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## Costco Entering Holiday Shopping Season in Strong Position

*By Melissa Allison*

Oct. 8--Costco Wholesale is heading into the holidays armed with better sales figures than it has seen all year and shelves stocked early with seasonal items.

Membership is up from last year, including Costco's executive membership, which costs \$100, twice as much as the usual fee. "We asked ourselves the question as we entered the crappy economy a year ago, would people spend more to be able to spend more, and the answer is yes," Chief Financial Officer Richard Galanti told analysts on a conference call Wednesday after the Issaquah company announced its fourth-quarter results.

"I think they see it as a savings," he said. Executive members get 2 percent back on some purchases, and their buying represents almost 60 percent of Costco's total sales.

Costco posted a profit of \$374 million on revenue of \$22.4 billion. Its earnings per share of 85 cents was down 6 percent from last year, but beat analysts' expectations by 8 cents.

Investors, who love a positive surprise, sent the stock price up \$1.07 to \$59 a share in regular trading, then another 10 cents in after-hours trading.

For the year, Costco's profit was down 15 percent to \$1.1 billion on sales of \$71.4 billion.

After the unexpectedly strong quarter ended Aug. 30, Costco said same-store sales grew by 1 percent in September, the first month of positive growth by that measure since last fall.

Growth was strong in key markets, including California, the Northwest and the Northeast, Galanti said.

"They've been hurt by factors outside their control, like gas deflation and a stronger dollar," which affects sales figures from foreign warehouses, said Dan Geiman, an analyst at McAdams Wright Ragen in Seattle. "If you back that out, their performance has been better than their competitors', and I expect that will continue for some time."

Costco has been helped by having customers with above-average incomes who can afford to pay annual membership fees, and by being a value retailer at a time when people are hunting for bargains.

**An uptick in the economy will not hurt value-oriented retailers like Costco, said Joseph Feldman, a retail analyst at Telsey Advisory Group in New York.**

**Family Dollar posted strong same-store sales for September on Wednesday and "there are expectations that Old Navy is doing better, and Kohl's is doing better," he said.**

Customer visits to Costco are up, as is their spending on nonfood items, Galanti said. After sales in some nonfood categories languished for the past year, items like towels and bedding are seeing a boost in sales.

Costco hopes to accelerate the opening of new stores in the fiscal year that started Aug. 31.

After opening 16 net new units last fiscal year, it had 543 stores worldwide and plans to open several more stores before January.

Locating new stores has not been easy during the recession, Galanti told analysts. The company renegotiated plans for new stores that had not been signed, and in some cases watched deals fall apart because a developer or a bank ran into problems.

"In one case, the developer was having problems, so we went with the developer to the bank, and while we were negotiating, the bank went under," he said.

Costco has seen a big spike in health-care costs over the past several months, partly because of lower turnover, which means fewer new employees ineligible for coverage -- and partly because workers are using more health care.

Galanti said emotional pressure from the recession -- including fear of layoffs, although Costco has not had layoffs -- might be contributing to more accidents and other visits the doctor. He said he hopes the costs to decrease as the economy improves, and the company has no plans to change its health insurance for workers.

He also balked at analysts' requests for more profit guidance for the new fiscal year.

When one analyst pointed out that he had been more forthcoming with guidance earlier, he said that had been "a moment of weakness, not weakness of earnings, weakness of my character."