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BBY.N - Q1 2022 Best Buy Co Inc Earnings Call

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OVERVIEW:

Co. reported 1Q22 enterprise revenue of \$11.6b and non-GAAP diluted EPS of \$2.23.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Best Buy's Q1 FY 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded for playback and will be available by approximately 11:00 a.m. Eastern time today. (Operator Instructions)

I would now turn the conference call over to Mollie O'Brien, Vice President of Investor Relations.

Mollie O'Brien - *Best Buy Co., Inc. - VP of IR*

Thank you, and good morning, everyone. Joining me on the call today are Corie Barry, our CEO; Matt Bilunas, our CFO; and Mike Mohan, our President and COO.

During the call today, we will be discussing both GAAP and non-GAAP financial measures. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures and an explanation of why these non-GAAP financial measures are useful can be found in this morning's earnings release, which is available on our website, investors.bestbuy.com.

Some of the statements we will make today are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may address the financial condition, business initiatives, growth plans, investments and expected performance of the company and are subject to risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. Please refer to the company's current earnings release and our most recent 10-K and subsequent 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.

I will now turn the call over to Corie.

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

Good morning, everyone, and thank you for joining us. Today, we are reporting record Q1 financial results, which include comparable sales growth of 37% and non-GAAP earnings per share growth of more than 230%. We are lapping an unusual quarter last year that included both periods of high demand and periods when our stores were closed to customer traffic. When we compare to 2 years ago, our results are very strong. Compared to the first quarter of fiscal '20, revenue is up 27% and our earnings per share are up more than 100%.

Customer demand for technology products and services during the quarter was extraordinarily high. This demand is being driven by continued focus on the home, which encompasses many aspects of our lives, including working, learning, cooking, entertaining, redecorating and remodeling. The demand was also bolstered by government stimulus programs and the strong housing environment.

Our teams across the organization met that demand with remarkable execution, from our merchant and supply chain teams working behind the scenes to our Blue Shirts and Geek Squad agents on the front lines. Our employees once again showed amazing flexibility and execution, managing extraordinary volumes. Most importantly, they provided exceptional customer service in a safe environment.

From a merchandising perspective, we saw strong comparable sales across virtually all product and service categories. The biggest contributors to the sales growth in the quarter were home theater, computing and appliances. With the extraordinarily high customer demand as well as production and distribution disruptions, product availability constraints continued to be a theme during Q1 as they have been throughout the pandemic, particularly in large appliances, computing, televisions and gaming. Our teams collaborated closely and effectively with our vendors to bring in as much inventory as possible. This is a testament to the trust and unique relationships that our merchants have built with vendors over decades of partnership.

Our results this quarter also highlight the strength of our supply chain. We were able to efficiently move the amount of inventory necessary to drive 37% comp sales growth while navigating record demand across retail, container shortages and port congestion. We also improved our speed to customer, as our online sales package delivery was not only much faster than last year, it was faster than 2 years ago pre pandemic. In fact, same-day delivery to customers' homes was up 90% on a year-over-year basis.

In addition, we continue to leverage our stores to drive fast and convenient fulfillment of online orders. In Q1, about 60% of our online revenue was either picked up in store or curbside, shipped from a store or delivered by a store employee, which is becoming an increasingly important aspect of our delivery experience. The percent of online sales picked up by customers at our stores was 44%, similar to last year's first quarter. This strong performance would not have been possible without an amazing and resourceful team of people and the multiyear investments we have made in our supply chain transformation.

Best Buy has a unique ability to inspire and support customers in ways no one else can. And as the impacts of the pandemic have evolved, customers across all age demographics are feeling more comfortable coming back into stores to see products firsthand, seek expert advice from our associates or get technical support from our Geek Squad agents. At the same time, sales originating online continued to be much higher than pre pandemic and were 33% of our Domestic sales compared to 15% 2 years ago in Q1 of fiscal '20. In addition, we continue to innovatively help customers via phone and chat. We learned a great deal last year by bringing more of our expert Blue Shirts on to our digital and phone platforms to support our customers.

In fact, most aspects of our unique and full suite of services have rebounded to pre-pandemic levels. For example, install, delivery and in-store and in-home repair volume is all up over last year and higher than 2 years ago. Active My Best Buy loyalty program members have grown considerably, and members are using the program more than last year and 2 years ago. Our Total Tech Support membership acquisition metrics, such as sales

per store per day, have rebounded and are even higher than what they were 2 years ago. In addition, total usage of the program is up more than last year and 2 years ago.

During Q1, we saw strong growth from engaged and reengaged customers. Starting at the beginning of the pandemic through March, we saw elevated growth in new customers. In total, new customer growth was about 50% higher than pre-pandemic levels. These new customers gained during the pandemic have slightly different demographics from our historical new customers, such as slightly younger, slightly more female and slightly lower income. We are encouraged by the fact that we are retaining these new customers at rates similar to historical levels, considering they are not only a slightly different demographic but they also represent a much larger group of new customers than we have historically seen.

As I mentioned earlier, online sales were 33% of Domestic sales this quarter compared to 15% 2 years ago in Q1 of fiscal '20. For the year, we have updated our working assumption regarding the mix of online sales and now expect it to be in the mid-30% range from our original expectation of approximately 40%. This compares to 19% for the full year 2 years ago in fiscal '20. Nevertheless, clearly, the pandemic has accelerated the evolution of customer shopping behavior.

Our research indicates our customers look to Best Buy to serve 4 distinct shopping needs: inspiration, research, convenience and support. And customers expect to be able to seamlessly interact with physical and digital channels. We have a unique ability to serve all of these needs at all times in all channels. We are currently looking at how we can best deploy our team and our physical assets to meet these customer expectations and needs. As we discussed in our past few earnings calls, we are taking the opportunity to test and pilot a range of models and initiatives to better understand how we can leverage our stores and facilities for more fulfillment purposes and how we can deliver customer experiences with a more flexible and engaged workforce.

Late last year, we launched a pilot in Houston to test a much more experiential store. For example, from an inspire and support standpoint, it has new PC gaming, headphone and fitness experiences as well as fully remodeled premium home theater and appliance experiences. In addition, it has a much bigger Geek Squad presence in the store. From a fulfillment standpoint, we reoriented the location of the store warehouse to be adjacent to a new covered drive-up curbside experience and lockers. Early results from this pilot show higher NPS and sales relative to its group of control stores.

Late last year, we also began piloting new store formats to test our hypothesis of stores as more primary fulfillment hubs in 4 Minneapolis locations. In these locations, we reduced the shoppable square footage to provide incremental space for staging product for in-store pickup and to support ship-from-store transactions. The product assortment on the sales floor still includes the primary categories these locations had before the remodel but the merchandise SKU count is reduced to focus on the most popular items. Accordingly, the pilot stores have fewer store associates, and we are testing a queue functionality for customers who would like to consult with an associate.

In 1 of the 4 locations, we are utilizing some of the available space to increase the previous allocation to our Geek Squad business. Our goal is to retain customers and improve customer satisfaction while reducing selling square footage, improving speed and convenience and operating a more efficient model. We will continue to refine and iterate to learn and evolve our hypothesis.

Later this year, we will be piloting a new market approach. To best address local customer needs, we will leverage all our assets in a portfolio strategy across stores, fulfillment, services, in outlet, lockers, our digital app and both in-store and in-home consultation labor. From a physical store standpoint, in this market, we will be testing an array of different prototypes, including 15,000, 25,000 and 35,000 square foot stores, a new outlet store and even smaller 5,000 square foot stores. Our goal is to improve customer penetration by delivering new, more efficient and still experiential store formats that are more proximate and relevant to customers. In addition, we believe we can operate more efficiently, for example, by reducing total retail square footage across the market, reducing open box costs and improving utilization of our repair and other tech capabilities.

We also continue to refine our ship-from-store hub concept. While all stores will continue to ship online orders, we are driving efficiency and effectiveness by consolidating ship-from-store units in a limited number of stores across the country. In addition to our physical stores, our operating model is evolving to meet our customers' changing shopping behaviors that have been accelerated by the pandemic. The sudden and lasting shift customers have made to shopping more regularly and seamlessly across all of our channels has amplified the need to look at how we get our work done.

As we think about our labor operating model, we are designing for employee choice, flexibility and career opportunity. Our response to the pandemic has shown our ability to be successful when broadening the scope of responsibility of our associates and has highlighted the importance of ongoing flexibility and adaptability. A core aspect of our strategy going forward is upskilling and reskilling field employees. The benefits of this go beyond just a more flexible workforce.

Yes, it allows our employees and us to schedule shifts more flexibly within the store and between channels like virtual sales, chat, phone and remote support. But just as importantly, our employees are gaining skills that can be used across their career journey, and they're gaining more confidence. Early results are showing us that once employees add skills, they tend to drive a higher customer NPS. And we are making significant progress as to date thousands of employees have earned multiple skill sets.

As we continue to evolve our labor model, we have not lost sight of the competitive advantage our team members provide, especially in more complex sales transactions. Specifically, our in-home advisers, the Pacific Kitchen & Home experts and Magnolia system designers have the unique ability to create and build relationships and have developed clienteling skills. Earlier this month, we brought these 3 previously siloed teams together into one team.

This will allow us to serve customers more seamlessly across all the ways they want to interact with us, whether it is virtually, in our stores or in their homes. This change positions our most skilled employees against the most complex work within an entire market and will provide improved career progression opportunities for our sales team. Now called consultants and designers, the members of this coordinated team currently number nearly 3,000.

We shared last quarter that our overall headcount was down approximately 17% as we entered the fiscal year. The percent of our total employees that are now full time is approximately 60% compared to 54% pre pandemic. We are iterating to find the balance between providing employees full-time opportunities that come with benefits and guaranteed hours and schedules while also maintaining the flexibility that is often important in retail. Overall, we are doubling down on the expertise by investing in our people, in their training, skill sets and career progression.

We also continue to expand our employee benefits, most recently adding new programs focused on diabetes, physical therapy and supporting and advocating for employees in the LGBTQIA+ community and those managing complex, chronic or ongoing care needs. These are in addition to benefits we added over the past few years that include 100% coverage of COVID-related health care expenses, expanded caregiver leave, additional support for backup childcare, tutoring reimbursement and access to physical and mental health virtual visits.

In addition, to show our appreciation for their hard work over the last several months and in recognition of their ongoing efforts in the face of pandemic fatigue, we paid employee gratitude bonuses this year. In March, all hourly U.S. employees received \$500 if full time and \$200 if part time or occasional/seasonal. Furthermore, all hourly field employees will receive an incremental \$150 recognition award over the next 2 weeks.

Clearly, the landscape as it relates to the pandemic has been changing rapidly, and we remain keenly focused on keeping employees and customers safe. We are continuing to encourage all employees to get COVID vaccinations by providing them with paid time off when they receive the vaccine and providing them absence time to be used in the event they develop side effects that warrant their needing to stay home and rest after receiving the vaccination.

I would like to now share the latest developments of our membership strategy. As we mentioned on our last call, we purposefully pressed pause on this initiative at the start of the pandemic. Last month, we began piloting a new membership program called Best Buy Beta in 60 stores. This offer combines compelling benefits from our Total Tech Support program, our My Best Buy loyalty program and our credit card program, in addition to other benefits.

To be clear, what we are piloting is not in direct competition with Amazon Prime, Walmart+ or frankly, any other membership programs in the market today. It is playing to our unique strengths and what customers want from Best Buy. It includes exclusive member pricing, unlimited Geek Squad technical support, up to 2 years of warranty protection on product purchases, a 60-day extended return window, free standard shipping and delivery and free installation on most products and appliances. I would note that all Best Buy customers already receive free and fast shipping on orders over \$35 while Best Buy Beta customers get free and fast shipping on everything, including same-day deliveries.

Membership also includes access to a support concierge service that is available only to Best Buy Beta members. The Best Buy concierge team is available 24/7 by phone, chat, e-mail or through the Best Buy app. The cost is the same as our current Total Tech Support program, \$199.99 per year or \$179.99 per year for the Best Buy credit card holders.

The goal of Best Buy Beta is to create a membership experience that customers will love and value, which in turn results in a higher customer lifetime value and drives a larger share of CE wallet dollars to Best Buy. It is very early and the test results and insights will inform what we ultimately end up rolling out on a national level. But so far, we like what we are seeing from a customer and employee proposition perspective.

Changing topics for a moment. I want to reflect on the fact that this week marks the 1-year anniversary of George Floyd's murder. For us, his death last year was a long overdue catalyst for change. And as you may recall, I shared at that time that we would do better, and I'm proud to report that we have on many fronts.

One area of particular emphasis for us is our role in underserved communities. In fact, just last week, we announced we're investing \$10 million over 5 years to create pathways to opportunity for teams from disinvested communities in Los Angeles. As part of that effort, we will build a network of 10 to 12 team tech centers, providing access to cutting-edge technology, scale building and career mentorship with a specific focus on connections and training in creative and entertainment careers. We will also provide localized post-secondary guidance, scholarships and mental health and wellness support. This Los Angeles Community Impact Hub is a key step toward our goal to build a network of 100 team tech centers by 2025, which is part of our broader commitment to address technology inequities and advance economic and social justice.

One particularly exciting aspect of this initiative is that we are using a new approach that engages deep partnerships with like-minded public and private organizations in the local community; in this case, founding partners Anneberg Foundation and Greater LA Education Foundation and a variety of vendor partners and other organizations. We believe this will be an effective model for amplifying our social impact efforts, and we expect to deploy something similar in other markets.

In summary, the year has clearly started out much stronger than we originally expected. That momentum is continuing into Q2, and we are raising our outlook. As we think more short term, specifically the back half of this year, we expect shopping behavior will continue to evolve as customers are able to spend more time on activities like eating out, traveling and other events, and there remains uncertainty as to how this may impact our business, especially as we lap particularly strong sales in the back half of last year.

That being said, there are a number of factors that reinforce our confidence over the longer term. First, it has become evident throughout the pandemic that technology is even more important to people's lives, and we are excited about what that means for our business going forward, especially in combination with both the heightened technology innovation that supports our more home-based way of work and life and our unique ability to inspire and support our customers. These are permanent structural shifts that we are seeing towards more hybrid work and learning models, streaming entertainment and a sustained focus on the home. This increased penetration of consumer electronics presents opportunity as we grow our consultative in-home model to help our customers optimize the potential of their technology as well as our unique support model that keeps it all working the way they want.

Second, we believe the consumer is in a materially improved position with higher savings, stronger credit, more prolific vaccination and more available jobs. Third, even with the elevated demand we have seen throughout the pandemic, we believe the nesting phenomenon will continue to drive demand for products and services that help customers improve their home experience, and our vendor partners are already innovating to create new solutions that cater to this nesting phenomenon like cameras and televisions and portable computing geared toward video interactions.

And fourth, we believe there remains opportunity in the installed base that has not yet replaced or upgraded their technology products. For example, NPD estimates 15% of the TV installed base upgraded more quickly than expected. There is also opportunity in low penetration categories like health, fitness and small appliances that have room for growth. Furthermore, inventory constraints in areas like gaming support sustained demand as customers continue to seek out ways to entertain at home.

So before I turn the call over to Matt, I want to say a few words about Mike Mohan, who is participating today in his last earnings call as Best Buy's President and COO. When Mike shared that it might be time for him to leave Best Buy, I was met with many emotions. We've worked together for

so many years and built a true friendship I have grown to cherish. As his friend, I was proud that he was ready to leave the company he loves and set out to pursue his desire to do more. As his colleague, I was truly saddened of the idea that I wouldn't be able to count on his advice and insights as I have for so long.

What Mike leaves behind is a legacy of countless people whose careers he supported and thousands of decisions, large and small, that always prioritized Best Buy's success in good times and bad. When things were at their worst, he helped steady the company with his trademark candor and almost intuitive understanding of what makes this company tick. We saw him at its best this past year, bringing a lifetime of experience to drive clarity in a truly unique time. Most significantly, he has created a team that is, I believe, the best in the country, a team that will now step up and build on the strengths and growth opportunities that Mike himself has been so instrumental in creating.

Because we will not be replacing either the President or Chief Operating Officer role, 3 of Mike's 6 direct reports will now report to me. They include Rob Bass, who continues to run our supply chain and global properties organization; Damien Harmon as our Head of Omnichannel Operations; and Jason Bonfig, who is our Chief Merchant.

Now I would like to turn the call over to Matt for details on our results and insights on our outlook for next quarter and the full year.

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

Good morning, everyone. Let me start by thanking our employees for the extraordinary results they delivered in the first quarter. Our team's ability to not only keep pace with the strong customer demand but also provide an unmatched customer experience while making strategic progress is truly remarkable. As a result, our performance was well ahead of our working assumptions we laid out at the start of the quarter.

Enterprise comparable sales growth of 37% far surpassed our estimate of approximately 20%. We were able to capitalize on the elevated demand for technology that has remained throughout the pandemic. The sales originating from inside our stores was also higher than we anticipated and was a contributor to our higher sales volume versus expectations. In addition, our original outlook did not include the benefit of the March stimulus payments.

Our non-GAAP gross profit rate improved approximately 30 basis points versus last year, which exceeded our expectations of a slight rate decline. The primary driver was a more favorable promotional environment as the demand for technology remained strong throughout the entire quarter. In addition, the impact of supply chain costs was slightly favorable to our gross profit rate due to the higher mix of sales originating from our stores. Lastly, non-GAAP SG&A dollars grew approximately 15% compared to last year, which was higher than our outlook of approximately 10% growth primarily due to higher incentive compensation and increased variable costs from higher sales.

Let me now share more details specific to our first quarter versus last year. On Enterprise revenue of \$11.6 billion, we delivered non-GAAP diluted earnings per share of \$2.23, an increase of 233% versus last year. Our non-GAAP operating income rate of 6.4% increased 350 basis points. This rate expansion was driven by approximately 310 basis points of leverage from the higher sales volume on our SG&A and the 30 basis point improvement in our gross profit rate. In addition, a lower effective tax rate had a \$0.14 favorable year-over-year impact on our non-GAAP diluted EPS.

Store closures and the various operating model changes we experienced last year during the early phases of the pandemic played a factor in our growth this quarter and will continue to impact our year-over-year financial performance throughout the year. As a reminder, we closed our stores to in-person shopping on March 22, shifting to curbside fulfillment to keep our employees and customers safe. By June 22, most of our stores were open to in-store shopping with capacity limits and reduced store hours. While these operating model changes certainly impacted our financial results in Q1, they by no means should take away from the team's ability to successfully execute and serve our customers.

As Corie mentioned, when comparing our results against 2 years ago or the first quarter of our fiscal '20, total revenue grew more than 27%. Also, our domestic store channel revenue was higher than 2 years ago despite more than 40 fewer stores and online revenue growth of 175% in that time frame. As a result of the higher revenue, our non-GAAP operating income rate was 260 basis points higher this quarter than the comparable quarter from 2 years ago.

Now moving back to our performance versus last year. In our Domestic segment, revenue for the quarter increased 37% to \$10.8 billion. Comparable sales growth of 38% was partially offset by the loss of revenue from stores that were permanently closed in the past year. As a reminder, our comparable sales calculation includes revenue from all stores that were temporarily closed or operating in a curbside-only operating model during the period.

International revenue of \$796 million increased 23% and included comparable sales growth of 28% and the benefit of approximately 1,000 basis points of a favorable foreign currency exchange rate. These items were partially offset by exiting our operations in Mexico, which resulted in approximately \$69 million less revenue this quarter compared to last year.

Turning now to gross profit. The Domestic non-GAAP gross profit rate increased 30 basis points to 23.3%, which was driven by improved product margin rates, which included reduced promotions and rate improvement from our supply chain costs. These items were partially offset by increased large product installation and delivery expense. As a reminder, we suspended in-home services for about 5 weeks during last year's first quarter. Compared to 2 years ago, our gross profit rate this quarter was approximately 40 basis points lower primarily due to supply chain costs and a higher mix of online revenue. Our International non-GAAP gross profit rate increased 70 basis points to 23% primarily due to improved product margin rates.

Moving next to SG&A. Domestic non-GAAP SG&A increased 16% compared to last year and decreased 290 basis points as a percentage of revenue. As expected, the largest drivers of expense increase versus last year were: one, higher incentive compensation for corporate and field employees of approximately \$190 million, including approximately \$40 million for the gratitude and appreciation awards Corie mentioned earlier; two, technology investments, which also include support of our health initiatives; and three, increased variable costs associated with a higher sales volume, which included items such as credit card processing fees.

When comparing to 2 years ago, Domestic non-GAAP SG&A increased \$156 million and decreased 280 basis points as a percentage of revenue. The drivers of the increase versus fiscal '20 were consistent with the drivers versus last year of higher incentive compensation, technology investments and increased variable costs due to higher sales volume. Partially offsetting the previous items was lower store payroll expense.

Let me share some additional context on the higher incentive compensation expense. First, it was much higher than expected in the first quarter due to the strong performance. This also includes the gratitude bonuses that Corie discussed. Second, since we now expect the full year to exceed our original annual incentive performance targets, we expect incentive compensation for the full year to be a larger expense than our original working assumptions. As a reminder, from a comparison standpoint, we did not record short-term incentive expense for the first half of last year due to the temporary suspension of our plans.

Moving to the balance sheet. We ended the quarter with \$4.3 billion in cash and short-term investments. At the end of Q1, our inventory balance was 43% higher than last year's comparable period and was 10% higher than our Q1 ending inventory balance from 2 years ago. The increased inventory represents our plans to support the current demand for technology as well as actions we took last year to lower inventory receipts based on our reduced sales outlook at the time.

The health of our inventory remains very strong, and the increase in accounts payable this quarter was 44%, which demonstrates the rapid pace we continue to turn our inventory. Although trends have improved from the early phases of the pandemic, we are still experiencing constraints driven by the high demand in several of our key categories.

During the quarter, we returned a total of \$1.1 billion to shareholders through share repurchases of \$927 million and dividends of \$175 million. As we look to the full year, we now expect to spend approximately \$2.5 billion in share repurchases during fiscal '22, which compares to our previous outlook of at least \$2 billion.

Let me next share more color on the full year outlook for fiscal '22. We are encouraged by our results in the first quarter and our outlook for the second quarter. We now estimate fiscal '22 comparable sales growth in the range of 3% to 6%, which compares to our previous working assumption of down 2% to up 1%. While we continue to believe the role of technology in people's lives has only intensified as a result of pandemic, our working assumptions still reflect a scenario in which customers resume or accelerate spend in areas that have slowed from the start of the pandemic in the

back half of this year. From a gross profit rate perspective, we are planning for a non-GAAP rate that is approximately flat to fiscal '21. From an SG&A standpoint, we expect dollars to increase as a percentage of revenue in the range -- as a percentage in the range of 6% to 7%.

Consistent with what I shared last quarter, there are a number of factors driving the expense increase. First, we expect our SG&A expense to increase approximately \$100 million on a year-over-year basis as we lap COVID-related decisions we made last year to preserve liquidity. This includes returning to a more normalized spend on items such as 401(k) company match, advertising spend and store overhead items such as maintenance. This \$100 million increase includes the benefit of lapping a \$40 million donation to the Best Buy Foundation that we made in Q3 of fiscal '21.

Second, we plan to increase our investments in support of technology and our health initiatives by approximately \$150 million compared to fiscal '21. This increase also includes depreciation expense. Third, we now expect our incentive compensation, including the gratitude and appreciation awards from Q1, to increase in the range of \$225 million to \$275 million. There are clearly other puts and takes that we will manage through, some that will be more impactful in one quarter versus the next, but the previous items are the key drivers of how we are viewing the full year. In relation to capital expenditures, we still expect to spend approximately \$750 million to \$850 million during fiscal '22.

Now I will provide some color on our second quarter. We expect comparable sales to be up approximately 17%. The trends we have seen at the start this quarter have remained strong, and our revenue growth for the first 3 weeks of the quarter has been approximately 30%. We anticipate that our gross profit rate will be approximately flat to last year. From a non-GAAP SG&A standpoint, we expect dollars to increase approximately 20% compared to last year.

As a reminder, we made several cost decisions at the start of our second quarter last year to align with lower sales and channel trends we were seeing and expecting to continue at that point. The primary drivers of the expected year-over-year increase include: first, we expect our incentive compensation to increase by approximately \$100 million. Second, we expect our store payroll cost to increase as we lap last year's store closures. Third, we lap COVID-related decisions we made last year to lower cost and reserve liquidity such as 401(k) company match, advertising spend and store overhead items. In addition, we plan to increase our investments in support of technology and our health initiatives.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Greg Melich with Evercore.

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

I'd love to focus on the 2-year trends and particularly where you think you're gaining share or maybe you haven't been gaining share if you look at it now in hindsight. You mentioned certain categories where things are strong. But just anything else on those new customers you won and how much up that is versus '19?

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

Sure, Greg. I'll start on the share question. Obviously, it's a little bit of a tricky compare to last year because we had our stores closed, as Matt said, for part of the quarter. So when you look back 2 years, we feel like, across the board, we've at least recovered our share positions. If not, there's obviously some puts and takes in categories. But especially as we got the stores back up and we were able to provide those installation and delivery experiences, then we were able to recover especially in some of those large cube areas like appliances and televisions.

As it relates to some of the new customers that we're seeing, like we said on the call, we're seeing -- we saw about 50% growth in our new customer acquisitions. So we're always acquiring new customers. That's the good news. But -- during the pandemic, we've seen about 50% growth.

And like we said, it's been skewing towards a slightly different and -- different customer mix than what we've seen, slightly more female, a little bit more low-income demographic and importantly, also a younger demographic. For the first time, the largest cohort that we have of customers over the last 12 months is actually millennials, which is good, and we're also seeing retention levels similar to what we've seen historically with these new customers. Does that help?

Gregory Scott Melich - *Evercore ISI Institutional Equities, Research Division - Senior MD*

That helps a lot.

Operator

Our next question comes from Brian Nagel with Oppenheimer.

Brian William Nagel - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great quarter. So my question -- you talked a bit about this in the prepared comments with recent trends, but clearly, some significant upside to your sales expectations here in Q1. How much do you think was stimulus driven? And as you look at the ongoing strength in the business here into the second fiscal quarter, is stimulus still playing a factor there?

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

Yes. Thanks, Brian. Clearly, we do believe stimulus did play a factor in our performance. As we think about going from Q1 to Q2, March and April were a little -- were stronger than February, and as we entered into May, we're starting the quarter off at about 30%. And clearly, stimulus, like the other stimuli that we saw, is playing an impact. It's very difficult to monitor -- or actually, estimate what that is.

And it's part of the reason -- as we look to the future, the back half of this year, we know that it has had some impact on why we would see the back half being a little bit different than the front half of this year. But it clearly is having an impact, and we'll have to watch and see where that goes. There is an element of childcare tax credits that are coming that could also help and replace some of the stimulus. So we'll watch that as close as we can.

Operator

Our next question comes from David Bellinger with Wolfe Research.

David Leonard Bellinger - *Wolfe Research, LLC - Research Analyst*

Best of luck to Mike as well here. So in regard to monetizing the Best Buy website and digital properties, I think, in the past, you previously mentioned around 2 billion visits per year to your site. That number is likely much higher now with the shift to e-commerce.

So are you taking any extra measures in monetizing those paid views? Is there an even greater potential for a stream of higher-margin revenue to build much more quickly this year and in the years ahead just given the shift you've had in the overall space?

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

Yes. Thank you for the question, David. Well, we haven't really disclosed specific details on it. You can imagine that finding a way to monetize that level of traffic is an important part of the retail model, and that's definitely true for us as it is for any other retailer.

Our traffic and our engaged customers are an incredible asset. We think they're very valuable to our brand partners, both currently but also increasingly as the media landscape evolves. So you can imagine that we are leveraging those assets currently, and we're continuing to develop new and differentiated ways in which we can make sure that we optimize that traffic.

Operator

Our next question comes from Steven Forbes with Guggenheim Securities.

Steven Paul Forbes - *Guggenheim Securities, LLC, Research Division - Analyst*

I wanted to focus on the fulfillment strategies. Maybe a specific focus on -- I believe, Corie, you mentioned delivered by employee as a growing sort of method for your customer base. So can you expand on how that works, like what these employees are trained to do as they arrive at the customer's home and how the offering is or how you expect it to impact the evolution of the customer relationship?

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

Yes. So I mean first, I'm just going to take one gigantic step back to say I'm incredibly proud of our supply chain performance and the myriad teams that have helped us deliver throughout what is unprecedented demand. And I think it's interesting because there's such a portfolio approach to how we think about supply chain at Best Buy. I mean it's evolved from the conventional distribution center model. And think about all the touch points we have with customers for fulfillment: vending machines, lockers, alternate pickup locations, curbside, in-store, same day, next day, employee, ship-from-store. I actually think it's really important to set that context first because it allows us a great deal of flexibility to deliver with speed and with convenience to the customer.

Specific to what we're seeing with our employee delivery, we saw about 2x the penetration that we had in Q1 -- or in Q4, excuse me, into Q1. And what those employees are trying to do, they're mostly actually supporting our next-day capabilities. And it's actually kind of a surprise and delight moment. They are able to leverage some of the extra capacity. They're driving around the neighborhoods near the store. They're able to walk up, deliver that package. And typically, the customer feedback we hear is "I wasn't expecting a Blue Shirt necessarily to come walking up with the package and deliver it safely to my home." So I think it's a way for us to leverage the brand and the unique aspects of our Blue Shirts but also do it with some level of convenience.

Mike, do you have something to add?

R. Michael Mohan - *Best Buy Co., Inc. - President & COO*

Yes. Steve, I think that's a great question, and I'm excited for what the team has put together. As you look forward, as scheduling flexibility and some of the systems will enable us to even be more on demand, we really want to have a great experience. So that's why, like Corie mentioned, most of this is next day so we can queue it up and have this amazing experience.

I think what makes this interesting is that we have the permission from customers to get across the threshold, and we're thinking about that quite a bit. So today, it's I ring a doorbell and drop it on the step, but I think you can maybe pull on the string a little bit. And we have the ability to get into someone's home, have a conversation, set up a profile, maybe even have a discussion around membership and potentially get them set up as an adviser.

So I think that's one of the things we're excited about the most, but also that we're going to give our employees a choice. In the moment that they want to pick up extra income, they can also be doing this and supporting the experience with our customers.

Operator

Our next question comes from Kate McShane with Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Corie, it was great to hear about the new pilots. I wondered what the ultimate goal was with these pilots with regard to real estate. Is it about overall less square footage? Or is it about shifting square footage from selling to distribution?

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

I think it's a little bit potentially about both, but I'd argue, right now, a little bit more the latter, where we're trying to figure out what's the right mix of having those distribution facilities that deliver with convenience but also enough touch points importantly so that you also are able to meet the customer expectations. I mean when still 60% of what we sell is either being picked up in a store or shipped from a store, that in-store capability is incredibly important to the customer experience.

And so I will start with where I did in the prepared remarks, and that is our #1 goal is to ensure seamless customer experiences. And as we said, our customers look to us for everything from inspiration and support all the way to that really convenient fulfillment opportunity. And so the goal of the test right now is to say what is the right balance between that really deep experiential selling square footage, that fulfillment square footage that might be behind the scenes.

And one of the things that you didn't quite hear in the prepared remarks is that often, you might have a little bit less selling square footage but all the SKUs are available in the back because it's like a mini fulfillment center so you can still deliver on the customer experiences. And so it's -- right now, it's about trying to test how do all these things play together and then what's the right balance that delivers importantly on the customer expectations over time.

Operator

Our next question comes from Jonathan Matuszewski with Jefferies.

Jonathan Richard Matuszewski - *Jefferies LLC, Research Division - Equity Analyst*

Nice quarter. I had a follow-up on the store pilots. Curious how we should think about the portability of some of these that you're running. Clearly, you're very early on here. They're nascent at this stage. But what are the milestones you need to see? And when do you anticipate being at a point when you may be able to think about a broader rollout?

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

You bet. I'd start by just reinforcing kind of where I ended the last question, and that is we're testing for the right mix of experience, space and location. And all those things need to play together in the right way.

We obviously feel urgency. We wanted to make sure that we figure this out, but we don't want to be so urgent that we risk the customer and frankly, also the employee experience in this work. And it's important to note we're not even in a normalized environment yet, right? We still have the

impacts of COVID, you have stimulus. Like there's a lot of things still impacting shopping behavior, which means you don't want to take a false read and then roll some of these out. And then even the full market test that I was talking about on the call, that's set to launch in the back half of this year, so we haven't even started the launch on that one.

So we don't have anything to announce today. We wanted to start to give you more clarity on the true impacts we're trying to test, the true market-level tests that we're doing. And we want to make sure it wasn't just seen as on the fulfillment side, but it's also the new experiential aspects that we're adding. And I think -- we would say we have a pretty good history of rolling out concepts as soon as we feel like we have the right case sitting behind them. And so as we know more about and feel like we have a sustained understanding of what each of these concepts does for the customer and the employee, then we'll come back to you with the more distinct rollout plans. Mike?

R. Michael Mohan - *Best Buy Co., Inc. - President & COO*

Maybe -- adding on to what Corie said, Jonathan, maybe 2 other things I just want to reinforce. We have an incredibly good network of real estate locations today, and I think that's really important. It kind of complements the strategy of why we need our stores.

And the second is almost half of our stores are up for renewal. We do relatively short-term leases with our team. And so we have the ability to be super flexible, to move with speed depending on what we see and what we like at any given time in the market as well.

Operator

Our next question comes from Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

I'm going to ask one question with 2 parts related to store sales sort of coming back here. Can you just tell us if -- as store sales are coming back, what you're seeing in terms of service attach rate, warranty attach rate? And then the mid-30s e-commerce mix, now that it's a little bit lower from your initial expectation, what, if anything, is that doing to your EBIT margin forecast for the year? Does that help in any way?

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

Yes. Thank you for the question, Simeon. Overarchingly, as we see the store sales rebound a bit from last year, we are seeing strong attach rates, pretty normal historical level of attach rates with our stores. And as we've talked about in the past, as e-commerce is a growing business, we're seeing continued improvement on e-commerce attach as well.

So we're seeing good utilization. We're selling a lot of television and appliances, and so the installation and delivery is quite high that we've been talking about. So things are returning back to normal, if you will. And obviously, there's a lot of need to support people in their homes as they're living in a very hybrid way right now. So we're seeing a good return to our services business.

From an e-com mix and what that does to the EBIT range, clearly, if you look at the implied math this year from our new guide, it does imply that -- even though our e-com mix is a bit lower than we estimated starting the year, the implied math is that our OI rates are actually a little stronger than it would have been at the start of the year. So even though we're mixing a little bit out of e-com, we are still seeing good leverage on our sales despite the fact we are shifting back a bit more into store sales.

Operator

Our next question comes from Scot Ciccarelli with RBC Capital Markets.

Robert Scot Ciccarelli - RBC Capital Markets, Research Division - MD & Senior Analyst of Consumer Discretionary

Scot Ciccarelli. You mentioned supply chain efficiencies, but we do continue to hear about product shortages. We have whole categories like automobiles and appliances facing pretty significant shortages. But your inventories, at least from the outside, look like they're in pretty good shape.

So can you provide any more color regarding your inventory flow? Are you facing any supply shortages at this point? And how do you think that will evolve in the back half?

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

Yes. Scot, thanks for the question. We -- since the beginning of the pandemic, we have definitely said that we've seen at least some spotty inventory shortages. And so obviously, to your point, the team has done an amazing job navigating an environment where they can drive a 37% comp. And our days of supply have been improving throughout the quarter, and we think they'll continue to improve into Q2.

But given the unprecedented demand and some of the production disruptions, we have seen constraints, particularly in appliances, computing, TVs. And then we've talked about gaming, obviously, which has been a bit spotty. We're seeing some of that disruption driven by really 4 things. You've got raw materials and production capacity. You've got the very well-documented chip shortages. You've got port and container constraints and delays. And then ultimately, over all of that is this kind of sustained unprecedented truly global demand in our space.

And I think what's interesting about our business is we have a high degree of transferability. Meaning, because we are a specialty CE player, especially if you come into the store but I would argue even in our digital properties, we can help you navigate what exactly you're looking for and then what are the variety of products that might meet your needs. So if you come in for a certain SKU, Scot, as an example, we'll have an associate there who might say, "Oh, we don't have that one. But here is another SKU that will meet your same needs," same size TV, same specs, that kind of thing. And so I think that helps us navigate this inventory situation in a way that's a little bit different than others.

And like I said, I think we're going to continue, we believe, to see some level of inventory constraints, likely in pockets, throughout the rest of the year, assuming that you kind of continue to see the sustained level of demand. But I'm very proud of and impressed by the way the team is navigating through it. And then the last thing I would say before we're done is our inventory is also in the best situation I see in terms of at-risk.

It's very clean inventory. Much of it is new. It's turning really fast, like Matt said. So it's actually some of the highest inventory quality we've ever seen.

Operator

Our next question comes from Mike Baker with D.A. Davidson.

Michael Allen Baker - D.A. Davidson & Co., Research Division - MD & Senior Research Analyst

I wanted to ask about the SG&A increase. So you said \$225 million to \$275 million in incentive comp increase year-over-year, I think it was, in incentive comp. What was the increase in the previous guidance?

Because it seems like most of the increase in the SG&A comes from the higher incentive comp, so I guess if you could help us with some numbers there. And then confirm if that's the biggest reason for the increases. And what else might be in the increase in SG&A dollars versus the previous guidance?

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

Yes. Thank you for the question. In the previous guidance, essentially, short-term incentive was assumed to be flat for the year. As we looked through the first quarter and our performance and again, look outwards towards the end of the year, that performance clearly increased. And so that \$225 million to \$275 million is really the increased expectations on the full year business, and our original estimate was basically flat on a year-over-year basis.

So the other elements of SG&A from a guide perspective is pretty consistent. We know that we're going to continue developing technology -- or continue to invest in technology and health, and that's about \$150 million. That's still in our guide for the year. And then as well, we do know that there's about \$100 million of COVID-related decisions we made last year that we have to lap this year, and that's inclusive of the \$40 million contribution to the foundation we made in Q3. So those are consistent. The biggest increase is really around that incentive compensation adjustment.

Operator

Our next question comes from Seth Basham with Wedbush Securities.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

My question is around the computing category. You continue to see strength there other than the product shortages. But as you think about the prospects for that category going forward against really strong sales last year coming from the work from home and school from home phenomenon, do you expect to see a meaningful drag on your sales results from that category?

R. Michael Mohan - *Best Buy Co., Inc. - President & COO*

Seth, it's Mike. I'll start, and Corie and Matt can chime in. Computing has been a phenomenal sales success story in the industry and for Best Buy. And I think the position that we created both for consumers and then for some of our direct to business segments was driving our good results.

I think the category is also going to be constrained. We talked a little bit around inventory. We feel we have enough inventory to meet the demands, and inventory is getting better. We're going to have a maybe more normal back-to-school selling season as kind of things normalize.

In an environment where the inventory remains relatively tight and some of the form factors are changing quickly, we've moved from things needed to be ultra portable and very productivity-driven to things that need bigger screens, for example. That means new product -- when we see new product rev, we usually see less promotionality. So overall, I think you guys know that computing does have a lower profit rate than some of the other businesses at Best Buy, but the actual revenue contribution and then the actual EBIT flow-through is really attractively and we like it. And I don't know if Corie and Matt have anything else to add here.

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

No, I would just underscore I think we're seeing a huge refresh right now, as Mike said, and it's still not done. And the demand for PC gaming and crypto and graphics cards remains really high as well. So it's a broad category when we talk about it.

And so I think you're still going to see a population that likely is going to be living some hybrid life for the foreseeable future. And I think the refresh cycles as a result are going to continue to speed up as people look for that new and better way for them to work from home, school from home and continue actually to stream from home in some cases. So yes, obviously, it's been 6 quarters of positive comp growth, but we continue to see a real demand for the continued innovation of the products.

Operator

Our next question comes from Curtis Nagle with Bank of America.

Curtis Smyser Nagle - *BofA Securities, Research Division - VP*

So maybe -- I was hoping we can maybe contextualize the comp guidance a little bit. So you guys have put up this certainly good 1Q number. 2Q looks great. You took up the guidance by a lot obviously. But in terms of kind of what's implied for the rest of the year, it's -- I don't think that there's been much of a change. Or put another way, it implies a pretty significant deceleration.

I get the holiday hasn't come and we don't know where spending is going to go. But at least today, if we sort of look at the data, markets that have opened up and travel is coming back, that doesn't look to me like you're seeing a pullback in home or PC or anything else. So I guess just any more -- maybe more you could say in terms of framing that. And how conservative or not maybe do you think your guidance for the year is?

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

Sure. Thank you. I can start, and then Corie could jump in, if she wants, there. I think fundamentally, we believe -- starting with the role of technology in people's lives has only intensified. And so essentially, what we've done is we took our Q1 beat and then increased our -- increased expectations for Q2. And we really left the back half unchanged at this point because there's still a lot of uncertainty.

We are seeing customers shop in the service category areas now in addition to ours. So we're still seeing some strength even though people are returning to more normalized shopping behavior, but we also are thoughtful about the fact that stimulus will probably have less of an impact as we get into the back half of the year. And so those are some of the bigger things in our mind.

I think we do believe that the hybrid work model will continue. So there could be some continued opportunity there as well as you look at the back half. The personal saving rate is very high, and people's financial/credit stability is very strong. And again, there could be some additional child tax credits coming in earlier this back half of the year.

And then in addition, we have -- we continue to be optimistic about innovation and how continued relationships with partners like T-Mobile will help our business. But there's still a lot of uncertainty in terms of what the back half will hold in terms of the customer shopping trends. And also, we just still are wary of inventory availability. We have a lot of inventory. We can still support a high level of sales with constraints, but there is a very high demand that we have to be thoughtful about as well. So that's essentially the thoughts that went into the year guide.

Operator

Our last question comes from Anthony Chukumba with Loop Capital Markets.

Anthony Chinonye Chukumba - *Loop Capital Markets LLC, Research Division - MD*

A pretty simple question. If I look at your 2-year stack comp, it's up almost 32%. Just wondering when is the last time that Best Buy did a 32% 2-year stack comp.

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

I think before our recorded history. Thanks for the question, Anthony.

And with that, I think that's our last question. Thank you so much for joining us today. And I hope that many of our investors listening today are able to join us at our Annual Shareholder Meeting, which will be held virtually on June 16. Thanks so much, and have a great day.

Operator

Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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