

# Costco Wholesale Corporation Pre-recorded January Sales Conference Call

## Company Participants

- Jeff Elliott, Assistant VP Finance & IR

## Presentation

### Jeff Elliott {BIO 16900598 <GO>}

Good morning. And thank you for calling Costco Wholesale Corporation. I'm Jeff Elliot, Assistant Vice President of Finance and Investor Relations and this morning I will review with you our sales results for the five-week retail month of January, which started on Monday, December 31 and ended on Sunday, February 3.

For comparable sales results, this five-week period is compared to the same five-week period last year; specifically Monday, January 2 through Sunday, February 5.

January included 34 selling days this year versus 35 days last year. As noted last month, the New Year's holiday fell in the January reporting period this year, compared to December last year, resulting in one less selling day. Costco warehouses closed in recognition of this holiday everywhere we do business, except for our locations in Taiwan and Japan.

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 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 effect 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 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 January came in at \$9.35 billion for the five weeks ended February 3; up 7% compared to the \$8.74 billion reported for the similar period last year.

Net sales for the 22-week period ended February 3 came in at \$43.77 billion this year; up 9% compared to the \$40.18 billion for the similar period last year.

Comparable sales results for the five-week January retail month and the 22-week fiscal year-to-date reporting periods were as follows. US five weeks, plus 3%; US 22 weeks, plus 6%; International five weeks, plus 5%; International 22 weeks, plus 7%; total Company five weeks, plus 4%; total Company 22 weeks, plus 6%.

Changes in gasoline prices had a slight negative impact on our comparable sales for the five-week period. But a slight positive impact for the 22-week period. Stronger foreign currencies had a positive impact for both periods.

Excluding this effects, comparable sales were as follows. US five weeks, plus 4%; US 22 weeks, plus 6%; International five weeks, plus 3%; International 22 weeks, plus 5%; total Company five weeks, plus 4%; total Company 22 weeks, plus 5%.

As noted earlier, this year's January retail month had one less selling day as compared to last year, due to the counter shift of the New Year's Day holiday. As a result, January's total in comp sales results for the US and International were negatively impacted by approximately minus 2%.

In terms of regional and merchandising categories, the general highlights for the month of January were as follows. On a regional and country basis, the US regions with the strongest results were Texas, the Southeast, Midwest and the Northwest.

On an International basis, in local currencies, we saw the strongest results in Canada and Mexico.

Moving to our merchandise highlights, the following comparable sales results by category exclude the positive effect of foreign exchange but include the negative, approximately minus 2%, impact from the holiday shift.

Food and Sundries comparable sales for the month were in the low-single-digit range. Within Foods and Sundries, the departments with the strongest results were Deli, Cooler and Candy. We experienced a slight amount of inflation in Food and Sundries compared to last year.

Comp sales results for Hard Lines were positive in the mid-single-digit range. Better performing departments were Hardware and Consumer Electronics.

Soft Lines experienced positive comp sales results in the mid-single-digit range. Better performing departments within Soft Lines include Small Appliances, Domestics and Women's Apparel.

Fresh Foods experienced positive comp sales in the mid-single-digit range for the month. Produce and Service Deli experienced the strongest results. Fresh Food was also slightly inflationary for the month.

Within the ancillary businesses, Hearing Aids, Optical and One-Hour Photo showed the best sales results.

For gasoline, the average sell price per gallon was \$3.32 this year, compared to \$3.40 last year. Overall, gasoline price inflation had a slight negative impact of about minus 25 basis points on January comp sales. 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 January comparable sales of a little less than plus 0.5%. Total International comps for the five-week period came in at plus 3% in local currencies. But resulted in a reported comp of plus 5% when converted to US dollars.

The average transaction year over year in January was higher by approximately 1%, which includes impacts from both foreign exchange and gasoline.

Comparable traffic frequency was up a little under 3%, which includes the negative impact from the New Year's holiday shift.

For the two reporting periods combined, the 10 weeks for December and January, the average transaction was up about 2.5%, while traffic was up 4%.

Cannibalization for the month of January had a negative impact to total Company comparable sales of a little over 0.5%. Much of the cannibalization is stemming from recent increase in warehouse openings, mostly in Asia.

Looking forward, February sales will include 20 selling days for both years. The reporting period will conclude on Sunday, March 3 and will be compared to the four weeks ended Sunday, March 4 last year.

We plan to announce these sales results on Thursday, March 7.

On Tuesday, March 12, the Company plans to report its operating results for the Second Quarter and first half of fiscal year 2013, ending February 17, 2013. A conference call to discuss these results is scheduled for 8 am Pacific time that day and will be available via webcast on [www.costco.com](http://www.costco.com).

Costco currently operates 622 warehouses, including 448 in the United States and Puerto Rico, 85 in Canada, 32 in Mexico, 23 in the United Kingdom, 13 in Japan, nine in Taiwan, nine in Korea and three in Australia.

If you have any questions regarding our January 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 you can call me directly, Jeff Elliott, at 425/313-8264

This recording will be available until 5 pm Pacific time Friday, February 8. Thanks for calling Costco Wholesale Corporation and have a great day.

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