

# Costco Wholesale Corp November 2014 Pre-Recorded Sales Call

## Company Participants

- David Sherwood, Director of Finance and IR

## Presentation

### David Sherwood {BIO 17654463 <GO>}

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 November, which started on Monday, November 3 and ended on Sunday, November 30.

For comparable sales results, this 4-week period is compared to the same 4-week period last year, specifically Monday, November 4 through Sunday, December 1. November included 27 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 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; 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 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 November came in at \$9.43 billion for the 4 weeks ended November 30, 2014, up 7% compared to the \$8.79 billion reported for the same period last year. For the 12-week First Quarter ended November 23, 2014 the Company reported net

sales of \$26.28 billion, an increase of 7% from the \$24.47 billion reported in the similar period last year. For the 13-week year-to-date period ended November 30, 2014 the Company reported net sales of \$28.73 billion, an increase of 7% from the \$26.8 billion reported in the similar period last year.

Comparable sales results for the 4-week, 12-week and 13-week periods were as follows. In the US, the 4 weeks was a plus 7%; 12 weeks, plus 6%; 13 weeks, plus 6%. International, the 4 weeks was a minus 1%; 12 weeks, plus 1%; 13 weeks, 0%. Total company, the 4 weeks was a plus 5%; 12 weeks, plus 5%; 13 weeks, plus 4%.

Comparable sales for the 4-week, 12-week and 13-week periods, excluding the negative impacts from gasoline price deflation and negative foreign exchange, were as follows. In the US, the 4 weeks was a plus 9%; 12 weeks, plus 7%; 13 weeks, plus 7%. International, the 4 weeks was a plus 7%; 12 weeks, plus 7%; and 13 weeks, plus 6%. Total company, the 4 weeks was a plus 8%; 12 weeks was plus 7%; 13 weeks was a plus 7%.

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

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 deli, cooler, liquor and frozen foods. Foods inflation continued in its recent trend in the low-single-digit range.

Comp sales results for hardlines were up high single digit year over year. Better-performing departments were tires; Majors, our consumer electronics department; hardware; and garden.

Softlines experienced positive comp sales results in the mid; to high-single-digit range. Better-performing departments within softlines included domestics, apparel and home furnishings.

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

Within ancillary businesses, hearing aid, pharmacy and optical had the best comp sales increases. Gasoline comp sales were slightly positive year over year, a good showing with the average selling price being down 12% at \$2.86 per gallon this year versus \$3.24 per gallon last year. Overall, gasoline price deflation negatively

impacted our November sales results by a little less than minus 1.25% or minus 1.5% in the US.

Weakening foreign currencies year over year relative to the US dollar negatively impacted our reported November sales by approximately minus 2%. Total international comps for the 4-week period came in at plus 7% in local currencies but resulted in a minus 1% when reported in US dollars. The average transaction was flat for the month, including the combined negative impact from foreign exchange and gasoline price deflation of a little more than minus 3%. Comparable traffic frequency was up just over plus 5% for the month.

Cannibalization for the month of November had a negative impact to total company comparable sales of a little less than minus 0.5% or minus 50 basis points. The majority of the impact came from our international operations.

Looking ahead, the 5-week December sales month will include 33 selling days in the US for both years.

Costco currently operates 671 warehouses, including 474 in the United States and Puerto Rico, 88 in Canada, 34 in Mexico, 26 in the United Kingdom, 20 in Japan, 11 in Korea, 10 in Taiwan, 7 in Australia and 1 in Spain. Costco also operates electronic commerce websites in the US, Canada, the United Kingdom and Mexico.

If you have any questions regarding our November 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. Thanks for calling and have a great day.

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