

# Costco Wholesale Corporation Pre-recorded May Sales Conference Call

## Company Participants

- Jeff Elliott, Assistant VP of Finance & IR

## Presentation

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

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 four-week retail month of May, which started on Monday, May 6 and ended on Sunday, June 2. For comparable sales results, this four-week period is compared to the same four-week period last year, specifically Monday, May 7 through Sunday, June 3.

May included 27 selling days for both years, reflecting business closure in the US and recognition of the Memorial Day holiday.

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 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; 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 May came in at \$8.13 billion for the four weeks ended June 2, up 7% compared to the \$7.57 billion reported for the same period last year. Net sales for the

39 weeks ended June 2 came in at \$77.13 billion this year, up 8% compared to the \$71.28 billion for the same period last year.

Comparable sales results for the four-week May retail month and the 39-week fiscal year-to-date reporting periods were as follows. US four weeks, plus 5%; US 39 weeks, plus 6%; International four weeks, plus 6%; International 39 weeks, plus 6%; total Company four weeks, plus 5%; total Company 39 weeks, plus 6%.

Changes in gasoline prices and foreign exchange rates had a negative impact on comparable sales for the four-week period and an immaterial impact for the 39-week period. Excluding these effects, comparable sales were as follows. US four weeks, plus 5%; US 39 weeks, plus 6%; International four weeks, plus 7%; International 39 weeks, plus 6%; total Company four weeks, plus 6%; total Company 39 weeks, plus 6%.

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

Moving on 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 food, cooler, frozen foods and candy. We experienced a slight amount of inflation in Food and Sundries for the month.

Comp sales results for Hardlines were also up mid to high single-digit range. Better performing departments were hardware, garden, tires, office and consumer electronics.

Softlines experienced positive comp sales results in the low double-digit range. Better performing departments within Softlines include small appliances, jewelry, housewares. And apparel.

Fresh Foods experienced positive comp results in the mid single-digit range for the month. Produce and service deli experienced the strongest results. Fresh Foods experienced very slight inflation for the month.

Within the Ancillary businesses, optical and hearing aids produced the best comp sales increases. Gasoline comp sales were slightly positive year over year. The average sale price per gallon was 4% lower at \$3.68 this year, compared to \$3.85 last year. Overall, gasoline price deflation had a negative impact of a little over 0.5percentage point on May comp sales. Comp gallons were up year over year.

Weakening foreign currencies relative to the US dollar, primarily in Canada and Japan, resulted in a detriment to our reported May comp sales of a about 0.5%.

Total international comps for the four-week period came in at (plus) 7% in local currencies. But resulted in a reported comp of plus 6% when converted to US dollars.

The average transaction increased year over year in May approximately 0.5percentage point, which includes a combined negative impact from foreign exchange and gasoline prices of about minus 1%.

Comparable traffic frequency was up 4.5% for the month. Cannibalization for the month of May had a negative impact to total Company in comparable sales of a little over 0.5%, in line with recent trends.

Looking ahead, June sales will include 34 selling days in the US for both years, since Costco closes for the Independence Day holiday. The reporting period will end on Sunday, July 7 and will be compared to the five weeks ended Sunday, July 8 last year. We plan to announce June sales on Thursday, July 11, 2013.

Costco currently operates 627 warehouses including 449 in United States and Puerto Rico, 85 in Canada, 33 in Mexico, 24 in the UK, 15 in Japan, 9 in Taiwan, 9 in Korea. And 3 in Australia.

If you have any questions regarding our May sales results or any other investor relations questions, please do not hesitate to call Bob Nelson at 425 313 8255, David Sherwood at 425 313 8239, or Jeff Elliott at 425 313 8264.

This recording will be available until 5 pm Pacific Time Friday, June 7. Thanks for calling Costco. And have a great day.

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