

Costco Wholesale Corporation Pre-recorded August Sales Conference Call

Company Participants

- Jeff Elliott, Assistant VP of Finance & IR

Presentation

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Good morning. And thank you for calling Costco Wholesale Corp. I'm Jeff Elliott, Assistant Vice President of Finance and IR. And this morning I will review with you our sales results for the four-week retail month of August, which started on Monday, August 5. And ended on Sunday, September 1.

For comparable sales results, this four-week period is compared to the same four-week period last year, specifically Monday, August 6 through Sunday, September 2. August included 20 selling days in both years.

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 the actual events, results or performance to differ materially from those indicated by such statements.

These risks and uncertainties include. But not are 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; amounts expected to be spent on expansion plans; 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 SEC. The Company does not undertake any obligation to update these discussions due to subsequent events or circumstances.

Now, with regard to sales; as reported in today's press release, net sales for the month of August came in at \$7.95 billion for the four weeks ended September 1, up 7% compared to the \$7.44 billion reported for the same period last year.

For the 16-week Fourth Quarter, the Company reported net sales of \$31.8 billion, an increase of 1% compared to net sales of \$31.5 billion in the 17-week Fourth Quarter of fiscal year 2012, ended September 2, 2012.

For the 52-week fiscal year ended September 1, 2013, the Company reported net sales of \$102.9 billion, an increase of 6% from the \$97.1 billion reported in the 53-week fiscal year 2012.

Keep in mind that the extra week in last year's Fourth Quarter in '12 fiscal year make a difficult compare from a sales growth perspective.

Comparable sales results for the four-week August retail month, 16-week Fourth Quarter and 52-week fiscal year were as follows. US, four weeks, plus 4%; US, 16 weeks or Fourth Quarter, plus 5%; US, 52 weeks, plus 6%; International, four weeks, plus 2%; International, 16 weeks, plus 4%; International 52 weeks, plus 6%; total Company, four weeks, plus 4%; total Company, 16 weeks, plus 5%; and total Company, 52 weeks, plus 6%.

For the four-week period, changes in gasoline prices and foreign exchange rates both had a negative impact on comparable sales. For the 16-week Fourth Quarter and 52-week fiscal year, changes in gasoline prices had an immaterial impact on comparable sales, while changes in foreign exchange rates had a negative impact in both periods.

Excluding these effects, comparable sales were as follows. US, four weeks, plus 5%; US, 16 weeks, plus 5%; US, 52 weeks, plus 6%; International, four weeks, plus 8%; International, 16 weeks, plus 7%; International 52 weeks, plus 6%; total Company, four weeks, plus 6%; total Company, 16 weeks, plus 5%; and total Company, 52 weeks, plus 6%.

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

Moving to our merchandising highlights, the following comparable sales results by category exclude the negative impact of foreign exchange. Food and Sundries, comparable sales for the month were in the mid single-digit range. Within Food and Sundries, the departments with the strongest results were candy, cooler and frozen foods. We experienced a very low level of inflation during August for Food and Sundries compared to last year.

Comparable sales result for Hardlines were slightly positive for the month. Better performing departments were health and beauty aids, office and lawn and garden. Consumer electronics were negative for the month.

Softlines experienced positive comp sales results in the low double-digit range. Better performing departments within Softlines included small appliances, domestics, apparel and jewelry.

Fresh Foods experienced positive comps results in the high single-digit range for the month. Service, selling and produce experienced the strongest results. Fresh Foods experienced slight price inflation for the month compared to last year; basically, the same as it's been running for the last several months.

Within the Ancillary businesses, pharmacy, hearing aid and optical produced the best comp sales increases. Gasoline comp sales were down low single digit year over year. The average sale price per gallon was down 4%, lower at \$3.59 this year compared to \$3.75 last year. Overall, gasoline price inflation had negative impact of about minus 0.5% on total August comparable sales. Comp gallons were slightly up year over year.

Weakening foreign currencies relative to the US dollar resulted in a detriment to our reported August comp sales of just a little under 1.5%. Total international comps for the four-week period came in at plus 8% local currencies. But resulted in a reported comp of plus 2% when converted to US dollars.

The average transaction was down 1.5% year over year, which includes a basically minus 2% combined negative impact from foreign exchange and gasoline prices, gasoline price deflation. So a total of 2% for those two things combined.

Comparable traffic frequency was up 5.25%.

Cannibalization for the month of August had a negative impact to total comp sales of about 0.75% or 75 basis points.

Looking ahead, the five-week September sales month will include 34 selling days for both years. The reporting period will end on Sunday, October 6 and will be compared to the five weeks ended Sunday, October 7 last year.

We plan to announce September sales along with our Fourth Quarter operating results on Wednesday, October 9, 2013 and that call will be at 7am Pacific Time.

Costco currently operates 634 warehouses, including 451 in the United States and Puerto Rico, 85 in Canada, 33 in Mexico, 25 in the UK, 18 in Japan, 10 in Taiwan, nine in Korea and three in Australia. And I believe we're going to open another 15 locations between now and the end of calendar year 2013.

So if you have any questions about the August sales or anything else, don't hesitate to call. You can call Richard Galanti at 425-313-8203. You can call Bob Nelson at 425-313-8255 or you can call me, Jeff Elliott at 425-313-8264.

This recording will be available until 5pm Pacific Time Friday, September 6. Thanks for calling Costco and have a great day.

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