

Costco Wholesale Corp August 2014 Sales Conference Call

Company Participants

- Jeff Elliott, Assistant VP of Finance and IR

Presentation

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Good morning. And thank you for calling Costco Wholesale Corporation. I'm Jeff Elliott, Assistant Vice President of Finance and Investor Relations. And this morning I will review with you our sales results for the 4-week retail month of August, which started on Monday, August 4 and ended on Sunday, August 31.

For comparable results, this 4-week period is compared to the same 4-week period last year, specifically Monday, August 5 through Sunday, September 1. August included 28 selling days for both years.

Before I begin, let me start by stating 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; 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 today, net sales for the month of August came in at \$8.8 billion for the 4 weeks ended August 31, 2014, up 10% compared to the \$8.0 billion reported for the same period last year. For the 16-week Fourth Quarter, the Company reported net sales of \$34.8 billion, an increase of 9% compared to net sales of \$31.8 billion for the Fourth Quarter of fiscal year 2013 which ended

September 1, 2013. For the 52-week fiscal year ended August 31, 2014 the Company reported net sales of \$110.2 billion, an increase of 7% from the \$102.9 billion reported in the similar period last year.

Comparable sales results for the 4-week, 16-week and 52-week periods were as follows. US, 4 weeks, plus 7%; US, 16 weeks, plus 6%; US, 52 weeks, plus 5%. International, 4 weeks, plus 6%; international, 16 weeks, plus 6%; international, 52 weeks, plus 3%. Total company, 4 weeks, plus 7%; total company, 16 weeks, plus 6%; total company, 52 weeks, plus 4%.

Comparable sales for the 4-week, 16-week and 52-week periods, excluding the negative impact from gasoline price movement and foreign exchange, were as follows. US, 4 weeks, plus 7%; US, 16 weeks, plus 6%; US, 52 weeks, plus 5%. International, 4 weeks, plus 8%; international, 16 weeks, plus 8%; international, 52 weeks, plus 7%. Total company, 4 weeks, plus 8%; total company, 16 weeks, plus 7%; and total company, 52 weeks, plus 6%.

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

Moving on 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; to high-single-digit range. Within food and sundries, the departments with the strongest results were cooler, deli and candy. Foods inflation continued with recent trends in the low-single-digit range.

Comparable sales results for hardlines were up mid single digit year over year. Better-performing departments were hardware, office, tires and sporting goods. Consumer electronics comp sales were up low single digit.

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

Fresh foods experienced positive comp results in the high-single-digit range for the month. Meat and deli experienced the strongest results. Fresh foods experienced inflation in the mid-single-digit range, the majority of which came from the meat department in proteins.

Within ancillary businesses, hearing aid, optical and pharmacy had the best comp sales increases. Gasoline comp sales were up mid single digit year over year. The average selling price per gallon was down 2% at \$3.52 this year versus \$3.59 last year. Overall, gasoline price deflation had a negative impact to August at just under 0.25% or 25 basis points roughly.

Weakening foreign currencies year over year relative to the US dollar resulted in a headwind, primarily due to Canada or the Canadian dollar, to our reported August sales of a little over minus 0.5% or minus 50 basis points, roughly. Total international comps for the 4-week period came in at plus 8% in local currencies but resulted in a reported comp of plus 6% when converted to US dollars. The average transaction was up just over 2%, including the combined negative impact from foreign exchange and gasoline price deflation. Comparable traffic frequency was up just over 4.5%.

Cannibalization for the month of August had a negative impact to total comp sales of minus 0.5% or again minus 50 basis points, which is very consistent with where we had been running the last couple months.

Looking ahead, the 5-week September sales month will include 34 selling days for both this year and last year.

On Wednesday, October 8, the Company will report its operating results for the Fourth Quarter, 16 weeks and fiscal year ended August 31, 2014. The conference call to discuss these results is scheduled for 8am Pacific Time that day. And will be available via webcast on www.costco.com. Just click on "Investor Relations Webcast."

Costco currently operates 663 warehouses, including 468 in the United States and Puerto Rico, 88 in Canada, 33 in Mexico, 26 in the UK, 20 in Japan, 11 in Korea, 10 in Taiwan, 6 in Australia and 1 in Spain. Costco also operates electronic commerce websites in the US, Canada, the UK and Mexico.

If you have any questions regarding our August sales or any other investor relations questions, please feel free 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 5pm Pacific Time Friday, September 5. Thanks for calling Costco Wholesale and have a great day. Thanks.

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