


COSTCO (COST) 1Q17 RESULTS: EPS MISSES EXPECTATIONS; STORE TRAFFIC UP

	1Q17	1Q16	YoY Change
Revenues (USD Bil.)	\$28.1	\$27.2	3.2%
Gross Margin	11.6%	11.3%	30 bps
SG&A/Sales	10.5%	10.3%	20 bps
Adjusted Operating Margin	3.0%	2.8%	20 bps
Adjusted EPS	\$1.17	\$1.09	6.8%

Source: Company reports/Fung Global Retail & Technology

- **Costco reported adjusted 1Q17 EPS of \$1.17, below the \$1.19 consensus estimate and up 6.8% year over year. Revenues were \$28.1 billion, up 3.2% year over year and roughly in line with the consensus estimate.**
- **Total comps for the quarter were up 1%; US comps were up 1%, Canada comps were up 4% and international comps were flat.**
- **The company saw increases in store traffic and higher sales of fresh foods, although it suffered from decreased traffic during the first two weeks of November due to the presidential election.**

1Q17 RESULTS

Costco reported 1Q17 revenues of \$28.1 billion, up 3.2% year over year and roughly in line with the consensus estimate.

Adjusted EPS was \$1.17, below the \$1.19 consensus estimate and up 6.8% year over year. A nonrecurring, \$51 million legal settlement benefited earnings by \$0.07 per share.

Total online sales were up 8% in the quarter, and up 7% on a comp basis. The company said that sales struggled somewhat in the quarter as traffic decreased the first two weeks of November due to the presidential election.

By Product Category

- **Food and sundries:** Sales were overall flat for the category, with spirits, sundries and deli coming in best. Tobacco was down approximately 20% year over year, and sales in the category were lower.
- **Hardlines:** Hardware, tires, and health and beauty aids showed strong sales results. However, deflation has hit the category hard, and sales of TVs were up only 2% despite a 17% increase in units purchased.
- **Softlines:** Softlines comps were up by low single digits; apparel, small electronics and special events were the standout categories. Within fresh foods, produce and deli were the strongest departments.
- **Membership fees:** The company saw good growth in memberships, totaling 6% of sales. Renewal rates were 90% in the US and Canada and 88% worldwide.



FLASH REPORT

By Geographic Region

Within the US, the Northwest, Texas and Midwest regions showed the best results during the quarter. Internationally, Mexico, the UK and South Korea all performed well, in local currencies. Comparable store sales for the quarter were as follows:

- US: 1%
- Canada: 4%
- Other international: 0%
- Company total: 1%



FLASH REPORT

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