

Costco Wholesale Corporation Pre-recorded October Sales Conference Call

Company Participants

- David Sherwood, Director, Financial Planning & Investor Relations

Presentation

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Good morning. And thank you for calling Costco Wholesale Corporation. I'm David Sherwood, Director of Finance and Investor Relations and this morning I will review with you our sales results for the 4-week retail month of October, which started on Monday, October 7 and ended on Sunday, November 3. For comparable sales results, this 4-week period is compared to the same 4-week period last year, specifically Monday, October 8 through Sunday, November 4. October included 28 selling days for 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 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; 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 Securities and Exchange Commission. 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 October came in at \$8.15 billion for the 4 weeks ended November 3, up 6% compared to the \$7.66 billion reported for the same period last year. For the 9 weeks ended November 3, 2013 the Company reported net sales of \$18.01 billion, an increase of 6% from the \$17.0 billion reported in the similar period last year.

Comparable sales results for the 4-week October retail month and the 9-week fiscal year were as follows. In the US, the 4 weeks was a plus 4%, the 9 weeks was a plus 4%; in international, the 4 weeks was a plus 3%, 9 weeks plus 1%; total Company, 4 weeks plus 3%, 9 weeks plus 3%. Comparable sales for the 4-week and 9-week periods, excluding the negative impacts from gasoline price deflation and foreign exchange, were as follows. In the US, the 4 weeks was a plus 5%, 9 weeks plus 5%; international, 4 weeks plus 7%, 9 weeks plus 6%; total Company, 4 weeks plus 6%, 9 weeks plus 6%.

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

Moving to our merchandise 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, frozen foods, deli and liquor. We experienced a very low level of inflation during October for food and sundries compared to last year. Comp sales results for hardlines were flat for the month. Better-performing departments were garden, toys and seasonal and office, offset by somewhat negative comps in consumer electronics. Softlines experienced positive comp sales results in the low-double-digit range. Better-performing departments within softlines included small appliances, jewelry, apparel and domestics. Fresh foods experienced positive comp sales in the high-single-digit range for the month. Produce and meat experienced the strongest results. Fresh foods experienced low single-digit inflation for the month compared to last year.

Within the ancillary businesses, hearing aid, optical and pharmacy produced the best comp sales increases. Gasoline comp sales were down mid to high single digits year over year. The average selling price per gallon was down 11% at \$3.38 this year, compared to \$3.80 last year. Overall gasoline price deflation had a negative impact of a little more than minus 1.25% on October comp sales.

Weakening foreign currencies year over year relative to the US dollar resulted in a detriment to our reported October comp sales of a little more than minus 1.25%. Total international comps for the 4-week period came in at plus 7% in local currencies but resulted in a reported comp of plus 3% when converted to the US dollar.

The average transaction was down about minus 2.5% year over year, which includes the (minus 2.5 plus %) combined negative impact from foreign exchange and gasoline price deflation. Comparable traffic frequency was up about 6%.

Cannibalization for the month of October had a negative impact to total company comparable sales of about minus 0.75%.

Looking ahead, the 4-week November sales month will include 27 selling days for both years. The reporting period will end on Sunday, December 1 and will be compared to the 4 weeks ended Sunday, December 2 last year. We plan to announce November sales on Thursday, December 5, 2013 followed by our First Quarter fiscal 2014 earnings release on Wednesday, December 11, 2013.

Costco currently operates 642 warehouses, including 457 in the United States and Puerto Rico, 86 in Canada, 34 in Mexico, 25 in the United Kingdom, 18 in Japan, 10 in Taiwan, 9 in Korea and 3 in Australia.

If you have any questions regarding our October sales results or any other investor relations questions, please do not hesitate to call Richard Galanti at 425-313-8203, Bob Nelson at 425-313-8255 or myself, David Sherwood, at 425-313-8239.

This recording will be available until 5pm Pacific Time Friday, November 8. Thanks for calling and have a great day.

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