue to.

And it's always been a very competitive environment, and we need to make sure we build the absolute best offerings and assortment with our vendor partners, find the areas where we can be differentiated with the things that we do that are different, like service and support and membership.

And we really feel very strongly that we can continue to be able to compete in the marketplace the same way that we always have. And it is helpful to have new growth engines like things in Marketplace and Ads that can give us a little bit extra fuel to make sure that we can be competitive, but at the same point in time, also enhance our bottom line, which it is about that and, which I noted on an earlier question.

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

I would just add two things. One, in your question, you explicitly said things like price in appliances. Actually, the investments are broader than that, and I really want to underscore this because it's also about experience. It's about the delivering faster. It's about, in home theater, having the full ability to replace what you have.

Those are very unique experiences for us. And they are part of that what creates that amazing customer flywheel that brings the customer back.

The second thing that I would add, if you just look at the guide that we gave you for this year's gross profit rate, absolutely, there's a bit of tariff refunds in there. But the expansion of the gross profit rate in that 30- to 40-basis-point range clearly shows that above and beyond tariff refunds kind of offsetting. And actually, when you put together tariff refunds and the product gross profit, a little bit of pressure there.

So on the other pieces of the business, Ads and Marketplace and some of the kind of other line items, you're still seeing flow through even as you're investing in appliances, even as you're investing in experiences. So I think that's the goal, as Jason was talking about how he thinks about the longer-term algorithm, that's the goal we're after.

Operator

Joe Feldman, Telsey Advisory Group.

Joseph Feldman - Telsey Advisory Group LLC - Analyst

Congrats, Corie, on such a strong career there. Can you talk a little bit more about the impact of memory pricing? I think you said, in computing, you saw ASPs up, units down. I'm wondering if you're seeing that in other categories, and just how we should think about how the consumer responds to the memory price increases like when they see the higher-priced products?

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

Sure, Joe. Thank you for the question. We continue to see memory pricing go up and flow into our assortment in the Q2 time frame. It is very much what we expected. So you're looking at ASP increases in the quarter on mid-teens, and then you're seeing unit declines in the high single digits.

What we're really focused on with customers because there is still significant customer demand in this category is really finding the right product for their budget, making sure that we match them with the right product for their particular needs.

Again, it's important to remember that they're coming in and replacing a product that's probably four, five, six years old. And what they're upgrading to is dramatically better in so many different ways. One of the largest things that's changed in the years has been battery life in particular, if you think about notebooks. And really, we're focused on finding that right match.

We also have tools like trade-ins, financing and then partnership with our vendors, they are finding ways where they can promote to make sure that we kind of ease this from a customer perspective.

So we feel like our model in computing can find ways where we can weather this memory storm, so to speak. And as a result of that, we'll continue to do the things that we've done to make sure that we're there with customers and finding that right budget.

As far as other categories go, it has not really dramatically impacted other categories. There are things that are very memory specific, memory itself, and graphics cards. Other than things like that, it is very much a computing-specific impact from what we're seeing at this point in time, just to be very clear, and we don't expect that to change through the rest of the year.

Joseph Feldman - *Telsey Advisory Group LLC - Analyst*

Got it. That's helpful. And one other follow-up on one category, I haven't heard you guys talk about it on the cost side is on transportation and fuel, which we've heard from a lot of retailers, the pressures that they're seeing. Maybe you could share a little thought on what you're seeing from that standpoint?

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

Yes, absolutely. So we are contemplating, as everyone is, higher fuel costs in our updated guidance. Overall, supply chain was actually a slight benefit to gross profit rate in Q1 and Q2. And all throughout the -- as it relates to the full year, we expect it to be relatively neutral. So there is a bit of increased fuel cost in there, but kudos to the team who is finding other ways to offset that.

Operator

Steven Zaccone, Citigroup.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

All the best in the next chapter, Corie. Can I follow up on the computing question there. Could you talk a little bit about the progression of ASP as we get into the second half of the year? Should we think ASP and computing is up a bit more and then units will be down? And then on an overall basis, ASP being down a little.

I know you don't guide to it, but help us just understand what's the expectation for blended ASP as we get to the second half of the year?

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

Sure. I'll start and then I'll throw it over to Corie. From a computing perspective, obviously, Q2 is the first time when we saw a more dramatic change in our ASP, again, mid-teens, units down high single digits. It appears at this point in time, and again, it's a dynamic situation that, that is probably where we expect things to be as we run through the rest of the year. Again, it's a dynamic situation.

We partner very closely with our vendors. We're taking advantage of opportunities where we can bring in inventory early to alleviate it. And then there is also interest in promoting in the vendor community to make sure that we try to keep demand as strong as possible.

So that's really where we see it at this point in time. But again, that's something that the teams work on in every everyday basis with our vendors, but it does seem -- I don't know if stabilized is the right word, but it does seem to be very consistent with what we're seeing in Q2 as we look in the back half of the year right now.

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

And to your second question on the ASPs, you're right, we're not going to guide ASP at this point. But I think the dynamic that we talked about, which is, as Jason just alluded to, those price increases in computing, some price increases in phones, although that has as much to do with new launches as it does anything because we're still seeing nice unit growth there.

Those increases then being offset by this mix into some of the lower-priced products, particularly trading cards. I think that dynamic continues to exist as we go through the year. And to Jason's point, maybe more stabilized in terms of some of the increased side of things.

But also, we continue to see a great demand profile on those sub-\$50 products where the units are really growing. So I don't see that dynamic really changing as we go through the rest of the year.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Okay. The follow-up I had was just on margins and maybe a couple of people have asked about the promotional backdrop. But as we've turned into August here, right, we've heard about some weakness amongst the consumer. How is back-to-school kind of played out? Are you seeing a higher take rate from promotions across the industry?

And then just a clarification. So the Best Buy Ads and the Marketplace, right, like positive to OI rate. Was there any change in thinking there versus your initial guidance?

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

So maybe I'll start, Jason, can add. In terms of promotionality, we're not really seeing anything that is out of line with our expectations. So in general, promotionality looks like we would expect it to look. These are promotional categories. And I mean we continue to see healthy consumer demand, again, being at the top end of that 1% to 3% back half guidance range on revenue here quarter-to-date, that would underscore.

We feel like back-to-school is going well. We feel like our anniversary sale is resonating well. And so we continue to feel like, as we have for many quarters, the consumer is in actually a relatively stable position, looking for sales events, looking for their budget, looking for the deals, but also responding to innovation and responding when there is something new and willing to pay those higher price points when there is.

And as it relates to your question around Ads and Marketplace being a modest, I'm going to call it, tailwinds to OI, I think that's slightly improved, which you can imagine we raised the marketplace GMV estimate for the year, so that would probably imply that's maybe getting a little better. We've been pretty consistent on the ads growth we're expecting for the year. So if anything, may be slightly better than where we started the year, but nothing massive.

Operator

Steven Forbes, Guggenheim Securities.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

Corie, you mentioned 21% business-to-business segment growth in the quarter. So curious if you can maybe expand on what's driving that? And then maybe more importantly, how that's impacted the full year impact? And how the growth strength has recharged or recalibrated? How you think about that business over the long term and what is going to contribute to the consolidated growth profile?

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

Yes, I'll start and then maybe Jason can talk a little bit about how we think about the future. Our -- we've talked about before, our Best Buy business segment, it generates more than \$1.1 billion annually. It's been growing at, let's call it, 15% to 20% here in the first half. And there are really six segments that the team is focused on, education, hospitality, promotions and marketing, builder and multi-dwelling, health care and kind of corporate enterprise.

And obviously, then we have digital assets that support and are dedicated for any of our business buyers and some dedicated partner portals that really are also helping our customers transact really seamlessly.

We sell across our product categories with a concentration in computing and home theater and majors. And obviously, this is where Geek Squad gives us a really large competitive advantage. And in some cases, we're able to grow the business in some unique ways like we've talked about device life cycle management.

I think right now, the team has done an amazing job getting out there and really trying to think about unique ways in which we can serve our business partners. I think the work -- my take on the work going forward is to really refine where we think are the best places for us to lean into and make sure that we are well positioned to lean into those spaces given the assets that we have. But maybe, Jason, you can give some more color.

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

Yes. I think Corie did a really nice job. I think Best Buy for business does a couple of things for us. First, our value proposition and experience allows us to show up in a very different way, and we're seeing a lot of demand, and she talked about the four segments. It allows us to -- it's a great where we can expand our reach, and it's a great way with all the tools we have that we can elevate the experience there.

The team is delivering tremendous growth, which we're very proud of. We want that to continue, but the team is also doing an exercise to understand all those different verticals and segments and are there opportunities where we can actually find even additional growth in the future from the business segment because we do think that we are very uniquely positioned in that space, and I'm sure we'll want to talk more about that in the future.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

That's great to hear. And then maybe just a quick follow-up, revisiting the elasticity impacts in computing. ASP is up mid-teens, units down high single digits. I'm curious if you can maybe just talk about how that's compared to your expectations for price elasticity demand in the current backdrop, maybe relative to prior periods or prior inflationary cycles?

And then what does that mean for how Best Buy positions itself or its assortment in good, better, best over the long time? Like is the current sort of elasticity dynamics providing more optionality for Best Buy to differentiate itself in the go forward and maybe drive tiering of product that creates a competitive advantage for you guys in the long term?

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

Yes. Thanks for the question. I think specifically, where the ASP and units are is maybe a little bit better than what we expected. If ASP increases, we're going to go up that amount kind of the unit velocity is a little bit better than what we expected. As I think about what the teams do every day, one of the things that we have an opportunity to do because our assortment is so broad as we have opportunities to change the assortment with our vendors to make sure that key price points are hit.

And that's one of the things that we do across the assortment every single day. So if there's a key price point from a budget perspective, we're a customer walks into our store, I'll use a theoretical example, say they come in and they're looking for an \$800 product. We have opportunities to make sure that that's not a gap in the assortment because prices went up, that we can reconfigure products with our vendor partners and find an \$8.99 product that meets the customers' needs is dramatically better than what they're upgrading from -- that's obviously four, five, six years old. -- and the teams make those adjustments every day to try to make sure that our assortment represents the price points that our customers are expecting -- they'll continue to make those adjustments through the rest of the year and definitely into the future.

And I think that's part of the reason why we're seeing that the elasticity is maybe a little bit better than we thought it was going to be because the teams are constantly making those adjustments with our vendors across the entire assortment.

Operator

Chris Horvers, JPMorgan.

Christopher Horvers - JPMorgan Chase & Co - Analyst

And Corie, it's been quite the journey since we first met you, I think, 13 years ago. So congratulations and best of look on the next move wanted a quick follow-up to an earlier question. Just curious, that high end of the 1% to 3% in August, are you expecting any back to shift tailwind as you look over the next couple of weeks? Other retailers are essentially embedding acceleration versus where they are quarter-to-date given how to collate the calendar is? And then I'll include my follow-up in this one question.

I guess more broadly, as you think about the computing demand that you are seeing, how much would you attribute to the improvement related to replacement versus this -- the AI cycle is here and it's now flourishing so you could actually see accelerating stacks and this computing curve extend well beyond sort of, I think, market expectations.

And alternatively, are there any indications of demand pull forward? I think there was some concern in the market that when Apple announced some price increases around their product lineup that maybe that caused some demand pull forward. Just trying to gauge the office side of that question where you could see demand post back-to-school hit a low as the consumer is trying to maybe get ahead of price increases?

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

So I will start with your question around the shaping of the quarter. Obviously, every kind of sub industry in retail is different. And I'll be the first to say we are as well. I mean, I think we're -- we continue to hope to see this back-to-school strength as we head into the season, and then it rolls right into for us, in particular, football and the NFL season and our deep partnership there. But we also talked about the fact that as we head through Q3 here, we lapped some of those harder compares.

And Q3 of last year is our -- was our highest comp quarter because we last some of those harder compares as it relates to the sunset of Windows 10. So I would actually expect that to have some impact as we roll into the back half of the quarter. So our shape is perhaps a little bit different than others. But for right now, again, we're pleased with how back-to-school is shaping out and pleased with how we're situated as we head into the return of football.

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

And then, Chris, for the second part of your question, I think computing is a very large category for us, and there's a lot of different segments. If I look at it at a holistic level, there was probably more upgrade volume last year as a result of the end of life of Windows 10.

At the same point in time, there's always upgrade volume in demand every single year and there continues to be, but there probably was a little bit more last year. There are other things that are driving growth. We have obviously a gaming segment, a product that's always had a lot of interest within computing.

There are products that are leaning in more from an AI perspective that customers are just interested in. And it may not be called out specifically as AI, but it's the features that AI really enables that are really what's driving interest from a customer perspective.

I mentioned a little bit earlier battery life. Some of the products that we have today, when you get them for the first time, it really changes the way you completely use the product because you have battery life that's close to a day maybe even more than that. And you're not thinking about plugging the product in.

And all of those things are things that are coming from a customer perspective, but every single customer is unique, and that's where our Blue Shirts and our website and our app do a really, really great job of figuring out what that customer need is, narrowing it down to what they want specifically, finding the right thing for their budget and then finding that particular match.

But there is probably a little bit of a shift that's moving more towards innovation of innovative products. than the pure upgrade cycle in computing, that's probably a natural shift that we'll continue to see happen as we move through the rest of this year, primarily because that Window 10 end-of-life did drive probably some accelerated demand through.

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

Chris, on your pull-forward question, we actually did not see at scale evidence of customers pulling forward. There was an immediate pop post one large-scale announcement where we saw just a couple of weeks of immediate demand. But then it came back to normal. And on the quarter, we wouldn't say it was large enough for us to call out as being material. The last thing I would say to just build on Jason's answer, this model works not when it's either innovation or replacement cycles, it works when those two things synergistically come together.

And it's never quite as simple as one thing or the other. You can see it in TVs. You can see it in things like mobile phones. It's when those things kind of organically come together, and there's just that right tipping point for the customer and it is that sweet spot for the Best Buy model. And in fact, what we're also seeing is our teams are doing amazing work in the field, and they're actually even attaching better.

We're seeing warranty attaches get better. We're seeing membership attach, get better, and so they're also when we have more of these at bats, the teams are doing a great job capitalizing on them. And I think it just is fun to watch the model shine.

And with that, which I think was our last question, you're right, it was actually 10 years ago, almost to the day that I led my first earnings call as CFO, and those 10 years have literally been the greatest honor of my professional life. And I look forward to listening along with all of you as our amazing new leadership team shares our results in November.

Thank you all.

Operator

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

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