

# Costco Wholesale Corporation Pre-recorded July Sales Conference Call

## Company Participants

- David Sherwood, Director of Finance & 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 four-week retail month of July, which started on Monday, July 8 and ended on Sunday, August 4. For comparable sales results, this four-week period is compared to the same four-week period last year, specifically Monday, July 9 through Sunday, August 5. July 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 and/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; 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 July came in at \$7.87 billion for the four weeks ended August 4, up 7% compared to the \$7.36 billion reported for the same period last year. Net sales for

the 48 weeks ended August 4 came in at \$94.91 billion this year, up 8% compared to the \$87.72 billion for the same period last year.

Comparable sales results for the four-week July retail month and the 48-week fiscal year-to-date reporting periods were as follows. In the US the four weeks was a plus 4%, 48 weeks plus 6%; International the four weeks was a plus 4%, 48 weeks plus 6%; total Company plus 4% for the four weeks, plus 6% for 48 weeks.

For the four-week period, changes in gasoline prices had a positive impact, while foreign exchange rates had a negative impact on comparable sales. These impacts were immaterial for the 48-week period.

Excluding these effects, comparable sales were as follows. In the US the four weeks is a plus 3%, 48 weeks plus 6%; International the four weeks plus 8%, 48 weeks plus 6%; and total Company for the four weeks plus 5% and for the 48 weeks plus 6%.

In terms of regional and merchandising categories, the general highlights for the month of July were as follows.

On a regional and country basis, US regions with the strongest results were Southeast, Texas and Midwest. On an international basis, in local currencies, we saw the strongest results in Canada, Japan and Mexico.

As far as merchandise highlights, the following comparable sales results, by category exclude the negative impact of foreign exchange.

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

Comp sales results for Hardlines were down slightly for the month. Better performing departments were Lawn and Garden, Automotive and Office Supplies. Electronics was negative for the month with softer sales in TVs, Cameras and Computers.

Softlines experienced positive comp sales results in the low double-digit range. Better performing departments within Softlines included Domestics, Housewares and Apparel.

Fresh Foods experienced positive comp sales results in the mid single-digit range for the month. Service Deli and Produce experienced the strongest results. Fresh Foods experienced slight pricing inflation for the month compared to last year.

Within the Ancillary businesses, Hearing Aids, Gasoline and Optical produced the best comp sales increases. Gasoline comp sales were up low single digit year over year. The average selling price per gallon was 6% higher at \$3.68 this year,

compared to \$3.48 last year. Overall, gasoline price inflation had a positive impact of about 0.75% up on July comp sales. Comp gallons were also up year over year.

Weakening foreign currencies year over year relative to the US dollar resulted in a detriment to our reported July comp sales of a little less than 1%.

Total international comps for the four-week period came in at plus 8% in local currencies. But resulted in a reported comp of plus 4% when converted to the US dollar.

The average transaction was flat year over year including the overall slight net negative impact from foreign exchange and gasoline price inflation. Comparable traffic frequency was up just over 4%.

Cannibalization for the month of July had a negative impact to total Company's comparable sales of a little over minus 0.5% in line with recent trends.

Looking ahead, August sales will include 28 selling days for both years. The reporting period will end on Sunday, September 1 and will be compared to the four weeks ended Sunday, September 2 last year. We plan to announce August sales on Thursday, September 5, 2013.

Costco currently operates 632 warehouses, including 451 in the United States and Puerto Rico, 85 in Canada, 33 in Mexico, 25 in the United Kingdom, 17 in Japan, 9 in Taiwan, 9 in Korea and 3 in Australia.

If you have any questions regarding our July 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, August 9. Thanks for calling. And have a great day.

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