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EDITED TRANSCRIPT

BBY.N - Q3 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 third 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 O'Brien - *Best Buy Co., Inc. - Head of Investor Relations*

Thank you, and good morning, everyone. Joining me on the call today are Jason Bonfig, our CEO; and Anne Bramman, our CFO. During the call, 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-Qs for more information on these risks and uncertainties. The company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call.

And now, I will turn the call over to Jason.

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Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Good morning, everyone. Thank you for joining us. 27 years ago, I joined Best Buy as an entry-level inventory analyst. And today, I'm incredibly honored to serve as CEO. Having worked across many parts of this company, I have a deep appreciation for our people, our capabilities and the potential ahead of us.

I start with two fundamental beliefs. First, Best Buy is a strong company with meaningful competitive advantages, a trusted brand, category leadership, significant scale and reach and highly skilled associates who help customers navigate increasingly complex technology.

Second, we have an opportunity to move with greater speed and agility. Technology and customer expectations are evolving rapidly, and we need to evolve with them, experimenting and learning more quickly and bringing an even stronger customer lens to our decisions. We're starting from a position of strength.

For the third quarter, we delivered better-than-expected comparable sales growth of 6.1%, our highest in five years. We also expanded our operating income rate by 40 basis points to 4.4% and grew adjusted EPS 16% compared to last year. Our top-line strength was broad-based across almost all product categories, our service offerings in both digital and store channels.

It reflects strong execution in market share growth, technology innovation and our customers' needs to upgrade and replace. We also continue to scale our high-margin alternative revenue streams like Marketplace and Ads, which contributed to both top-line growth and gross profit rate expansion.

Overall, we are very pleased with our third quarter performance and the momentum across our business. I want to thank our employees for delivering these results from our Blue Shirts and Geek Squad agents, to our delivery, installation and supply chain teams, our colleagues across Canada and everyone in our corporate office.

For 60 years, our people have been at the heart of the trust our customers place in Best Buy. That trust gives us a powerful foundation for our ambition, to make Best Buy the most trusted place to adopt, use, upgrade, repair and integrate technology. While product innovation and replacement cycles will remain important, we see a broader opportunity to create value well beyond the point of purchase.

We have four priorities that will define how we win and each quarter, we will share highlights of our progress. First, advancing Best Buy as a retail, media, advertising and technology company. This means we understand our customers more deeply, keep accelerating Best Buy Ads and show up wherever customer technology decisions are made.

Best Buy Ads remains on track to deliver approximately 10% growth this year on top of $900 million in collections last year. During the quarter, we launched Best Buy CTV. This leverages our first-party customer insights and a unique partnership with Amazon Fire TV, LG and Roku, to help advertisers reach customers across premium connected TV inventory.

With Amazon, this represents a multiyear expansion of our existing Fire TV Insignia partnership, and it covers all existing and new Insignia Fire TVs sold by Best Buy. We've also made meaningful progress embedding Best Buy into AI-powered shopping experiences.

Ask Blue, our conversational AI shopping and support assistant is live on our site and app. The Best Buy catalog and expertise are accessible inside of ChatGPT, Gemini and Muse, and we've integrated checkout directly into ChatGPT and Gemini so customers can go from questions to purchase without ever leaving the platform that they're in.

Our second priority is to expand and grow our reach. This means we grow our Marketplace and strategic partnerships and bring products, connectivity, content, subscriptions and services together into a complete experience. Our Marketplace generated approximately $350 million in GMV in the third quarter and is on track to exceed $1.3 billion for the year. During the quarter, we added hundreds of new sellers, including international sellers for the first time and began offering product protection plans and warranties to Marketplace purchases.

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Marketplace is helping us gain unit share and creating incremental monetization opportunities, including through Best Buy Ads. It's also giving us valuable insights into emerging demand. For example, growing collector interest in physical media led us to launch new immersive music shops in 14 stores this month and bring in 4K UHD new release movies back to most of our stores.

In October, we launched the Best Buy TikTok shop to reach customers where they're already spending time. It lets us activate thousands of creators through shoppable video and live stream commerce just before holiday. With an assortment approaching 10,000 products, early customer response is strong.

Our third priority is to elevate the Best Buy experience. This means leading with a digital-first mindset, evolving our stores into activation and experience hubs, creating differentiated value across services, membership, fulfillment, trade-in and upgrades. Gaming is a great example. Last month, we launched Best Buy Gamers, a new digital destination that brings together product discovery, offers and experiences. It also provides great gaming content, including reviews and articles and videos through our partnership with IGN.

Like last year's Nintendo Switch 2 launch, our recent midnight store opening for Legend of Zelda: Ocarina of Time created excitement and engagement with our gaming community. Anticipation for Zelda and Grand Theft Auto VI launches helped drive gaming hardware and accessory sales growth in Q3.

In TVs, we're the only national retailer where customers can shop and compare RGB televisions from Samsung, Sony, LG, TCL and Hisense. The biggest leap in TV technology in more than a decade is on display in nearly every Best Buy store, supported by more than 15,000 specialty certified Blue Shirts.

Sales of RGB TVs continues to progress as expected. The innovation, the marketing and the associate training are driving renewed interest in a halo for the whole category. We believe this contributed to sales and share growth during the third quarter. It also positions us well for what we believe is a multiyear TV replacement cycle driven by elevated industry units in 2020, validated by our second consecutive quarter of growth.

We also delivered growth for the second consecutive quarter in major appliances, a category where the overall industry remains challenged. Our investments in faster fulfillment, strong product availability, competitive pricing and an easier digital shopping experience are making a difference. Today, we can offer next-day delivery in nearly every metro market, which is particularly important where customer purchases are often driven by an immediate replacement need.

We also continue to launch unique in-store experiences with our vendors. For example, in addition to Meta Lab at Best Buy Experiences, we're launching new interactive Google Gemini experiences in many of our stores, where customers can demo Google Books and a variety of Pixel and Samsung devices.

Now to our fourth priority, be a human-powered customer-focused company. Our people are what makes this company great, and we continue to invest in their development and expertise. As an example, in Q3, our field employees completed more than 26,000 certifications to better enable them to execute our strategy, all in the service of the customer. And as we continue to focus on the customer, we are encouraged by the trends we're seeing. Our core customers continue to demonstrate remarkable resiliency and engagement, and we're also seeing growth in new and reengaged customers.

Before turning to Holiday, I want to briefly address the industry-wide memory cost increases, primarily impacting computing. Computing demand remained resilient during the third quarter with revenue growth accelerating despite higher ASPs. ASPs increased approximately 25%, while units declined in the mid-teens, reflecting both higher memory costs and mix shift towards new premium products, many of which launched in the quarter.

For Q4, we expect pricing to remain relatively stable with continued healthy customer demand and sufficient inventory to meet that demand. We'll also continue to leverage trade-in, financing and targeted promotions to help our customers manage those higher price points. This is a dynamic situation, and we'll continue to partner closely with our vendors to mitigate impacts.

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Turning to holiday. Our Open More campaign brings to life how technology can unlock more for our customers from new hobbies and productivity to entertainment and connections. Our promotional calendar is similar to last year with exciting doorbusters and sales events kicking off at the end of October and continuing through the season.

In summary, our third quarter performance and momentum across our businesses gives us confidence to raise our guidance for the year. The progress we've made this year is also giving us increased clarity on the path forward, and I look forward to sharing more on our long-term vision and priorities on the extended earnings call in March.

With that, I'm incredibly pleased to turn the call over to our new CFO, Anne Bramman, for more details on the quarter and outlook ahead. Welcome, Anne.

Anne Bramman - *Best Buy Co., Inc. - Chief Financial Officer, Executive Vice President*

Thanks, Jason, and good morning, everyone. Before we discuss our results, I'd like to say how excited I am to join Best Buy. This is a company I've long admired, particularly for its customer-focused culture, strong execution and ability to adapt and lead through change. Those qualities were a big part of what attracted me to the opportunity.

During my first few months with the company, my appreciation for the business and our people has only grown. I've been impressed by the strength of the culture and the discipline with which the team operates. Best Buy has built a strong foundation over many years, and I'm excited to work alongside the team to continue building on that success.

With that, let me turn to our strong third quarter results where both our top and bottom lines exceeded expectations. Adjusted diluted EPS of $1.62 grew 16% versus last year, which is consistent with the growth rate we delivered in the second quarter. Relative to our third quarter guidance, the revenue outperformance was primarily driven by stronger-than-expected performance in our computing and gaming categories.

The higher sales volume, combined with disciplined expense management drove a favorable operating income rate. Our adjusted SG&A rate was slightly favorable to plan despite incremental incentive compensation associated with our stronger performance. Gross profit rate expansion in the quarter was in line with our expectations.

I will now talk about our third quarter results versus last year. Enterprise revenue increased 5.8%, and our adjusted operating income rate increased approximately 40 basis points compared to last year. In our Domestic segment, comparable sales grew 6.2%. From a category perspective, comparable sales growth was broad-based. The largest category contributions to growth were computing, mobile phones and the collection of emerging categories, including AI glasses and trading cards.

Services revenue also increased 8.7%, reflecting continued momentum in warranty and marketplace offerings. Home theater, traditional gaming and appliances were other areas of growth. Our online revenue increased by over 10% and continues to represent approximately one third of our Domestic revenue. From an organic standpoint, the blended average sales price of our products increased approximately 6% with units flattish. It is important to note that price increases in categories like computing, traditional gaming consoles and phones are being partially offset by mix into lower-priced products like trading cards.

International revenue increased 3.3% versus last year. The revenue increase was primarily driven by comparable sales growth of 4.9%, which was partially offset by the negative impact of foreign exchange rates. Our Domestic gross profit rate increased 80 basis points versus last year, with the key drivers remaining consistent with those we discussed last quarter.

The increase was driven primarily by a $41 million benefit from tariff refunds, which contributed approximately 40 basis points to the gross profit rate, along with the continued growth of our Marketplace and Best Buy Ads initiatives. These benefits were partially offset by lower product margin rates, primarily within the major appliance category.

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Our International gross profit rate decreased 120 basis points to 21.6%, primarily due to lower product margins. Domestic adjusted SG&A increased 40 basis points as a percent of revenue. The primary drivers of the rate increase were higher incentive compensation and increased Marketplace and Best Buy Ads-related expenses, which were partially offset by leverage from the higher revenue.

Let me provide additional context on incentive compensation expense, which increased approximately $65 million versus last year and impacted our adjusted SG&A rate by nearly 60 basis points. The increase was driven almost entirely by our cash-based short-term incentive plans. Based on our current outlook for the year, we expect performance to exceed the financial thresholds established under these programs. As a result, incentive compensation expense is tracking above last year's level and reflects stronger company performance.

Moving to the balance sheet. We ended the quarter with our inventory balance up 11% and our accounts payable up 17% versus last year. The higher inventory balance primarily includes the strategic pull forward of computing products. Year to date, we have returned $791 million to shareholders through $606 million in dividends and $185 million in share repurchases. For the full year, we continue to expect to spend approximately $300 million on share repurchases.

More broadly, our capital allocation philosophy remains unchanged. Our first priority is to invest in initiatives that support profitable growth, strengthen the business and drive attractive returns over time. We then seek to return excess cash to shareholders through dividends and share repurchases while maintaining investment-grade credit metrics. Moving next to our Q4 guidance. We now expect comparable sales growth of 2% to 4% and an adjusted operating income rate of 4.9% to 5.1%.

Turning to gross profit. We expect our rate to improve versus last year, although at a more modest pace when compared to the third quarter as we do not expect to receive tariff refund benefits in the fourth quarter.

Turning to SG&A. The most notable puts and takes remain largely consistent with prior quarters and include higher incentive compensation driven by the company's stronger financial performance, increased investment in Best Buy Ads and Marketplace initiatives, including advertising, technology and employee compensation expense. Store payroll and other variable expenses are expected to increase at the high end of our revenue guidance range with minimal impact on the SG&A rate. At the low end of our guidance range, we expect to further reduce variable expenses, including incentive compensation to align spending with sales trends.

The full details of our updated fiscal 2027 annual guidance are included in this morning's earnings release, but I'll highlight a few key metrics. We raised our annual comparable sales outlook to a range of 3.4% to 4%. We expect our adjusted operating income rate to be approximately 4.5% or 20 basis points higher than last year. We also increased our adjusted diluted EPS outlook to a range of $6.90 to $7.05. At the midpoint, this represents approximately 8% growth relative to the guidance we provided at the beginning of the year.

Our underlying gross profit and SG&A assumptions remain largely consistent with the framework we shared last quarter. We expect our fiscal 2027 gross profit rate to increase by approximately 40 basis points versus last year, primarily driven by the continued growth of Best Buy Ads in Marketplace and tariff refunds, partially offset by a lower product margin rate. We continue to expect adjusted SG&A as a percentage of revenue to increase by approximately 20 basis points versus last year. At the high end of our guidance range, incentive compensation expense is expected to increase by approximately $175 million year over year and create roughly 40 basis points of SG&A rate pressure.

Overall, we're pleased with our third quarter performance and the momentum we're seeing across the business. As we move through the fourth quarter and toward the close of the fiscal year, we remain focused on disciplined execution and delivering value for our customers, employees and shareholders.

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Peter Keith, Piper Sandler.

Peter Keith - *Piper Sandler - Analyst*

Congrats on the very nice results and nice to meet you, Anne. I want to maybe just start with computing because that seemed to be an area you called out as a positive surprise. The numbers were quite strong. We expected to decel. What were the upside drivers for computing? I'm just thinking about pricing or market share gains and how those might trend going forward?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Thanks for the question, Peter. So computing did beat our expectations. We did -- we saw a couple of things that were really important. We see very strong customer demand in the category. That, in combination with the broad-based assortment that we have that really allows a customer to come in with whatever budget they have and then allows us to match them to that budget that meets their individual needs and lets a customer be able to do what they want to do with that particular product.

There was obviously pretty significant ASP increases in computing, up about 25% year over year with unit declines in the mid-teens. That was driven by memory. But the other thing that was really important that, that was driven by is we had a lot of new product launches within the quarter, a lot of them happening in the premium space.

We saw a pretty significant strength in our business above the $1,500 price point, which really shows the innovation that some vendors are bringing to market with those new products across a lot of major brands and then customer interest into those. So those are really the two factors that drove the overperformance in computing.

Peter Keith - *Piper Sandler - Analyst*

Okay. That's interesting and helpful. The other question I want to ask was around the online sales growth of 10.8%, and it certainly accelerated with the overall comp, but the spreads seem to widen. I was hoping you could unpack that a little bit for us if there are certain products that are selling well online or you did mention some partnership with various AI platforms. What might be driving that online acceleration?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Yes. The -- our online business continues to grow. Marketplace is a big part of that. So it's the combination of not only our 1P business, but also our Marketplace business. We did share that one of the biggest changes that happened in Q3 is for the first time, we actually were able to have international sellers on our Marketplace.

Up to that point, we didn't. So we were actually able to add hundreds and hundreds of sellers that were international in nature. That really broadened out our assortment even further from a Marketplace perspective. That combination of Marketplace continuing to hit our expectations or actually beat our expectations as we've raised it throughout the year. And that combination with a really strong 1P business is really what's driving our digital sales.

Operator

Greg Melich, Evercore ISI.

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Gregory Melich - *Evercore ISI - Analyst*

Since you focused on the Ad growth and the Marketplace growth, could you maybe unpack what that does to the geography of the P&L, just sort of any tailwinds to gross margin or corresponding headwinds to SG&A? And then I had a follow-up.

Anne Bramman - *Best Buy Co., Inc. - Chief Financial Officer, Executive Vice President*

Yes. Thanks. So it's nice to meet you, Greg. As we talked about in the call, we continue to see improvement in our gross margin -- our gross profit rate from both Ads and Marketplace that's been progressively better for us. We are continuing to invest in that, which is what's showing up in the SG&A component to it.

As we talked about in Q4, we also expect to continue to see benefit from Marketplace and Ads. And nothing has really changed from what we've guided at the beginning of the year other than the fact that we're continuing to see healthy growth in these two businesses.

Gregory Melich - *Evercore ISI - Analyst*

And maybe the follow-up would be, given that shift down in units and ASPs that is happening in PCs plus the tariff rebates that help in the margins this year, how do you think about keeping the growth going into next year, either in computing and/or just in margins and profits given the IEEPA rebates to cycle?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

So thanks for the question. I think there's a lot of things to look at right now. We have a tremendous amount of momentum. Again, we talked about growth in almost all of our categories. We do -- we see really, really strong demand from the customer.

And then we do have particular categories that we think are starting to enter a cycle that can be pretty impactful. TVs, in particular, we've talked about what we think we're entering into a multiyear growth cycle for TVs. Really as a result of 2020, did have some elevated TV unit sales. So we do think that we're starting to enter that multiyear cycle in TVs, and we're excited about that, and we delivered the second quarter of growth in that particular category.

But when I look holistically about what makes us optimistic is there's a lot of things about Best Buy that's very unique. First, nobody commercializes technology like we do with our vendors, bringing things to market the latest and greatest, the broadest assortment. Our omnichannel and digital and then I think Marketplace actually having that to continue to benefit that. But just the way that we mix how our stores impact the customer as well as digital and just mix those things together in a very seamless way for customers.

And then the human element, which is really, really important, the way that we provide services that customers need, we're able to explain the technology, repair it, trade it in, upgrade it, whatever a customer needs are just very interesting value props that many others don't have.

And then you wrap that together, again, with the broadest assortment that lets a customer find whatever they need in their budget and then vendor partnerships that we believe are absolutely best-in-class where we're upstream with our vendors, creating the products that are needed for our customers. All of those things make us really, really optimistic. And we're also very excited about the momentum we have.

Anne Bramman - *Best Buy Co., Inc. - Chief Financial Officer, Executive Vice President*

Yes. No, I was just saying from a margin perspective, we are -- while we're not giving guidance for next year, and we really look forward to laying out the longer-term plans for you in March, what I will say is we expect to continue to see momentum in Marketplace and Ads. We are going to be lapping the tariff refunds from this year, which is about $75 million.

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On the flip side on SG&A, we are -- we will be resetting the compensation piece to that, which is going to be -- which is about $175 million incremental this year versus last year and about $150 million of that would be an adjustment for next year's margin as well. But I also want to encourage you to think about the fact that we're going to continue to invest in this business as we talked about this in the profitable growth, strategic initiatives and really look forward to laying that out for you next year.

Operator

Steven Forbes, Guggenheim.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

Nice to meet you, Anne, as well. Jason, I was curious if you can maybe expand on the price elasticity learnings that you're seeing. Obviously, it's probably surprising to most or at least to myself to see how well units have held up in the face of ASP increases. And so as you think about the product roadmap discussions you're having with your vendors for 2027, is there a shared goal of returning to unit growth? Or just where do those conversations sit today? And is there a way to frame up for the group here on just how we should begin to think about the interplay between ASP and units looking out to 2027?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Yes, Steve, thanks for the question. As we look at the elasticities that we've seen to this point, it is better than we expected. And part of that is really the focus that we have in two places. I give a lot of credit to our vendors and our merchant teams in the way that they are constantly making adjustments to the assortment to make sure that we do have all price points covered for a customer.

And remembering that customers are coming in to upgrade computing we use as a specific example, a product that's four, five, six years old. And what we're able to give them at a particular price point is still a very significant leap forward from an innovation perspective.

I also give a lot of credit to not only our digital channels, but our employees in store, and they're working customers through understanding their specific needs what they came into store for and what they want to use the product for particularly and then matching with that perfect budget, and we'll continue to work that.

And having the broadest assortment does give us an advantage here because we can cover all those price points from low all the way to high. As I mentioned earlier, we're seeing really, really strong demand above $1,500 in computing, which is maybe a little bit surprising in the environment we're in, but we're seeing a lot of positive reactions to innovation. We'll continue to do that in a very dynamic environment with our vendors.

Of course, as we move forward, there is a point where we'd love to see both revenue and units grow. At the same point in time, the memory situation will continue forward. It is dynamic. We talk with our vendors every single day about how to make sure that we continue to drive this business and continue to grow. And really, that strategy will be what we do continue to move forward. And then at some point in time, unit growth will come back as well, but we'll see when that happens.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

And maybe just a follow-up on that. Given the discussions with your vendors and sort of long-term planning, like when do you currently envision supply of memory being fully resolved or back to normal?

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Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

I wish I had an answer to that question. As I stated, it is a dynamic situation. Right now, we have pretty good visibility that we know we will have enough supply to meet demand for this particular quarter. We also did some purchases in advance that put us in an advantageous position that actually allows us to say that we think the pricing that we're seeing today will be relatively consistent through most of the fourth quarter.

Those are really the view of what we have into the future and then continue to talk with our vendors about the trends that we're seeing and the adjustments we need to make in the assortment. Whatever happens with memory pricing, though, we'll continue to work that assortment to make sure that all price points are represented, which is the most important thing to our customers.

Operator

Anthony Chukumba, Loop Capital Markets.

Anthony Chukumba - *Loop Capital Markets LLC - Analyst*

Let me add my congratulations and my welcome as well. So I guess my question, sort of just two parts to it. You talked about these big video game launches, so GTA VI and Zelda and how they had a positive impact on your third quarter hardware sales. I guess what was that impact relative to your expectations? And then what kind of tailwind do you expect from hardware and also maybe even software sales in the fourth quarter?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

As we look at gaming in the third quarter, we did see the customer getting ready for those launches. Obviously, they were getting ready with hardware, and they were getting ready with accessories and other peripherals associated with gaming.

As we look forward into Q4, everything we've seen to this point is factored into our guide. It's an interesting month because within the month of November and the first three weeks, we've had both of those software titles launched, both Zelda and Grand Theft Auto VI. But at the same point in time, we're sitting here and we have not -- we're not at Black Friday, and we are not at Cyber Monday.

So we have factored in everything we've seen quarter-to-date. We do think that there'll continue to be strong demand in gaming moving forward because there will be a lot of interest in those titles that will continue, but it's still very, very early in the quarter to tell.

Operator

Scot Ciccarelli, Truist Securities.

Scot Ciccarelli - *Truist Securities - Analyst*

Scot Ciccarelli. Can you help us understand how you treated or think about your tariff refunds? In other words, were any of those dollars reinvested? Or should we treat them as like a separate one-time item? And then related to that, you mentioned lower product margin rates as a GM pressure. Is that focused on any particular categories? Or are you seeing something outside the normal seasonal promotional pressures that happened this time of the year?

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Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

So I'll start with the first one, just the tariffs in general. The tariff, we've given you the specific numbers. I would look at it a little bit separate. We've had opportunities to invest in portions of our business where we needed to invest. In the places where we needed to invest, it was either we wanted to be more competitive or our experience needed to get -- needed to improve.

A really good example of that and where you can see an investment we made, which has led to a change in the trajectory of our business is appliances. In that particular business, there were a few places that needed to be invested. The first one and probably the most important one was our speed and availability. And that required us to put inventory in different places. It required us to actually look at our fulfillment network and find ways to get faster to the customer, all while still being price competitive.

And the result of that led to an appliance business that was challenged for quite a while with us to now the second straight quarter of growth in appliances. Those are examples where we will make investments in our strategy, in our business to try to change that trajectory. And obviously, within this current year, the tariff refunds had an opportunity for us to make some of those investments. But I'd highlight that appliance example and where we see other examples where there's investments either in being competitive or investments in our experience, in particular, we'll continue to lean in and do that and then hopefully continue to see the positive results like we did in appliances.

As I look at just the competitive situation that we sit in today, Holiday is always a very competitive time. We're very confident in the plans that we've laid out, and we want to make sure that we're competitive on price and promotion every single day and have that plan laid out, and we're not seeing anything at this point in time that would lead us to think that our planning and our assumptions were wrong.

Operator

Michael Lasser, UBS.

Sachin Verma - *UBS Inc - Analyst*

This is Sachin Verma, on for Michael Lasser. First, I want to ask AI glasses, trading cards and other emerging categories are becoming meaningful comp contributors. As you lap the rapid growth, do you expect greater distribution, assortment expansion and repeat purchasing to offset the tougher comparison? Or should we assume the comp contribution naturally moderates next year? And I have a quick follow-up.

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Thanks for the question. We've talked about the grouping of emerging categories a few times. And specific within that grouping of categories for us is AI glasses, health rings and trading cards are kind of the three biggest categories there. And they are driving -- we've communicated driving over 1 point of comp.

What's really, really important is I think those categories represent some of the things that Best Buy does at its best. The way that -- and I'll use AI glasses in particular, the way we've leaned into that category with our partners, the way we've built out experiences mutually with our vendor partners, that really cannot be replicated. Things like the Meta labs at Best Buy and that particular experience where we're actually able to see all the different models of those particular products, it's driving growth today, and I think it will continue to drive growth in the future.

Both health rings and AI glasses are not on their first gen. They've actually already been refreshed, and they continue to be product categories where the innovation is compelling. The rings are getting thinner and easier to wear, and you see customers react favorably to that. AI glasses, there are constantly new features that are continuing to get updated. In a September announcement, Meta made a comment that the AI glasses will support Muse in the future.

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That's a feature that will be added to it. Those are just examples where the innovation continues. And the fact that we've partnered with the vendors, not only from a digital perspective, but also from a physical perspective positions us to take advantage of those upgrade cycles as well as introduction of new technology products as well.

Sachin Verma - *UBS Inc - Analyst*

My follow-up is on incremental margins. You reported a 6.1% comp, but op margin increased only about 40 basis points. How should we think about the flow-through for this quarter? And what would it take for this metric to increase in the subsequent quarters?

Anne Bramman - *Best Buy Co., Inc. - Chief Financial Officer, Executive Vice President*

Yes. So when we talked about the flow-through for this quarter, we saw our product -- our gross margin really was quite significant, 80 bps. And we talked about the tariff impact, which is about half of that. We've seen progress and momentum in both Marketplace and Ads offset by the product margin.

I think what's most important is really looking at SG&A. What we highlighted was incentive comp, which really was -- as the company continues to perform extremely well, that short-term incentive comp plan is also increasing with that.

If I adjust out the above threshold payment that's baked into Q3 and quite frankly, there was a fairly sizable true-up in Q3 given this is an annual point of view, we really -- we started -- we actually leveraged in SG&A for the quarter. If I pull that through from an SG&A perspective, adjusting for the incentive comp, we're actually leveraging SG&A by 20 bps at the full year guidance at the high end. So I think you're already starting to see that flow through in that adjustment when we both look at Q3 as well as the guide that we gave for the year.

Operator

Simeon Gutman, Morgan Stanley.

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

Jason, I want to step back and ask you about investment and reinvestment in the business to start. Just looking back at the last several years, are there pieces of the customer value proposition, whether it's supply chain, technology, anything else that you want to lean into as you reposition this business over the next several years?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Yes. Thank you for the question. So first, I think you'll hear a lot more on our long-range plan on the extended earnings call that we'll do in March. But from an investment perspective, our investment thesis remains similar to what it's been for years, which is we're very focused on the four priorities in the strategy and making sure that we are doing the things that our customers need every day. That means being price competitive, serving customers in the right way, having the right speed around delivery and fulfillment.

In addition to that, we will make calculated investments in places where we think we either need to fix that experience or by investing in that experience, we actually think we can move the business forward. That goes for things like strategic priorities like our Ads business and Marketplace, and you've seen us do that, and those are great new things that obviously can help us from a revenue perspective, but also can help from a flow-through perspective.

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But then you'll also see us make adjustments like the appliance example that I used earlier on this call where there is a need for us to adjust our experience. That particular category, you have a customer that's looking to replace a product that is broken. There's not a lot of upgrading that's happening outside of that and speed is the number one thing that matters to customers.

And there was a need for us to make an investment to fix our speed, be more competitive in the market as a result of it, and we'll continue to do that. That will always be kind of core to who we are. But I'm very excited on the March call to actually share a little bit more of what our long-term vision will be.

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

Okay. And then there's a lot of good things happening on product side. Can I push you a bit and just -- what are you most excited about either on something that's yet to turn or something that's already strong?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

I think the thing I'm most excited about right now is just the momentum we have across most categories in the business. We've talked about pretty much growth across almost all categories at this point in time. So that momentum is something that's really, really exciting. You have categories like computing and mobile phones that have multiple, multiple quarters of positive growth. And then you have categories like appliances and TVs, both of which on their second quarter of growth.

And things like a TV, what we think is that multiyear upgrade cycle starting to kick in. Those are all things that are making me excited just about the momentum that we have in our business and the way that we're able to support it across our teams in the field that are working with customers every day, but then also how we're supporting it in our digital channels as well.

Operator

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

The first one was on the TV category. You continue to take market share. So to what degree do you believe RGB exclusivity with vendors is aiding your market position? And how should we think about the ability to sustain momentum as the technology becomes more broadly available in the Marketplace? That's my first question.

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Yes. The RGB portion of our assortment continues to meet our expectations. But it's not just about RGB. It's the opportunity that exists because it is one of the most significant innovations that have happened in the TV category in more than 10 years. And the fact that we have it, it's displayed in pretty much all of our stores. And then we also have 15,000 employees that have been specifically trained and certified on the technology delivers an experience that really can't be replicated in other places.

But it's not just about RGB. That combination across our digital, physical and our -- the way that our Blue Shirts are representing the product creates a halo for the category. And that equation, so to speak, can be replicated in many different places. It's an example of where we can take the newest innovation from our vendors, bring it to market in a way, make sure that we're able to communicate it both digitally and in our stores with our people. And that is something that you can see happen in all kinds of different categories.

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I have no doubt that our vendors will continue to innovate every year, and there will be examples like RGB that we can take advantage of. But it's really not just about RGB. It's about the halo that it's creating in that category. And those halos can exist in a lot of other places because we definitely have this formula in the way that we bring things to market with our vendors.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

That's helpful. And then just a follow-up. We noticed during the quarter, you started to open a couple of business centers in maybe a handful of your Canadian stores. You've talked about the growth profile of Best Buy Business in the past. So can you maybe just talk about this pivot in terms of using square footage for the division? And is this a new accelerant?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Yes. We've talked about our Best Buy for Business, which has grown at -- will grow at about 20% this year, and this quarter was in line with that growth rate. We think we'll finish the year at about $1.3 billion is what we've shared in revenue associated with Best Buy for Business. There are about six different segments that we serve underneath Best Buy for Business.

And I think one of the things you're seeing in those business centers, which are only in Canada at this point in time, is an example of us moving very quickly to learn what's going to work in that particular space and doing some experimentation.

It's very early for us to talk about the specific results of those business centers, but I think it's a great example of where the team is continuing to lean in, moving fast, testing and trying things and then going back and figuring out how we can support the business. But we're very pleased with Best Buy for Business and the growth, and we'll continue to innovate and try to find ways to make sure we meet that business customers' needs.

Operator

Steven Zaccone, Citi.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Nice to meet you. So I had a question on the comp trend. Can you help us understand how the quarter played out by month as you did the last quarter? And then in the third quarter, is there any way to quantify the lift from trading cards since Pokemon had an anniversary sale? I understand you said a point for the year, but just like was it stronger in the third quarter? And any way to isolate that one sort of buzz?

Anne Bramman - *Best Buy Co., Inc. - Chief Financial Officer, Executive Vice President*

Steven, I'll take the first part on the sales cadence. And then, Jason, do you want to weigh in on the Pokemon card trading. So what I would say in Q3 is growth was strong throughout the quarter. August started out well, and then we continue to see momentum in September and in October. I would note that we had two events in September in particular.

One was the shift to Labor Day, and we also had our 60th anniversary sale. Both of those outperformed our expectations in September, and we saw continued momentum in October as well. So overall, we're really pleased with the quarter.

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Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

And then as far as trading cards goes, it does fall into that bucket that we've talked about from an emerging category perspective, again, very consistent with driving about 1 point of our comp, which is pretty consistent to where we've been in previous quarters. So there's a lot of demand across trading cards in general quarter after quarter, and we're excited to make sure that we can fulfill that. But I think it's been very consistent with what we've seen in previous quarters.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Okay. Understood. The follow-up I had is just maybe a question of trying to understand the sustainability of comps. When you look at '26, you've clearly outperformed plan. How much do you attribute that to the consumer electronics category doing better versus maybe some transitory lifts from ASP pricing, some of these new phenomenon like a trading cards perspective? Curious as you think about the business on a go-forward basis.

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

As we look at the consumer electronics industry, we've talked a little bit historically about what a normalized growth rate would be, and it's been a while, you have to go back. But a normalized growth rate in consumer electronics with all the innovation and how the portfolio fits together has really been a low single-digit growth. So that's really where we think if we get back to a more normalized state, the industry will be, and that's really what we think we're headed into.

And then obviously, our objectives are to use our four priorities to make sure we're in lockstep with whatever a customer needs and then find ways to grow our business and grow share on top of that. That's a bit of where the strategy lies. Again, we'll talk more about next year on the March call, but that's a little bit of where we think the industry is in a more normalized state.

Operator

Zack Fadem, Wells Fargo.

Zachary Fadem - *Wells Fargo Securities LLC - Analyst*

Could you walk us through your expectation for GTA VI, both in terms of the product itself as well as ancillary products and what the early impact was in November? And then as you look to next year, is there a tail impact considering the early success of the launch?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

So as we've talked about in the gaming category, in Q3, we did see consumers getting ready for both Zelda as well as GTA VI, and that led to hardware growth as well as accessory growth. And we talked a little bit about what we've seen so far in November to date. We've seen the launch of both Zelda and GTA, and we continue to see customers be very interested in the gaming category. At this point in time, what that projects forward in any of those titles, I think we're excited about the way we've guided. We're excited about the fact that we're seeing positive trends in gaming, but we're not going to get into specifics on a specific title.

Zachary Fadem - *Wells Fargo Securities LLC - Analyst*

Got it. And then to clarify on the incentive comp comments for next year. I think you said about $150 million will come out from $175 million this year. And my question is what level of top line that reset is based on and what level of comp we need to see for incentive comp to be flat next year?

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Anne Bramman - *Best Buy Co., Inc. - Chief Financial Officer, Executive Vice President*

Yes. So the way it works is, if you recall last year, the company did not pay out at threshold. And so that was adjusted out. And I think that was called out in the guidance at the beginning of the year. That adjustment was the roughly $25 million that was reset for this year to get to 100% threshold.

As the year has continued -- and our plans are really based on two big metrics. One is revenue growth and the other is OI growth. As we continue to progress with the year and exceed our expectations, we are seeing that compensation coming through as well. So when we look at the reset next year, it's really that incremental component above our threshold, which is roughly $150 million.

Operator

Chris Nardone, Bank of America.

Christopher Nardone - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

So two questions. First, in computing, can you just talk about how you're thinking about product availability heading into next year? And then on pricing, whether you expect to get more or less vendor support on promotions given this unprecedented level of price increases in the industry?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

We're not specifically talking about next year, but we will talk a little bit about this quarter, which we've alluded to. We feel like we have enough product to meet demand for Q4 in computing. That's a combination of the continued supply that our vendors provide us, and it's also a combination of us taking some opportunities to bring in some product a little bit earlier, which not only protects that supply, but it also gave us some opportunities to make sure that the pricing that we're seeing today can continue through most of Q4.

As far as vendors, our vendors are always leaned in with us to continue to grow the business. We were -- we've highlighted that computing was one of the categories that beat our expectations in Q3, and that's with the support of our vendors, and we continue to lean in and make sure we're competitive and find ways to meet that customer's budget and then grow all the different segments of our computing category with our vendor partners.

Christopher Nardone - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And then just a quick follow-up on advertising, Jason. Can you talk a little bit about Best Buy, the Best Buy CTV launch and how you expect this to potentially change the trajectory of the business?

Jason Bonfig - *Best Buy Co., Inc. - Chief Executive Officer, Director*

Absolutely. So Best Buy CTV is a partnership that takes Amazon Fire TV, Roku and LG, and it uses our first-party data and allows customers to be able to -- or vendors in particular, to be able to advertise across premium CTV content. It is -- there's a simplification there where they're actually able to advertise across all of those different platforms by using Best Buy Ads, and it's a great step where we're actually able to offer an additional product that we didn't have before in the CTV space as a result of it.

It also is a bit of building. We've had a partnership with Amazon on Fire TV since 2018. And this is an extension of that, and it is a multiyear deal that allows us to make sure that we take advantage of all the Insignia TVs that we've sold previously and all the Insignia TVs that we'll

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sell in the future that have the Fire platform on it and allows us to have that direct interaction and advertising opportunity with customers. So it is an expansion of what we're able to do in Best Buy Ads that we think continues to round out the experience that we have there.

Operator

Christopher Horvers, JPMorgan.

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

So that was our last question. Thank you for joining us, and we look forward to speaking with you again in March, and happy holidays, everyone.

Operator

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

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