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EDITED TRANSCRIPT

BBY.N - Best Buy Co Inc at Bank of America Consumer & Retail Technology Conference

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CORPORATE PARTICIPANTS

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Elizabeth Lane Suzuki *BofA Securities, Research Division - VP*

PRESENTATION

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

All right. Great. Thanks. Welcome, everyone, to the 2022 Consumer and Retail Technology Conference. I'm Liz Suzuki, I'm the retail hardlines analyst at Bank of America. And I'm very pleased to be joined by the team from Best Buy this morning with CEO, Corie Barry; CFO, Matt Bilunas; and Executive Vice President of Omnichannel, Damien Harmon.

So thank you all for joining us and thank you all for coming in person.

QUESTIONS AND ANSWERS

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

So Best Buy is a household name, obviously, and a retailer that I'm sure everyone here is very familiar with. But can you talk about some of the more recent ventures that Best Buy has gotten into that people may not be as familiar with.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes, I'm going to start by maybe just taking it a level up to start with. We talk a lot at Best Buy about our purpose. And we believe our purpose is to enrich lives through technology. Not to be confused with the tagline, we genuinely believe that is our reason for existence.

And heading into the pandemic we had, had an investor update in the fall of 2019, and at that point, we had started to say we had some thesis on living our lives on the back of technology and this idea that technology would just permeate everything that we do. And you can imagine in the last 2 years, we all know that, that has been the fundamental way we've all been living with technology at the core. And this idea of technology really genuinely meeting human needs underlies everything that we do.

And so you've got this kind of new world where now technology, literally, the number of connected devices in people's homes has doubled since 2019. And so people on the whole are living every part of their life.

So things that are surprising, health care. Health care is a very large initiative for us. Why is that? Well, because digital health, health at home, all of a sudden, literally overnight -- we knew that was coming. It was on like a horizon. All of a sudden, overnight, that became a real tangible piece of our strategy. Or you think about things like working at home, learning at home. Again, we knew that we were probably headed toward a world where maybe more work would be done flexibly. Now you have completely 2 setups. You're going to have one actually at the office, you're going to have one at home and those 2 things need to work together.

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So the place is now where we are working are really around those human need states. What is -- what do people need to entertain? What do they want to do to entertain outside, this is a whole another area that we're going into because people want a TV and then they want sound and then they want equipment for their pool or a little lawn robot to mow the lawn.

Like all these spaces of our lives are changing around technology, and we've chosen to really embrace these need states and really help people unlock what they could do in their homes with tech.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Great. I mean -- so I guess since the rollout of Geek Squad, I mean, Best Buy has been a retailer that not only provides a showroom and a warehouse for product, but also a level of customer service that seems like it would be very important in such a tech-driven category. So what are the keys to Best Buy culture that makes the customer experience differentiated versus your biggest competitors?

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

Yes. So I'll start. And I'll attack this 2 different ways, and I think it's really important that you start with our team and our leaders. So first, I'd start with our general managers. Our general managers, on average, have been with the organization in a fairly long time, which is great. But 50% of our general managers started as occasional seasonal or part-time. So when our teams that they hire, they have somebody that they can look up to right out of the gate and they can aspire to be in that particular role. The other part of that, though, is our multi-unit leaders who they report to, 40% of them started as seasonal or part-time as well. So our culture runs deep in our organization and our teams really buy into what we're trying to accomplish.

So on the Geek Squad side, our in-home team, they deliver 80 NPS, which is fantastic. The key about that though is they're -- on average, they've been with the organization 9 years or longer. So that retention, that tenure with our teams continues to drive long-lasting relationships with our customers, which is really important.

The other piece, though, is on the customer side, we started doing omnichannel before omnichannel was the cool word. And the investments that we made in omnichannel and fulfillment in our stores and our technology allowed us at the beginning of the pandemic to close our stores in 48 hours and still be able to maintain a significant part of our business and serve our customers. And a lot of us over the last couple of years have done curbside.

From a technology investment, we do curbside in minutes when a lot of organizations do it in hours because we made those investments. Our fulfillment, as Corie has talked about, is one of the fastest, if not the fastest in the industry. We're able to do things from a cultural standpoint that our employees are excited about. We make it easier for them to do their jobs.

And our customer, being at the center of everything that we do, is the most important element that we're working towards is, what is that customer telling us? How's our teams leaning into that? How are they able to grow their careers and create that experience where they want to continue to grow within the organization.

And I think that's what's really fun is our teams love what we do, and they aspire to deliver the vision and the strategy. And our customers are buying into what we're doing. And we're continuing to invest in ways that make them feel like they're at the center of our strategy.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Culture is the hardest aspect for me to monetize for all of you. And yet I would argue for us and what we do and the high touch that we have, it is the single greatest advantage. Our general manager turnover post-pandemic is at 6%. So we have leaders in the buildings who know and love this company who work hard to train. Our overall turnover is back really close to prepandemic levels, and it's well below industry averages.

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And so this -- what Damien is talking about, this ability to retain our Geek Squad agents, to retain our in-home consultants, to retain our general managers and provide them career paths is really a big part of what we believe is a special sauce of what we do at Best Buy.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Now services are still a relatively small portion of actual revenue. Do you expect that revenue mix between product and service to change significantly by your fiscal '25 guidance or even from -- 10 years from now?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sure. Services for us is really wrapped in everything we do. So the externally reported number that you see is those point solutions that we talk about: service, installation, delivery, warranty sales, Totaltech sales. For us, services is much broader. Services, for us, is everything that we try to do for our customers. It starts with consultations in homes. It goes on to the website and talk -- it shows the shopping guides that you see. It's a virtual store interaction where you could actually get the best knowledge around fitness equipment.

It's all of those things. It also includes those point solutions of services, installation, delivery, warranty, Totaltech. So it's all those things. The one -- when we show it out externally reported, that number is just those points. So it's really our unique differentiator for us. And so it's really not any sort of evolved -- a change in strategy, more of evolved. It's wrapped up in how we operate as a company and going to be very important as we think about how Totaltech will help us drive more product sales in the future.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I think we cited a couple of things last week at our investor update. These service interactions result in stickier relationships with our customers. So Damien, you talked a little bit about those who interact with the Geek Squad tend to be more sticky to the brand. They come back to us. Or those who have a consultation, they're 93% more likely to continue to come back and work with their consultant again.

So it's not always about the revenue of the transaction in the moment. It is, for us, really important keeping those sticky relationships so that when you have a considered purchase again in technology, we're top of mind for that.

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

And the other piece of that is these services are bringing new customers and reengaging customers back into the brand. So each of the examples that Corie gave, we've seen anywhere from 30% of the customers being new to the brand, 37% being reengaged to the brand. So not only is it high NPS and then we're delivering that experience, but we're inviting more people in and they're saying, I like this and I'm going to continue to shop with Best Buy.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

So it can be a marketing tool, a brand-building tool as well as potentially a revenue driver.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. It's really all those.

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Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Yes. Right. So there were some noteworthy changes in the fiscal '25 outlook between the 2019 Analyst Day and then your event last week, specifically higher targets for both sales and operating margin. So what are the biggest factors that have driven that change to the outlook? And how much is driven by industry factors versus Best Buy-particular factors?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes. I'll start then maybe Matt can add some color. The team added $8 billion to the top line in the span of 2 years. And I'd love to perfectly delineate what's industry versus what is in the team's control. What I would say is, no matter what, you have to be in a position to take that kind of volume, to bring in that kind of inventory, to manage the supply chain. No matter what, you've got to be in the position to be able to do that.

But there are a few things that distinctly changed in that time period. So the first, obviously, the industry and consumer electronics grew faster than we were expecting. We had the hypothesis that consumer electronics were need-based and people would need them more into the future than ever. That just, of course, there was fuel thrown on that fire with the pandemic and the way we were all living. So you had an industry change.

The second is that our online penetration doubled. Again, we had a hypothesis online penetration with increase. We thought 100, 200 basis points a year. And we are now at roughly, call it, mid-30s penetration of our digital business. So again, we were ready for that. And to Damien's point, we could move to 100% curbside in 48 hours, but that happened much faster than we had anticipated.

The third is that we needed a more flexible workforce that could be more efficient while also investing in wages and benefits. And so we leveraged this time period to create a very flexible workforce with a number of skills who could move between stores and between departments, but also raised our minimum wage. Our average minimum wage -- hourly wage is above $18 an hour. Our average hourly salary has gone up 20% in 2 years.

So we both created efficiency, but then invested deeply into our associates. We could retain our associates through a really bumpy time period, but that built a lot of efficiency into the model for us.

We also saw a change in some of the additional growth categories that we talked about. So we're talking about some of our category expansion. That happened much faster in the last 2 years because people would come to our site, and we're just interested in completing their solutions. And so we decided to double down on that and really be there for them.

And finally, we had a hypothesis that membership would be important. We launched a completely new membership program with Totaltech, where we built on our tech support backbone and also added things like member-exclusive pricing or 2-year warranty for free whenever you're a member or some inventory access to highly constrained inventory. Different pieces that we knew would be applicable to a wider array of people since we had so many new customers coming in.

And then, finally, we clarified our health strategy and we are much clearer on our role in particularly virtual health going forward. And that tails a little bit longer term, but it's much clearer because the way people are using health care changed a lot in the last 2 years.

So I think you have this combo platter to your point of some industry changes, but being in a very good situation to capitalize on those changes.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. And as it relates to the targets, they are much higher than they were set back in 2019. And I think that's a couple of things. It's building on all the advancements that Corie just talked about. We certainly learned a lot, advanced a lot of initiatives over the last couple of years. But it's also based on the belief that the industry is going to be bigger. It's going to return back into FY '25 to a similar size than it was in FY '22. So it's a combination of those 2 things.

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And if I think about the pacing of revenue to FY '25, it's Totaltech, which is going to drive another $1.5 billion of sales for us, which is net of any sort of cannibalization of the services stand-alone hours that we talked about. It's advancing health in those 3 areas: consumer health products, active aging and virtual care. It's also investing in our stores where we can get a better lift because the experience improves.

And then it's expanding into different actual new markets. Jason Bonfig outlined a number of areas where we're getting into e-transportation and new areas for Best Buy. So it's all of those things that are added together to the better sales outlook.

I think the profit outlook is -- I think we've gotten some feedback that is -- seems a little aggressive. In our mind, it actually isn't that aggressive. If you break it into a couple of pieces, if you just look at FY '22, we ended the year at 6% OI rate and then included an outsized level of STI payment. So I imagine that would have been a more normalized STI payment you're likely in the 6.5% OI rate range in '22 and that includes investments in Totaltech. It includes investments in health business and technology.

And so as you set an expectation that those improve, which we outlined in the road map, and your base business is already extremely strong and profitable, getting to that 6.3%, 6.8% range is a lot more understandable from that context.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

So it sounds like a lot of the changes that have occurred in the last 2 years, a lot of that is probably permanent or at least fairly sticky. So to assume that the industry gets to the same level it was in '22, but '25, it doesn't really seem that aggressive.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Those -- the permanence of those changes are really driving the belief that technology is more important than it used to be. There's more devices in people's homes. And all those things give us confidence that the industry is going to grow and it's going to continue to grow.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

What's fascinating and maybe least understood about electronics is it has this like history of people believing it's a super cyclical industry like hit driven. The truth is, it is an incredibly stable growth industry. Why is that? Because in all these devices, now 2x as many in people's homes, the world's largest companies are constantly innovating to create kind of the next rev of product.

So you have both this really fascinating world where the next rev of computing. All of us know, once you've lived with your computer for 2 years, you would like one that has a longer battery life, a better screen, maybe better keystrokes and it's lit from behind. Like all these things matter.

And so you have -- when you have this massive penetration of devices, massive innovation on the way we are all living and then technology actually interrupting other industries like electronic transportation -- or I mean, trust me, Best Buy would not have been selling stationary bikes 10 years ago, right? But now it makes complete sense because it's an industry that has been turned on its head through technology. That's the nature of the world that we live in. And so this is not this hit-driven industry where we all wait for a certain kind of TV. It's actually this constant innovation cycle that really drives interest.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

So we've been running a survey series since June of 2020, specifically about consumer trends during the pandemic. And our latest survey actually found that 41% of workers are still working most of the week from home. So for someone who put together their makeshift home office 2 years ago, I would think there are still some incremental investments to be made to support the hybrid home versus office work environment. Are you still seeing that in demand in your stores?

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Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes. Here's what's fascinating. We haven't really even turned the corner yet on true hybrid work models. We're just getting there, right, where a lot of people are just now going back to the office 2 to 3 days a week.

So what does that mean? That means for a lot of people, you have a complete office setup. You have a complete home setup. On Monday, Friday, you might need the home setup. On Tuesday through Thursday, you're going to need the office setup.

And actually, a lot of those devices need to play nicely together. Like in my case, the work computer needs to go home and play with the home printer and network. The home iPad needs to go to work and play with the work network and work printer. And then there's probably like 6 other devices that also need to play nicely.

And by the way, I also haven't been to the office for a while and my setup there is not nearly now as nice as the setup that I worked on for 2 years at home. And I mean I'll use a real example. I started with 1 little puck speaker because I was by myself in my office. Now I have hybrid meetings in my office and I need a larger speaker with a connected puck. So I can sit in 1 part, my team can sit in another, and you can actually have a hybrid meeting.

This concept of growing these spaces and the technology that will make all of this more comfortable for us, that -- I think we're just on the tipping point of that, honestly, because we haven't -- we just haven't even practiced. And it's even true with entertainment on the go. Like my kids now 5G, what does that enable? It enables me to play Fortnite at home, move that seamlessly to my computer and take it with me in the car.

Again, just on the tipping point of all these different spaces where you can use technology interchangeably in your life, I think that's the part where whether it's the support that we provide to make all those things work together for you or whether it's the advice and inspiration we can provide to help you figure out what would work best for you and your home setup, that uniquely is a role that we play.

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

I think the last thing Corie said is probably the most important. We have thousands of employees that go in customers' homes and can see what you want in your home. Not only what you have, but ultimately, the experience you're trying to create and that's across your whole home.

So if I want to go to the office, we can say, here's what you need. Here's the key things you have, here's the upgraded model, here's how that will work and here's what you need to put together. We can order for you on the spot or send you a link and have you order it later and then you can go to the office and we can set it up.

But we also have thousands of technical employees, Geek Squad, that can go into your home or in your office to make sure it keeps working the way you want it to work. Nobody wants -- and we've all done it. We buy technology and it doesn't work the way you want it. So who do you call? Well, you call Geek Squad.

And that's the key thing is we could sell it to you and help you paint the vision with a blank canvas and make that come alive. And then we can make it work constantly and upgrade it over time. And I think that's the connection that makes us special.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

And one of the cool innovations, too, is if you don't even want us in your home, you can do a virtual chat with us and you can get help for the Sonos speaker that isn't working or the treadmill that isn't working by just simply doing a virtual chat instead of like a chat online that you would normally do. That virtual interaction is going to be so powerful as you get into the next decade of retailing.

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Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Right. So I guess one of the questions we get a lot is about the benefit that you may have had from stimulus over the last 2 years. So I mean what are the demographics of your typical customer? And what does your internal data tell you about the extent to which stimulus payments and other government benefits may have helped your sales in the last 2 years.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. Our customers kind of run the gamut. They're kind of -- they represent our community quite across the board. And I think if you micro-focus on maybe our more core customer, they're a little higher income. There may be a little bit more male.

But what we saw over the pandemic, we actually saw a lot of new customer growth. And a lot of that new customer growth, to your point, was slightly younger, slightly lower demographic and even slightly more female.

Certainly, stimulus was a part of that. And as you think about FY '23, we're very thoughtful about the impact of stimulus that came into the last year or 2 and represented that in our guide. But clearly, we've been able to attract a new type of customer to complement a customer that has already been very good to us. And we've been able to retain those customers, too, through the pandemic at consistent rates as we have just a normal customer.

So we're seeing our customer broaden -- our customer base broaden a little bit and it does, in some fact, represent what's come through the government from a stimulus perspective. But just also what we can represent from an assortment, inventory availability, the expertise that you get from all the things we've been talking about today. Our younger representatives -- younger teams -- younger people in the society, they want those as well. They value different things. And so we are able to serve all the different types of customer segments.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I think one of the things that's always been important to us, and that is a luxury we have by being a specialty CE retailer, is we have the widest assortment. And so we have everything from the opening price point Chromebook all the way to the $1,500 totally spec-ed out gaming laptop and everything in between.

And so this ability that we have because we're not constrained by any other products, that's true in our television assortment, it's true in our television assortment, it's true in our computing assortment, our phone assortment, like every one of these we have that breadth. And then when you layer on the expertise that Damien talked about, you have a chance to help across that demographic spectrum, which has helped us. Whether there's stimulus up, stimulus down; housing up, housing down, it's helped us kind of weather those storms.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Yes. Along the same lines, we've started to hear the recession word, again now with gas prices going up. And so you've assumed in your guidance for this year that there would be a modest dip in demand after 2 very strong years of growth. So has the guidance baked in any risk of an actual recession? And I guess, in the next 12 months, if you were to see that, how is Best Buy positioned if that were to play out?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Broadly speaking, we haven't worked the recession model into our numbers for next year. We've clearly given ourselves a range of outcomes as it relates to sales next year. The operating income rate guidance is about 5.4%. So -- but we haven't built in a broader decline in the economy.

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I'd say our position to withstand it is quite strong. I think we have a very strong balance sheet. We've proven over the years of having some operational excellence and being able to make tough decisions. When the pandemic started, we made some difficult decisions around our benefits and our employees. And so we're able to do those things and navigate very flexibly between the different channels and models.

So I think we have very strong operations, strong business, very quick decision-making. And certainly, if we were to actually get into a deeper recession, we would clearly make different decisions and cut back appropriately. And I guess it all depends upon how long we see this lasting because the last thing we want to do is not be able to position ourselves well for the long term. So we would likely continue to hold sacred those investments and initiatives in our employees as much as we can because we believe we're very -- have a very good future ahead of us and very strong strategic position and competitive position within the industry.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

And I guess with inflation top of mind for a lot of investors right now, how have rising product costs impacted the top line and things like rising freight and transportation and wages impacted the bottom line as well or your margin profile?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Sure. Look, I'll split those 2 questions off here a little bit. From a pricing of the goods-we-sell perspective, our ASP has actually been growing for years leading up to the pandemic. And through the last couple of years, ASPs have been higher. The inflation impact of that is probably the last of the 3 that have been impacting it.

The first impact of ASPs has been just general lack of promotionality because the inventory has been constrained. There's been such high demand. That's been the bigger generator of ASP increase over the last couple of years.

The second is actually a premium mix, selling more premium product. Higher ASP product has been helping the overall ASPs.

And then there has been some inflation from prices going up from our vendors baked in, but that's the least of the impact. It's not necessarily as big an impact as you see in some other industries that are out there right now. So it does have an impact.

But for the most part, we're going to be competitive and we don't control all the inputs to our vendors' products. And so at the end of the day, whether the costs have gone up a little bit, if we see the need to be promotional or present better prices to our customers, we're going to do that. And that can sometimes -- that will often negate some of the inflation impacts that we see.

From a cost perspective, we clearly have cost pressures every year is what I would say. They've been a little bit elevated the last couple of years across freight and warehousing, whether it's overseas cost or in ground -- domestic transportation or just carrier rate pressures. On the freight side, we've also been seeing labor inflation. We've talked about that, and we've been able to help mitigate that with just efficiencies built into our model.

And even in places like marketing vehicles. Media has been more expensive in the last couple of years as a lot of people have been using that avenue to drive a very high demand. And so what we do is we look for efficiencies across our business to always mitigate any cost increases, and we've been doing that the last couple of years.

So it certainly has had some impact to OI rate. It's not as big as I think that you would see in other industries. We have such a strong culture of cost reductions and efficiency to mitigate that. Whether it's looking for more effective ways to move product around, more effective ways to take product back in and provide it to our customers and reduce the liquidation costs, there are a lot of things that are still available to us to help mitigate some of these pressures we see.

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Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Are there certain product categories where it's easier to pass along rising costs where the demand is a little less elastic than others? Like do you have to take a portfolio approach across the entire swathes of product?

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

We try to be competitive in all of our categories fundamentally. And I think there's been some more well-documented increases in things like large appliances that have generally been passed on. There's been a couple of rounds of, if not more, increased large appliance costs and those generally get passed on. But at the end of the day, like I said, we're always going to be competitive. So if we feel like demand is moving in a way that we need to increase promotions, that's where we'll focus.

So nothing I would call out from an elasticity perspective, but generally, we're going to be competitive. We're going to be matched right in the market and just to focus on that.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

And then in the last earnings release, you noted that there were certain products around the holiday season that were difficult to procure in the quantities that you needed to meet demand.

So has the supply constraint generally been getting worse? I mean the inventory position was a little bit lighter at the end of 4Q than 3Q, so I'd be curious to hear if there were still some material issues that you think are kind of still playing out on the supply side. And if your competitors are experiencing any of the same issues.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Generally, the inventory has been getting better. I mean progressively every quarter since the pandemic started, inventory has been getting -- had a low point at some point last year -- 1 year, 1.5 years, but it's been progressively getting better. And I think there's still spottiness in some areas. Like back to large appliances, it's difficult to find a dishwasher in some cases. Sonos soundbars are hard to find.

So there's still spottiness, but generally, we're in a very good inventory position. If we look at our 4 days of supply, which is what we use to measure like how good are we sitting today, it's very strong in most of our categories.

During the holiday season, the comment we made for the earnings was very specific products, very specific iconic brands based on some chipset shortages in a lot of cases. It's just not what we expected to get in the holiday period and that drove the constraints we talked about. There's always constraints in the holiday season. They were just more than we expected going into our guide, which caused us slightly to miss the guidance before.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

So when you have out-of-stocks, it's not often an entire category, it's more like specific product. Does that make it difficult to offer substitutes? Or do you usually have some alternatives that you can guide the customer into?

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Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. It's usually in specific products or brands, but we usually have other brands available for us to move customers into. In often cases, it's even trade-up or trade-down. If you're looking at a computer and you come in for a more mid-priced computer, the high end might be available or the low end might be available.

We saw a lot of the trade-up/trade-downs over the last 2 years. And so usually, it's sometimes very specific products. In some cases -- or brands. In some cases, it is a more generalized constraint like dishwashers. Sometimes it's just hard to find any of them, but you can usually find something that customers want and need.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I think this is actually a little bit of a head and strength. And again, with the breadth of assortment that we're talking about here, one of the things Damien hit on is this expertise allows our teams a lot of transferability. Our team spent a lot of time saying, what exactly did you come for? Why did you come for that? What do you need it for? And how can I help you find that other option that might work for you?

Of course, it doesn't work with like a specific iconic phone as an example. But in a lot of cases, when it comes to TVs or it comes to major appliances, you can -- a good associate can really help a customer through what exactly are you trying to solve. Yes.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

So I'd love to touch on some of Best Buy's ESG initiatives. I think this really a differentiator versus a lot of your competitors. And so just how the company is proactively driving change in the retail industry. So if you could just walk us through some of your top priorities and how your suppliers, employees, customers each play a role in your goals, that would be great.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes. Well, we -- I feel like we can spend 40 minutes on this. I think underlying our efforts here is our belief that being a good ESG citizen translates into long-term value creation, period. That's why you do this: because you believe you create long-term value.

And so if you start in the E of ESG, there are a couple of places where we've had monumental efforts. We were one of the first to sign on to the carbon pledge. We're pledging to be now carbon-neutral by 2040. We started this in 2009, that's our baseline year. And we -- at that point, we said we'll reduce carbon emissions by 60%. We're already over that from our baseline. And so now, we pledge to be carbon-neutral by 2040 in a race to 0 campaign leading the way with a few other retailers, Walmart being another one who signed on as founders. So very important.

But there are some other systemic pieces that we can influence. We also influence what our customers buy. We sell hundreds of millions of ENERGY STAR appliances and are reducing carbon footprint for our customers.

And I think one of the least understood, least valued, but really most important gems is our role in the circular economy. Consumer electronics aren't quite like, like you've heard a lot of retailers saying, don't even bother sending us the product back, just keep it, we'll send you a new one. It doesn't work in consumer electronics. These are very high price points. They take a lot of materials in the products.

So we have responsible recycling. We have repair through our Geek Squad agents. We harvest parts from our -- from some of the returns so we can use those in repairs. We have outlets where we can actually take some of the refurb product and put it back into the marketplace to be used. And those outlets, by the way, we get 2x the liquidations on those outlets versus trying to do it sideways.

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And you can imagine our vendors and our customers, to your point about partners, our vendors don't want that product back. Our customers don't want it and they want it to be responsibly recycled. They want their data gone off of it as well. These are all really important parts of what we do in a circular economy that no one else can do. So this environmental part, we take very seriously across the gamut of what we do.

I'm going to skip social, I'll come back to that in a second.

On the governance side. I mean we've continuously been named one of Ethisphere's most ethical companies in the world. We take our governance responsibilities incredibly seriously, and they're often held up for our code of ethics, the behaviors that we really bow for in our company. And the culture, again, that we've created in our company, that's something that's really important to us. And our Board of Directors is 50% female. It's very diverse. It's about 1/3 people of color. And so this idea of governance across all the aspects of what we do, including ESG is one of the tenets that we hold dear.

And if I step back into social, we have made a number of commitments, specifically around diversity and inclusion. We have hiring goals, retention goals that we have set out. We've committed to spend $1.2 billion with BIPOC businesses and have already made really good progress. We measure our progress in our ESG reporting, so it's very clear as to whether or not we are actually performing against those goals.

And we take our employee investments incredibly seriously. So maybe, Damien, you started a little bit. Maybe you can build a bit on what we're doing for our employees.

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

Yes. I'll touch on 2 things: one being the employee, the other being in the community. I'll start with the employee. So we've done a lot around benefits, which has been really important. And I think a lot of people go out and tout their benefits. But to me, it's less around the benefits you have. It's are employees able to use them? Do they know about them? And we have nearly 1,000 well-being ambassadors in our organization who have volunteered, from a benefits standpoint, to raise their hand and say, I want to be accessed from our employee population to help people understand how to use their benefit.

So literally, in every single location, we have a well-being ambassador there to help our employees and guide them, think about the last 2 years how challenging it's been, we can help them understand what to use when, what particular benefit is most important. And that's really important because it's around who gets to use them? Do they understand them? When do I -- when should I actually apply for them, et cetera? And I think that, that's been really good and our teams have told us a lot.

The other piece is we tap into our employees, and we send surveys out to say what's most useful? What's not? What is? And we get their input. And so we bring them into the process so they can help us shape. And our comp team has been absolutely amazing at being able to adjust accordingly based on what our employees need.

The second piece is around our Teen Tech Centers and I think that, that's really important. Coming from Gary, Indiana, which when I was growing up was the murder capital in the United States, right? That was one of the toughest places in the United States to grow up. It hasn't changed much today. And so we've made a commitment to open 100 Teen Tech Centers in underserved communities. I have the blessing of being able to open one in my -- in where I grew up in Gary, Indiana.

And I think that, that's what's important, being able to tap into the community. Show the youth of America, what's possible and provide hope, right? And that's -- we're engaging in that. We're partnering with large organizations to invest in their communities. We started with 100 and I believe there's a lot more, but there's a lot of people out there that are raising their hand to say, I want to be a part of this Teen Tech Center initiative.

And the youth and the outcomes and the engagement, sending kids to college, investing in those communities, showing them that we care and then providing internships and growth opportunities to be able to then eventually work in Best Buy and work in the store. And they can have the opportunity to sit in this seat one day because they see hope and that's what our organization has provided them.

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Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

And I think that -- there's a misnomer over here that the initiatives we're talking about are nice to have. This is a pipeline of talent back into our organization. We've seen a 30% increase in mental health leads at the company. We are adding paid caregiver leave because so many people are caring for aging parents. Not just -- this isn't just about kids. This is, in a large case, about aging parents. We've added tutoring assistance because so many kids are at home and parents can't take care of them. We've added backup child care.

What does this do? This keeps your employees in your ecosystem, thereby meaning you don't have to go out and hire. You can combat some of the wage growth you have more dedicated associates who have all the knowledge, you're not retraining. This is really, really good and it creates a very virtuous cycle within the business.

And so I just want to underscore, this is not a nice-to-have. This is actually fundamental, I think, right now in this environment for any company who wants to remain competitive.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

And since we're all analysts and we like to actually see numbers behind things. So how do you feel like that's impacted your turnover rate versus whatever benchmark you look at in the industry?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

And this is where I started to cite some of the examples, but we've always said our turnover we've said out loud is in the mid-30s. NRF would say average retail turnover is in the 60% to 70% range writ large. So a -- and we're back to very close to prepandemic turnover levels. That is one of the things I'm most proud of.

And then in some of those slices of talent where we really, really need to retain that talent, like the general managers that I cited, you've got a 6% turnover rate at the GM level. In the Geek Squad, you have a very low turnover rate. In our consultants, very low turnover rate. I mean the average tenure in Geek Squad is...

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

9.5 years.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

9.5 years for a Geek Squad agent. So this is -- to your point, I know everybody loves numbers. This -- again, this is not just about we think this is nice to have. This fundamentally creates this more specialized model, which again, in consumer electronics and for what we do is really important.

And it rolls all the way to our corporate office, let's be clear. Keeping digital and technology talent, keeping data and analytics talent, giving them working career paths that are really interesting and they know it can fundamentally touch a customer the next day. It's something that's really remarkable to watch.

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Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Yes. As a finance person, seeing a good GM in a good box for a long time, you cannot underscore how important that is to just the financial performance. Like having someone who knows the community, having someone who knows the people in the store, that knows the traffic patterns and how that works is fundamental to how you actually succeed as an organization.

Damien Harmon - *Best Buy Co., Inc. - EVP of Omnichannel*

But if you go back to a little bit earlier when we talked about the thousands of employees we have that can go into your home, I think that what's really cool about that is nobody wants to see that individual turnover because they become my gal or my guy. And our designer turnover is below 10%. And they are continuing with the organization to engage with the brand, helping their vision come to life and they love what they do and they can continue to grow in their career endeavors.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Great. Well, I want to make sure we have at least a couple of minutes for Q&A. So if anyone has a question, you can go ahead and raise your hand, someone will come around with the mic.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I've gotten very comfortable with silence in the pandemic. No one wants to raise their hand.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

And if no one has a question I'm going to have one more, but go ahead.

Unidentified Analyst

When you're connecting the office to home, does that mean that there'll be more orientation to the corporate America as opposed to the individual, which is where you've been in the past?

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

I think it's both. Thank you for the question. What's really interesting is our hypothesis has always been when you get really good at doing consumer work. When you get really good at servicing the consumer, there are beautiful co-centric circles that are built outside of that. So we actually have a very strong, it's called Best Buy Direct. It is a Best Buy for business, business. And it's more small and medium business. And we don't talk about it a ton, but it's an important part of what we do.

And the team actually used the pandemic to pivot that business to be heavily digital. So we have a very simple user-friendly digital interface that can help you, as a small to medium business owner, really figure out that whole tech stack. And then we get the Geek Squad agents in there to help you get it done. And so it's not so much a pivot, it is you can leverage some of those same skills differently.

The other example I would give is if you go to samsung.com as an example. On their website, if you're purchasing, especially a higher-end TV, they will recommend that you use a Best Buy consultant to help you with that installation and delivery. So again, something you've driven at a consumer level, but you can kind of start to leverage differently with your vendor partners once you get really good at it.

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So I think what we're trying to do is it's not even just so much about a pivot. It's whatever angle you're at, we have the infrastructure there to help you.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Great. Any other questions? And I'm going to use the last minute just to ask about what you're the most excited about for the next 3 years.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Yes. If you guys can tell, I'm excited about everything. I think what I'm most excited about is we had hypothesis in particularly 2019 that digital would be more important, that the seamless omnichannel would be important, that delivering with speed would be important, that employee flexibility and benefits would be important, that health care and the home would be important.

And what has happened in the last 2 years for as painful as it has been, from a technology perspective, that has been the backbone that has actually kept us all together. And the idea that our teams have been willing and have made all the investments up to this point to be ready to take that challenge on and then to be there on the other side to serve customers in a very unique way, unlike anything anyone else can do at the scale that we have, that -- I just think it sets us up beautifully for the future and for lots more people to, hopefully, into the future sit in these chairs like us.

Elizabeth Lane Suzuki - *BofA Securities, Research Division - VP*

Great. All right. Well, thank you so much.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Thank you.

Corie Sue Barry - *Best Buy Co., Inc. - CEO & Director*

Thank you. Thanks, everyone.

Matthew M. Bilunas - *Best Buy Co., Inc. - CFO*

Thank you, everyone.

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