



December 10, 2009

Costco, Dollar General sales up on bargain-hunting

By Phil Wahba

NEW YORK, Dec 10 (Reuters) - Bargain-seekers continued to flock to retailers offering low prices, giving Costco Wholesale Corp and newly public discounter Dollar General Corp a lift last quarter.

Costco, the No 1 U.S. warehouse club operator, said on Thursday that quarterly profit rose slightly on a jump in international sales and a weaker U.S. dollar.

Brian Sozzi of Wall Street Strategies noted the company's increase in membership fees and the improved state of its global customer base, but was concerned about its lower gross margins.

"The mix of items sold... coupled with aggressive tactics by Costco to widen the price gap between Sam's Club and BJ's Wholesale are prime contributors to the gross margin miss," he said in a research note.

Warehouse clubs like Costco and BJ's Wholesale Club Inc and discounters like Wal-Mart Stores Inc and Dollar General have gained customers as shoppers seek out low prices on necessities like groceries or toiletries. Wal-Mart also owns Sam's Club.

Costco on Thursday said profit in its fiscal first quarter ended Nov. 22 was \$266 million, or 60 cents per share, in line with analysts' expectations, according to Thomson Reuters I/B/E/S. That was an increase of 1.1 percent from the year-earlier \$263 million, or 60 cents per share.

Costco's first-quarter sales rose 5.5 percent to \$16.92 billion, excluding membership fees, which increased 5 percent to \$377 million.

Sales at clubs open at least a year -- a key retail gauge known as same-store sales -- increased 3 percent companywide, including a 13 percent rise internationally and 1 percent in the United States.

Excluding the effects of currency fluctuation, same-store sales rose 8 percent internationally and 2 percent in the United States.

Costco's monthly same-store sales fell through much of this year as shoppers shunned purchases of discretionary merchandise like jewelry and clothes. But same-store sales returned to positive territory in September, October and November.

Costco operates 566 warehouses worldwide, including 413 in the United States and Puerto Rico.

Shares of Costco rose 0.3 percent while Dollar General slipped 0.8 percent in early trading.

PENNY-PINCHERS LIFT DOLLAR GENERAL

Discounter Dollar General Corp's posted a profit from a year-earlier loss as more customers went shopping at its stores and spent more per transaction.

"Consumers continue to be under pressure and are looking for good value," said Joseph Feldman, an analyst with Telsey Advisory Group. "People are putting more in their baskets" at dollar stores, he said.

Dollar General, which prices most of its merchandise below \$10, said profit in its fiscal third quarter ended Oct. 30 was \$75.6 million, or 24 cents per share, compared with a loss of \$7.3 million, or 2 cents per share, a year earlier.

Analysts had expected earnings per share of 25 cents, according to Thomson Reuters I/B/E/S.

Sales rose 12.7 percent to \$2.93 billion, while sales at its stores open at least a year, or same-store sales, rose 9.2 percent.

Private equity group Kohlberg Kravis Roberts & Co bought Dollar General in 2007 and took the retailer public in November. KKR still owns about 88 percent of Dollar General.

Dollar General, which operates about 8,700 stores in the United States, said it plans to open 600 new stores in 2010 and remodel or relocate about another 500 outlets. (Reporting by Phil Wahba; additional reporting by A.Ananthalakshmi in Bangalore and Nicole Maestri in San Francisco; editing by John Wallace, Dave Zimmerman)