

Costco Wholesale Corporation Pre-recorded December Sales Conference Call

Company Participants

- David Sherwood, Director, Finance & Investor Relations

Presentation

David Sherwood {BIO 17654463 <GO>}

Good morning. And thank you for calling Costco Wholesale Corporation. I am David Sherwood, Director of Finance and Investor Relations and this morning, I will review with you our sales results for the five-week retail month of December, which started on Monday, November 26 and ended on Sunday, December 30.

For comparable sales results, this five-week period is compared to the same five-week period last year, specifically Monday, November 28, 2011 through Sunday, January 1, 2012. December included 34 selling days this year, closed for Christmas, versus 33 days last year where we were closed for both Christmas and New Year's. The New Year's holiday falls in the January reporting period this year.

Before I begin, let me start by stating that the following discussion 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 that 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 the financial markets; consumer and small-business spending patterns and debt levels; conditions affecting the acquisition, development, ownership or use of real estate; actions of vendors; rising costs associated with employees, including 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 Securities and Exchange Commission. The Company does not undertake any obligation to update these discussions due to subsequent events or circumstances.

Now with regards to sales, as reported in today's press release, net sales for the month of December came in at \$11.21 billion for the five weeks ended December 30, up 12% compared to the \$10.05 billion reported for the similar period last year. Net

sales for the 17 weeks ending December 30 came in at \$34.42 billion this year, up 9% compared to the \$31.68 billion for the similar period last year.

Comparable sales results for the five-week December retail month and the 17-week fiscal year-to-date reporting periods were as follows. For the five weeks, the US was a plus 8% and for the 17 weeks plus 6%. International for the five weeks was a plus 10%, 17 weeks plus 8%; total Company five weeks plus 9%, 17 weeks plus 6%.

Inflation and gasoline prices, as well as stronger foreign currencies compared to last year, had a positive impact on comparable sales for both periods. Excluding these effects, comparable sales for the period were as follows. In the US, the five weeks was a plus 8%, 17 weeks plus 5%, international five weeks plus 6%, 17 weeks plus 5%; total Company for the five weeks plus 8% and 17 weeks plus 5%.

In addition to these items, this year's December retail month had one additional sales day as compared to last year due to the calendar shift of New Year's Day. As a result, December's total and comp sales results benefited by approximately 2%.

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

Moving to our merchandise highlights, the following comparable sales results by category excluded the positive effect of foreign exchange. Food and sundries comparable sales for the month were in the mid to high single digit range. Within food and sundries, the departments with the strongest results were cooler, candy and foods. We experienced a slight amount of inflation in food and sundries compared to last year.

Comp sales results for hardlines were positive in the mid to high single digit range. Better performing departments were hardware, automotive, health and beauty and consumer electronics. Softlines experienced positive comp sales results for December in the low to mid teens range. Better performing departments within softlines included small appliances, housewares and women's apparel. Fresh foods experienced positive comp sales in the mid to high single digit range for the month. Produce and service deli experienced the strongest results. Fresh foods was slightly deflationary in December due to slightly lower year-over-year meat prices.

Within the ancillary business -- hearing aids, optical and gasoline -- showed the best sales results. The average selling price per gallon was \$3.32 this year compared to \$3.29 last year. Overall, gasoline price inflation had a very slightly positive impact, less than 10 basis points on the December comp. Comp gallons were also up year-over-year.

Strengthening foreign currencies year-over-year relative to the US dollar resulted in a lift to our reported total December comp sales of a little less than plus 1%. Total international comps for the five-week period came in at plus 7% in local currencies. But resulted in a reported comp of plus 10% when converted into US dollar.

The average transaction year-over-year in December was higher by approximately plus 3.5%, which includes the benefit from foreign exchange and gasoline price inflation. Comparable traffic frequency was up a little over 5%.

Cannibalization for the month of December had a negative impact due to total Company comparable sales by a little more than minus 0.5%. Looking ahead, January sales, another five-week reporting month due to the 53 week retail reporting year, will include 34 selling days versus 35 days last year as we were closed for the New Year's Day this year. We anticipate that the calendar shift of New Year's will negatively impact our reported January sales, which will end on Sunday, February 3 and will be compared to the five weeks ended Sunday, February 5 last year.

Costco currently operates 622 warehouses, including 448 in the United States and Puerto Rico, 85 in Canada, 32 in Mexico, 23 in the UK, 13 in Japan, 9 in Taiwan, 9 in Korea and 3 in Australia. If you have any questions regarding our December sales results or any other investor relations questions, please do not hesitate to call Bob Nelson at 425-313-8255, Jeff Elliott at 425-313-8264 or myself, David Sherwood, at 425-313-8239. This recording will be available until 5 o'clock Pacific time Friday, January 4. Thanks for calling and have a great day.

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