

Costco Wholesale Corporation Pre-recorded April Sales Conference Call

Company Participants

- Jeff Elliott, Assistant VP of Finance & IR

Presentation

Jeff Elliott {BIO 16900598 <GO>}

Good morning. And thank you for calling Costco Wholesale Corporation. I am Jeff Elliott, Assistant Vice President of Finance and Investor Relations. And this morning I will review with you our sales results for the four-week retail month of April which started on Monday, April 7 and ended on Sunday, May 4. For comparable sales results in this four-week period is compared to the same four-week period last year, specifically Monday, April 8 through Sunday, May 5. April included 27 selling days this year versus 28 selling days last year, reflecting the timing of the Easter holiday.

Before I begin, let me start by saying that the following discussions will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that the Company expects or anticipates may occur in the future. Such forward-looking statements involve risks and uncertainties and may cause actual events, results or performance to differ materially from those indicated by such statements.

These risks and uncertainties include. But are not limited to, domestic and international economic conditions, including exchange rates; the effects of competition and regulation; uncertainties in financial markets; consumer and small business spending patterns and debt levels; breaches of security or privacy of member or business information; conditions affecting the acquisition, development, ownership or use of real estate; amounts expected to be spent on expansion plans; action of vendors; rising costs associated with employees, including health healthcare costs; energy and certain commodities; geopolitical conditions and other risks identified from time to time in the Company's public statements and reports filed with the SEC.

The Company does not undertake any application to update these discussions due to subsequent events and circumstances.

Now with regard to sales. As reported in today's press release, net sales for the month of April came in at \$8.56 billion for four weeks ended April 4, up 7% compared to the \$7.98 billion reported for the same period last year. This year's four-week period included 27 selling days compared to 28 days last year, reflecting the

timing of the Easter holiday, which is observed in many of the countries where we operate.

This calendar shift negatively impacted this year's total and comparable sales by an estimated minus 1.5% to minus 2%. Thus, the negative of the lost selling day was more meaningful than the positive shift of the preholiday sales.

For the 35 weeks ended May 4th, the Company reported net sales of \$73.21 billion, an increase of 6% from the \$69.0 billion reported in the similar period last year. Comparable sales results for the four-week and 35-week periods were as follows: US four weeks plus 5%, US 35 weeks plus 4%; international four weeks plus 2%, international 35 weeks plus 1%; total Company four weeks plus 5%, total Company 35 weeks plus 3%.

Comparable sales for the four-week and 35-week periods excluding the impacts from gasoline price movement and foreign exchange were as follows: US four weeks plus 5%, US 35 weeks plus 5%; international four weeks plus 7%, international five weeks plus 7%; and total Company for both four weeks and 35 weeks, plus 5%.

Please note that the four weeks of April gasoline pricing was inflationary, thus benefiting the comps, while foreign exchange was weakening, a detriment to comps. For the 35-week periods, both gasoline and foreign exchange had negative impact to sales.

In terms of regional and merchandising categories, the general highlights for the month of April were as follows: On a regional and country basis, US regions with the strongest results were the Southeast, California and the Midwest. On an international basis and local currencies, we saw the strongest results in Canada, Taiwan, Korea and Mexico.

As discussed last month, Japan had a nationwide sales tax increase effective April 1. This tax increase positively impacted the comp sales results reported for the five-week month of March, due to strong consumer demand prior to the tax increase.

For April, we experienced an inverse affect in Japan subsequent to the tax increase, which negatively impacted comps sales for the month.

Moving to our merchandising highlights. The following comparable sales results by category excluded the negative impact of foreign exchange. Food and sundries comps sales for the month were in the mid-single-digit range. Within food and sundries, the performance with the strongest results were candy, cooler. And deli.

Comp sales highlights for hardlines were flat year-over-year. Better performing departments were automotive, tires and hardware. These results were largely offset by office and electronics. Consumer electronic comp sales were slightly negative for the month.

Softlines experienced comp sales results in the high-single-digit range. Better performing departments within softlines include apparel, domestics, housewares and jewelry.

Fresh foods experienced positive comp sales results in the low-double-digit range for the month. Meat, produce. And deli all experienced strong results. Fresh foods continues to see inflation in the mid-single-digit range, the majority of which is coming from the protein category.

Within ancillary businesses, gasoline, hearing aid and optical produced the best comp sales results. Gasoline comp sales were up low double-digit year-over-year. The average sale price per gallon was up 4%, higher this year at \$3.71 a gallon compared to \$3.57 a gallon last year. Overall gasoline price inflation had a positive impact on April sales of right around 0.5%.

Weakening foreign currencies over the year relative to the US dollar resulted in a detriment to our earlier reported April sales of approximately minus 1.25%. Total international comps for the four-week period came in at plus 7% in local currency. But resulted in a reported comp of plus 2% when converted to US dollars.

The average transaction was up plus 1% year-over-year, which includes the net impact from -- the net negative impact of about 0.75 point from the combined impact of foreign exchange and gasoline pricing combined. Comparable traffic frequency was up a little over 3.5%, which includes a detriment of one fewer selling day during the month which is estimated to be minus 1.5% to minus 2%. (Cannibalization) for the month of April had a negative impact to total Company comparable sales of a little over 0.5%.

At this point, I would like to take a moment to report some of the key metrics on a 9-week basis generally normalized for the calendar -- or normalize the calendar for the Easter holiday shift between months. For the nine-week period which includes the results from March and April, the reported comp sales for the US were plus 6%, international plus 3%. And total Company plus 5%.

Excluding the impacts of deflationary gasoline prices and foreign exchange, comp sales for US were plus 6%, international plus 8%, total Company plus 6%. For this nine weeks, foreign exchange had a headwind of about 1.5% negative, while gasoline price deflation was very slightly negative to the tune of just a few basis points.

Traffic for the nine weeks was up 4.5%, while the average ticket was up just right at 0.5% for the nine-week period.

Looking ahead, the four-week May reporting period will include 27 selling days for both this year and last year, reflecting the observance of the Memorial Day holiday in the US and the Victoria Day holiday in Canada.

The Company plans to release its operating results for the Third Quarter, the 12 weeks of fiscal 2014, ending May 11, 2014 on May 29. The conference call to discuss these results is scheduled for 8:00 a.m. Pacific time that day. It will be available via webcast on www.costco.com.

Currently, Costco operates 652 warehouses including 463 in the United States and Puerto Rico, 87 in Canada, 33 in Mexico, 25 in the United Kingdom, 19 in Japan, 10 in Taiwan, 10 in Korea. And 5 in Australia. Costco also operates electronic commerce websites in US, Canada, United Kingdom. And Mexico.

If you have any questions regarding our April sales results or any other Investor Relations question, please do not hesitate to call Bob Nelson at 425-313-8255, David Sherwood at 425-313-8239, or you can call me directly, Jeff Elliott, at 425-313-8264.

This recording will be available until 5 p.m. Pacific time Friday, May 9. Thanks for calling Costco and have a great day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.