

BJ Earnings Call Transcript

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Quarter: 3

Operator: Hello. And welcome to BJ's Wholesale Club Holdings, Inc. Third Quarter Fiscal 2025 Earnings Conference Call. After the company's remarks, there will be a question and answer session. In fairness to all participants today, we ask you to limit yourself to one question and return to queue with any additional questions. I'm out. Pass the call over to our host, Ansh Singh, VP of FP and A. Please go ahead. Good morning, and welcome to BJ's Third Quarter Fiscal 2025 Earnings Call.

Ansh Singh: Joining me today are Robert W. Eddy, Chairman and Chief Executive Officer, Laura L. Felice, Chief Financial Officer, and William C. Werner, Executive Vice President Strategy and Development. Please remember that we may make forward-looking statements on this call based on our current expectations. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from what we say on this call. Please see the risk factors sections of our most recent SEC filings for a description of these risks and uncertainties. Please also refer to today's press release and latest investor presentation posted on our Investor Relations website for a cautionary statement regarding forward-looking statements and non-GAAP reconciliations. And now I'll turn the call over to Robert W. Eddy. Good morning. Thank you for joining us to discuss our third quarter results. Our business delivered strong results in Q3 and performed well in an incredibly dynamic environment. Once again, we gained share and grew traffic marking the twelfth consecutive quarter of market share growth and the fifteenth consecutive quarter of traffic growth. These consistent results are a testament to the value that we provide to our members each day. As we are guided by our purpose of taking care of the families who depend on us. This purpose has never been more relevant as many of our members are dealing with a considerable level of unpredictability in their everyday lives. This has impacted consumer confidence, which has been at low levels for much of this year, and we are taking these conditions as a call to action to lean even further into value for our members' everyday needs. Some of our actions include incremental offers to those members that may need a little bit more help in the current environment. In addition, we're rolling out reduced delivery fees to make our most convenient shopping channel even more accessible. A combination of value and convenience is a powerful unlock for us, and this will help our members realize even more value from their BJ's membership. We've also launched a 10% discount for our team members as a way of thanking those who are on the front lines living our purpose every day. For the quarter, we delivered merchandise comparable comp sales growth of 1.8% and adjusted earnings per share of \$1.16. It's helpful to evaluate the performance on a two-year stack basis to normalize for the impact of last year's port strike and hurricane activity. Our two-year stack comp was 5.5%, an acceleration of nearly a point versus the first half. Our Q3 comp performance was evenly balanced across our two reportable divisions. Our perishables grocery and sundries division grew comp sales by 1.8%, with a two-year stack that accelerated sequentially to 6%. The investments we've made in both Fresh 2.0 and our category management process have driven continued share gains across our consumables franchise. We saw the most strength in perishable categories such as fresh meat, dairy, and produce, aided by our Fresh 2.0 investment. We also saw strength in nonalcoholic beverages, and candy and snacking driven by enhanced assortment and more prominent placement in our clubs. Our general merchandise and services business also grew by 18% on a comp basis in the quarter. Consumer Electronics comped in the high single digits on success in computer equipment and tablets. Apparel, which we've highlighted

on several recent calls, continues to grow, comping in the low single digits. The offsets we saw this quarter were in home and seasonal, which continued to be impacted by lower discretionary demand and consumer confidence, as well as some of the decisions we made earlier this year to tighten our inventories in light of the anticipated impact of tariffs. Our services business also contributed to the improved performance in this division during the quarter. Looking at the behavior of our membership base this quarter, we continued to see members across all income levels remain cautious, which tracks with what we broadly see in the consumer confidence data. We saw members exhibiting value-seeking behavior including higher sensitivity to promotions, increasing purchasing of private label items, and some trade down. For example, given the high price of beef, we saw higher purchasing of ground beef versus more expensive cuts. Despite this type of behavior, member trends exhibited stability quarter over quarter across all cohorts, when adjusting for the noise from the port strike. While value-sensitive members remain more exposed to the macro backdrop, we did not see any incremental pullback from them. That resilience reinforces BJ's position as a trusted destination for strong value and convenience when it matters most. The environment continues to move quickly, but our teams haven't lost sight of the fundamentals. By zeroing in on our controllables, they're advancing our strategic agenda increasing member stickiness, making our clubs better places to shop, expanding convenience, and growing our physical footprint. These elements are central to creating value over time, and we built further momentum in each this quarter. I'll now provide an update on how those pieces are evolving. Our membership results continue to be robust and we grew membership fee income by nearly 10% this quarter driven by strong member accounts, mixed benefits, and the effects of our recent fee increase. We expect the growth rate to show further improvement into the fourth quarter and to once again deliver a 90% tenured renewal rate for the full year. The core of our membership health is driven by growing the number of members as well as improving the mix of those members. In the third quarter, our higher tier membership penetration reached another new record, improving by 50 basis points sequentially. And we continue to see more opportunity to push here. We would not be able to deliver sustainable membership growth without parallel improvements in our merchandise. We are launching many new own brands products, which are aimed at improving the member experience, by offering excellent quality at an unbeatable price. Some of the products we are excited about include Wellesley Farms branded tortilla and potato chips, protein shakes, frozen poultry, and coffee pods. This is just a small list of many new high-quality products that we plan to launch at amazing price points. Own brand's products have a multitude of benefits as they are typically priced about 30% below national brands while offering comparable quality of national branded items. This gives our members even more compelling value for their hard-earned dollars which in turn drives loyalty, and higher lifetime value. Home Brands products also deliver higher penny profit for us, which we can use to invest back into the member experience. Further propelling the flywheel that drives our business. We're excited to see how our customers respond to our improved offerings. Our efforts to continue to improve the convenience of shopping our clubs can be seen in the digital growth of 30% this quarter and 61% on a two-year stack basis, driven by strength in BOPIC, same-day delivery, and Express Pay. We're looking to further drive innovation by utilizing AI to deliver enhanced content, highlights, and attributes, making shopping even easier for our members. We also recently beta launched an AI shopping assistant and personalized member shopping list and we're looking forward to taking these live to our members soon. Last but not least, our new club footprint expansion. We opened our club in Warner Robins, Georgia during Q3, and just last week, we opened our fifth Tennessee club in Survivorville. I'm pleased to report that both clubs are off to a great start, joining the class of 2025 clubs that have outperformed expectations, with membership counts 25% ahead of plan. The community reaction at all of our recent openings has been nothing short of phenomenal. And we are proud to serve these communities. Our expansion strategy has been a sustained and accelerating success with clubs opened over the last five years delivering performance about three times the chain average. On deck for new club openings, are Springfield, Massachusetts, Sumter, South Carolina, Castlebury, Florida, Chattanooga, Tennessee, Selma, North Carolina, and Delray, Florida. That will make 14 new clubs for the year. The most we've had in many years. We remain on track to add 25 to 30 new clubs in two years our pipeline of new clubs is as large as it's has ever been. Speaking of our pipeline, we are excited to announce two more 2026 openings in Foley, Alabama, and Mesquite, Texas, as well as a relocation of our club in Rotterdam, New York.

Mesquite will be our fifth Dallas Fort Worth club opening in 2026. We've been impressed with the warm welcome we've received as we've introduced the BJ's brand to the market over the past few months, including our Friday night life sponsorship, which was capped off with South Grand Prairie taking home the trophy in the Prairie Bowl sponsored by BJ's Wholesale Club. The enthusiasm we've seen in these new markets has been awesome, and we can't wait to bring the value of BJ's Wholesale Club to Texas families early next year. As I look at our business, I see improving momentum. Our membership is growing in size and quality. We are making improvements in merchandising, and continue to capitalize on the convenience of our digital offerings. And as I just said, our footprint expansion is accelerating and successful. While the short term may be somewhat unpredictable, I'm confident that our company is in an excellent position to deliver value to our members and make good on our commitments to shareholders. We will continue to act with purpose in building our structurally advantaged business for the long term, and you should continue to expect that we will run the business with lifetime value at the core of our actions. Before I turn it over to Laura, I want to thank our team members. Your dedication to serving the families who depend on us and your commitment to supporting one another make BJ's a great place to shop and a truly special place to work. I'm proud of all that we are accomplishing together.

Laura L. Felice: Thank you, Robert. I'd like to start by recognizing the outstanding efforts of our team members in our clubs, at our club support center, and throughout our distribution network. Your hard work and commitment to serving our members and communities are instrumental in delivering a solid quarter and advancing our long-term growth agenda. Let's look at our third quarter results. Net sales for the quarter were approximately \$5.2 billion, growing 4.8% over the prior year. Total comparable club sales in the third quarter, including gas sales, increased 1.1% year over year as the average price of gas declined mid-single digits year over year. Merchandise comp sales which exclude gas sales, increased by 1.8% year over year, and by 5.5% on a two-year stack. We are pleased to grow traffic and units in the quarter. This quarter, we lapped the surge of business brought by last year's port strike. At this time, last year, we estimated it to have contributed about one point of comp in September. Moving to this year, September was by far the weakest month as we comped the strike with August and October generally performing in line with our expectations. We believe it may be helpful to evaluate trends on a two-year stack basis to assess the business and I'll reference this metric in my overview. Our third quarter comp in our Grocery, Perishables and Sundry division grew 1.8% year over year with a two-year stack of 6% showing slight acceleration versus the first half. Our general merchandise and services division comp also increased by 1.8% in the third quarter with a two-year stack of about 2% an improvement versus the declines seen in the first half. As Robert noted earlier, traffic and market share grew again in this quarter and we experienced approximately one point of inflation. Digitally enabled comp sales for the third quarter grew 30% year over year, and 61% on a two-year stack. Our digital businesses performance is an affirmation of the values our members find in the improved and dramatically more convenient shopping experience. We find that the members that engage with us the most digitally and utilize all of our offerings end up being the most valuable members with the highest lifetime value. We will continue to invest in our digital capabilities to gain even more wallet share of our members. Membership fee income or MFI grew 9.8% to approximately \$120.3 million in the third quarter on strong membership acquisition and retention across the chain. We also continued to benefit from the fee increase that went into effect at the beginning of the year. Our underlying member growth remains healthy and we continue to improve the member mix. Moving on to gross margins. Excluding the gasoline business, our merchandise gross margin rate was flat on a year-over-year basis as we continued to invest in our business and in our members. Along with execution towards our longer-term objectives. We expect to continue to invest in and beyond as we lean into our purpose and do the right thing for our members which will be the right thing for us in the long term. SG and A expenses for the quarter were approximately \$788.2 million and deleveraged slightly as a percentage of net sales year over year. Adjusting for the legal settlement, benefit that we realized last year, SG and A as a percentage of net sales was about flat year over year. We continue to grow comp gallons and gain share in our gas business. Our comp gallons in the quarter grew 2% year over year a nice improvement versus Q2's flat performance, and again, significantly outpaced the industry, which declined low single digits on a comp basis over the same time frame. We have been in a much less volatile gas margin

environment this year profitability just modestly ahead of our expectations in Q3. Our third quarter adjusted EBITDA was down about 2% year over year to \$301.4 million owing largely to lapping the benefit of a legal settlement last year. Adjusting for the settlement, adjusted EBITDA grew approximately 5% year over year, on higher top line and strong cost discipline. Our third quarter effective tax rate was 26.9%, slightly lower than our statutory rate of approximately 28%. All in, our third quarter adjusted earnings per share of \$1.16 decreased approximately 2% year over year due to the legal settlement. Adjusted earnings per share grew approximately 8% year over year normalizing for the settlement benefit last year. Moving to our balance sheet. We ended the third quarter total and per club inventory levels down 1.5% year over year, respectively, while our in-stock levels increased by 90 basis points. Note that we are operating nine more clubs in our chain compared to a year ago. The favorability in our inventory investment continues to be related to reduced inventory buys. I'm proud of our team's hard work to stock even more of our merchandise our members want while improving the operating efficiency of our business. This is yet another driver of the flywheel with which we can pass along even more savings to our loyal members. Our capital allocation strategy remains consistent. We believe profitably growing the business is our best use of cash and investments to support membership, merchandising, digital, and real estate initiatives will continue to be funded by our cash flows. We ended the third quarter with net leverage of half a turn. Share buybacks are a key component of our capital allocation framework and in Q3, we took advantage of the lower share price and repurchased approximately 905,000 shares for \$87.3 million. As of quarter end, we have approximately \$866 million remaining under our recently renewed repurchase authorization. We will continue to take a disciplined and balanced approach to deploying our capital to maximize shareholder value. Looking ahead to the remainder of the year, we are confident in the momentum of our business and our ability to deliver sustained growth, especially in an uncertain economic backdrop. Our teams are focused on controlling the controllables while executing towards our long-term objectives. With regards to guidance, and as we have been speaking to on this call, the macro environment is challenging. We have made decisions to be prudent with inventories in the face of this environment. Challenging our ability to grow general merchandise sales. We made that choice in order to allow continued investment in member value in the rest of the business. While it will hamper sales in the short term, we remain confident that this was the right decision. With that in mind, we are narrowing our guidance for the full year merchandise comp sales to a range of 2% to 3% for the full year. We are also increasing our range of expected adjusted earnings per share to be \$4.30 to \$4.40. The actions we've taken to support stronger, more sustainable growth are working. And our long-term road map is solid. With a resilient business model and clear strategic direction, we're well equipped to keep building on our success and deliver substantial value to our shareholders in the years ahead.

Robert W. Eddy: Thanks, Laura. As I noted earlier, we are making progress and building momentum. We're elevating the quality of our membership base while it grows. We're curating a stronger, more relevant assortment at prices that reinforce our value promise. Our digital tools are improving member experience and our expansion strategy is bringing the BJ's model to new high potential markets. Looking forward, our commitment doesn't change. We will keep living our purpose and focusing on the people and communities who rely on us every day. While executing on the long-term priorities that drive our growth. Thanks again for joining us today and for your support of BJ's Wholesale Club. We will now take your questions.

Operator: Thank you very much. We'd now like to open the lines for the Q&A.; Our first question comes from Peter Sloan Benedict of Baird. Peter, your line is now open.

Peter Sloan Benedict: Hi, guys. Good morning. Thanks for taking the question. You know, I wanted to ask about some of the income demographics and the behavior. It sounded like it was relatively stable, and I think you know, we're hearing a lot this week about kind of that lower end you know, facing some struggles. Can you remind us maybe, you know, your exposure to maybe the SNAP program? Talk about the renewal rates, you're seeing maybe across these income demographics? Just anything further below the surface in terms of behavior across income demographics, both in the third quarter and then as you're kind of entering here into the holiday season. Thank you.

Robert W. Eddy: Good morning, Pete. Maybe I'll kick this one off and Laura can add to it if she sees fit. You know, our prepared remarks tried to tackle this question because we knew it would be out there.

Certainly, everybody is concerned about the low-income consumer, the continued inflation provides clear pressure on that segment of all consumers and certainly that segment of our members. With that said, you know, removing the noise from the port strike and the hurricanes and stuff last year, we saw their performance in Q3 as being pretty resilient. Their purchasing habits were very stable. And we're pleased to see that. You know, there certainly was a lot of noise at the end of the quarter and the beginning of the fourth quarter around the SNAP program and the government shutdown. I guess I would say there was a slight disruption in Q3, a more meaningful disruption in the opening days of Q4. But now that the program is back on track, we're recovering those participants as they get access to their benefits are choosing to come to see us. And, as they have more opportunity to spend. So you know, we're encouraged by that showing from those members. And from the members in the medium and high-income cohorts that we saw during the quarter as well. And maybe one final point, we're also encouraged going forward by the administration's help recently on the tariff front. In reducing the cost of things that are not made or grown in The United States. And so that should be helpful to all consumers, but most pressingly, the low-end consumers that you referenced.

Laura L. Felice: Yes. Good morning, Pete. I think I just add on top of it from a membership perspective. We're really proud of our continued membership results throughout the year. We are acquiring members in our existing clubs, so comp clubs, in our new markets. And our new clubs that we've opened at the beginning of this year. And there isn't anything, you know, when we look at the details of membership, to your question about kind of cohorts that looks different. We're acquiring members across all the cohorts, and so we're really happy with our continued strength from a membership perspective.

Peter Sloan Benedict: That's great. Thanks for the perspective. Good luck.

Robert W. Eddy: Thanks, Pete. You very much.

Operator: Our next question comes from Katharine Amanda McShane from Goldman Sachs. Kate, your line is now open.

Katharine Amanda McShane: Good morning. Thanks for taking our question. We wanted to ask if you believe that the right long-term same-store sales growth for this business is in the 3% to 4% range. So, why? And what do you think is holding you back from achieving this comp? Over the last several quarters?

Robert W. Eddy: Morning, Kate. As you know, we've been transforming our business over the last several years with the idea of really, you know, four things. One, growing and maintaining a stickier membership. Two, improving our merchandising. Three, improving our convenience through digital. And then finally, increasing our footprint through real estate expansion. And as we talked about in the prepared remarks, all those things are heading in the right direction. Certainly, the things that we're doing sometimes conflict with what happens in the outside world. We certainly have the luxury of competing against great competition and it's certainly been a choppy economic backdrop out there. So we have tremendous confidence in our long-term ability to grow this business from a top-line perspective. We're showing signs of that in all four of those pillars. And we'll continue to work on each of those to get to that point. The thing that we try hardest to do, obviously, is put the right products on the shelf at the right value. And you know, we made tremendous strides, I think, during Q3 to do that. Our merchandising team has put a lot of effort this year into that idea of greater products and greater values. And we make considerable investments in Q3 with that in mind. We'll continue to do that because that's what we believe wins. Value and convenience are really what we're after for our members. And we'll keep plugging. We're very optimistic in our long-term aspirations.

Katharine Amanda McShane: Thank you. And if I could just follow-up with one question. You just mentioned the competitive environment. We were curious about what the competitive response has been when you opened some of these new markets, particularly Dallas, which has a really strong grocery offering and other club offering already. Sounds like things are going well there, but wondered if you had any more details with the fifth store opening.

Robert W. Eddy: Sure. The real estate growth story, and I'll let Bill talk about it since he's the architect of it, is a great one. It's certainly a continuing sustained success and getting even faster with 14 clubs this year. In lots of great markets. Those clubs are doing really well, and so we're very enthusiastic about this ability to grow our company. And we've been received well in the markets that we've entered.

So why don't I let Bill talk a little bit more about it?

William C. Werner: Yeah. Hey, Kate. Good morning. I think, as Bob mentioned, we're really proud and excited about the success of the new clubs this year thus far and what's left to come for this year. And then as we look forward into Dallas next year, the prospect of going in and winning in that market is really important to the team. We've talked about it a couple of times on these calls that the culture that we've built around new clubs is really important, and the team's executing at a high level. As we look back at this year so far, I think 2025 will go down as the best class of new clubs. As far back as I can remember with the success we've had with our eight openings to date now and six more to go for the rest of the year. What we're seeing so far in those new clubs that haven't opened yet, preopening membership and the engagement in the community, yeah, we know that they're gonna be outperformers as well. And so, as we take that momentum from this best class openings into next year into Dallas, combined with the work that we've done in the market of raising awareness for our brand and engaging with the community, we have a ton of confidence that, you know, not only will we compete, but we'll be in position to have great success there.

Operator: Thank you very much. Our next question comes from Robby Ohmes from Bank of America. Robby, your line is now open.

Robby Ohmes: Oh, hi. Thanks for taking my question. I wanted to follow-up on the inventory positioning that Laura talked about. I just wanted to understand how you're thinking about that for the fourth quarter. Is it the positioning that sort of limits sales upside but supports margins? You know, just how what's the pluses and minuses of the tight inventory? And semi-related, Fresh 2.0 was a great tailwind in comp driver. You know, the benefit the tailwind has slowed here. Is there anything that can reaccelerate? You know, is there a Fresh 3.0 or something like that that's in the works here to kinda get that, to reaccelerate? Thanks.

Robert W. Eddy: Yeah. Good morning, Robby. Maybe I'll take a shot at starting off and Laura can fill in. You know, I think what you're referencing is Laura's comments around proactively managing our general merchandise inventory. When we were in the beginning part of the year, trying to understand where prices would go and costs would go as a result of tariffs. We made some proactive decisions to manage potential markdowns to allow us to fund greater investment in overall value for our members. And I think that was the right decision. I think you want us to do that every day. That is really why we're here. We've taken those dollars and in fact, them across the rest of the business. You know, in Q3, significantly reduced pricing on own brands water, on several other beverages, on some paper products. Across our produce assortment. So, we are really trying to balance those two things. And so we do have a more conservative inventory position from a general merchandise perspective. That was true in Q3. It remains true for the fourth quarter. And I do think it will limit the upside of the general merchandise business but allow us to continue investing for the overall value of our members. I think the other story with inventory is really an absolutely terrific performance in managing the overall inventory levels of the company. The team has done a really masterful job in the whole business. To have our in-stock rates go up 90 basis points into inventories that are down. We are doing a much better job allocating inventory throughout our chain, making sure that things are where they need to be, when they need to be there. And to be in stock for our members every day. We need to keep turning that handle and get better and better every day, but I couldn't be more proud of the team to make a performance like that happen. Anything else, Laura, on inventory?

Laura L. Felice: No. You know, Fresh 2.0, I think it was another terrific program. Continues to yield benefits. You know that started out in our produce business. We had terrific produce results during the quarter. Again, and you know, what you're seeing from the perishables business overall is some of the reduced benefits from egg inflation and things that are offsetting, some of that great performance. So with that said, you know, we've talked about the next iteration of Fresh 2.0 and call it what you want, 2.1 or 3.0. You know, we have made another set of considerable improvements in meat and seafood, and we're looking to doing the same in bakery and other categories as we go forward. The mission there is the same. Right? Our best members interact with us in these categories. If we can show them the greatest product the freshest product at compelling values, display it in a way that is compelling, train our team members so that they are experts in all these disciplines. We can provide a better experience for our members get more people into those categories, and grow the overall traffic of the business.

That is certainly the result that we saw from Fresh 2.0 in the produce segment. The early returns on meat and seafood are good as well. And so we're very optimistic about that program and its ability to drive sales within those categories, but also to get to that further bigger goal of driving traffic, in the whole business, which obviously drives lifetime value. So some of these investments are expensive. But they're very much worth it in terms of driving the top line and the overall value of membership to BJ's.

Robby Ohmes: Sounds great. Thanks, Bobby.

Robert W. Eddy: Thanks, Robby.

Operator: Thank you very much. As a reminder, if you would like to raise a question, please signal now by pressing 9. Our next question comes from Steven Emanuel Zaccone from Citi. Steven, your line is now open.

Steven Emanuel Zaccone: Great. Good morning. Thanks very much for taking my question. I wanted to ask about the implied fourth quarter same-store sales. As you referenced in the release that you've also seen some holiday momentum or, excuse me, start momentum to start the holiday season. Can you just talk through your category assumptions in the fourth quarter? And then how you think about low end versus high end of the range?

Robert W. Eddy: Sure. Again, maybe I'll start and Laura can fill in Steve. You know, we certainly, I think, had a good performance in the third quarter. You know, I keep using that word resilient, but into the face of the port strike and the hurricane activity and all that stuff. You know, our sales were a bit higher than we thought they might be. In the range of outcomes. And the, you know, the team's preparation for the holiday season, I think, has been fantastic. We've been investing in value. We've got incremental promotions out there. We're continuing our really successful free turkey promotion where if you spend \$150, in one basket, you can get a free turkey for your family for Christmas. We're doing a lot of these things, you know, to really build on the momentum we saw in Q3. And get our members in our clubs and make them happy. You know, with that said, it's a choppy economic backdrop out there. Right? We've talked about the low-income consumer at this point. And, you know, we certainly have a little bit of a harder hill to climb from a comparative perspective. We had a good Q4 last year, but net net, well, lots of a wide range of outcomes that can happen in any quarter. Most notably the fourth quarter, we are cautiously optimistic about our ability to put up some good numbers in the fourth quarter.

Laura L. Felice: Yeah. Good morning, Steve. The only thing I might add to all the commentary Bob just said is, I'd remind you about our inventory positioning that we already talked about for general merchandise. So we factored that into the range of outcomes. That doesn't mean that we will be out of stock in general merchandise. It just means that we've tightened up the buys, and we've picked the best of the best assortment. So we're ready for Thanksgiving like Bob talked about, and we're ready for our members for holiday kinda as we roll into December.

Steven Emanuel Zaccone: Okay. Thanks. The follow-up I have then is on that general merchandise. So when we think about the inventory planning assumptions and maybe just talk about the buying environment, how does that look for the first half of next year? Because you made changes to the second half presumably based on tariff uncertainty. But how does that apply to general merchandise plan as we glance into 2026?

Robert W. Eddy: Yeah. Look. I don't wanna get too far over our skis and talk about next year, but obviously, the fourth quarter seasonal merchandise was bought in the spring when there was considerably more uncertainty around what the tariff exposures might be and what the consumer's response might be. To any increase in prices. Every quarter we go through, we get more and more clarity, and we get more information from our members as well. And so we obviously alter our buys accordingly. I guess the other thing I would say is Q4 typically is a higher general merchandise penetration and obviously lower in the first quarter. And so that this question becomes a little bit less important as we get into the beginning of the year.

Operator: Okay. Thanks very much. Our next question comes from Michael Allen Baker from D. A. Davidson. Michael, your line is now open.

Michael Allen Baker: Okay. Thanks. Hate to focus on the short term so myopically, but the guidance your fourth quarter implied guidance to me, I'm calculating around, you know, two, two and a half,

something in that range. Correct me if that if I'm wrong on that. At least at the midpoint of the outlook. But if you are in that range, that's a pretty big pickup on a two-year basis against the 4.6 last year. So given all the caution you're talking about, you know, can you square that? Or is it more reasonable to think about maybe the low end of the implied fourth quarter guidance? In other words, consistent on a two-year basis?

Robert W. Eddy: Morning, Mike. Look. I've let's just focus on the fact that we're cautiously optimistic. As I said earlier, we've done a lot of planning, a lot of action around providing our members the right products at the right value. Talked about, you know, incremental promotion and building into that. We're certainly where we need to be from a digital perspective. People are loving interacting with our digital properties to get what they need from a convenience perspective. And you know, we just we are trying to act within our purpose. And take care of the families that depend on us and that is all those things. Right? Getting the products on the shelf. We're doing a fantastic job doing that, in an improved way. Putting sharper prices on things, which we, again, had considerable improvements in during the quarter. And, you know, really trying to take care of all the different communities within our membership and you know, we talked a little bit in our prepared remarks about our team members. Maybe I'd take one minute to thank those team members out there every day taking care of our members. They have the hardest job in our company. And guys, I'd really like to thank you for all your efforts. We initiated for the first time in our company's 10% discount for our team members. To really say thank you, to acknowledge that it's tough out there for everybody. And to help our team members through their holiday season purchasing as well. So I think we have a lot to be proud of. I think we have some momentum coming out of the quarter. The early days of Q4 have been reflective of that momentum, but we understand that there's a lot of road to go throughout the quarter. We're only a couple of weeks in. Next week this weekend and next week are huge for the quarter as are the remaining weeks in December. So we feel like we're in a good spot. But it's very, very early. And so that thought process really is what drove us to have the guidance that we put out there.

Michael Allen Baker: Okay. Great. Fair enough. I'll keep it to the one question. Thank you.

Robert W. Eddy: Thanks, Mike.

Operator: Thank you very much. Our next question comes from Edward Joseph Kelly from Wells Fargo. Edward, your line is now open.

Cathy Park: Hey, good morning. This is Cathy Park on for Ed. Thanks for taking my question. It sounds like the messaging is that you've been investing in price I guess merch margins were flat. So I guess what are some of the offsets in gross margins that helps you get there? And then anything on Q4 merch margins and how we should think about that?

Robert W. Eddy: Morning, Cathy. We certainly have invested. We widened our price gaps in Q3 considerably with those investments versus competition. So I'd like to say thanks to our merchandising team for making those moves. It's important to our company, important to our members for sure. And we have many different levers to offset that throughout the business, not just within the margin construct. We will try and be as efficient as possible throughout the business to fund investments in member value. Certainly, some of the offsets that you might think about within the merchandising world would be, being more efficient in the distribution centers, trying to be more efficient from a trans perspective, growing our retail media program, which has been growing very, very nicely. Teams doing a great job there. There are many different things that we've tried to do so we can pass more value back to our members, and we'll continue to do that.

Cathy Park: Got it. Great. Thanks a lot. Best of luck.

Robert W. Eddy: Thanks, Cathy.

Operator: Thank you very much. As a reminder, if you would like to raise a question, please signal now by pressing 9. Our next question comes from Simeon Gutman from Morgan Stanley. Simeon, your line is now open.

Pedro Gill: Good morning. This is Pedro Gill on for Simeon. Thank you for taking our question. Nice job continuing to grow your digital business. Really impressive. Could you comment on the work you're doing in retail media there? And also more broadly, we've heard some of your peers recently announcing partnerships in AI and tech commerce. Could you give us an update on how you're thinking about the AI opportunity in e-commerce?

Robert W. Eddy: Sure. Good morning. You know, as we've talked about our digital business is an important part of our strategy. It has been growing by leaps and bounds for years now. So it's, you know, 30% during the quarter, over 60% in a two-year stack. It is approaching 17% of our sales at this point. We are at a point that frankly, a few of us didn't think we'd ever get to. And we have a lot to be proud of there. It all comes on the back of convenience. We have an incredibly talented digital team that builds these capabilities for our members to help them get access to tremendous value in a more convenient way than they otherwise might. Most of our business, as you know, is in what we call BOPIC, buy online pickup in club, as well as same-day delivery. As well as express pay where you check out in the club using your phone. Well over 90% of our total digital sales are fulfilled by our clubs. So we are efficiently building this business. It is certainly a money-making opportunity for us. We are really pleased with the way that it's growing. Included in there is our retail media program that you referenced, and I talked a bit about it a few seconds ago. While still small, our team has been growing that quite nicely as well as we improve our website, as we improve the way that we partner out there with our advertisers. The way that we really coordinate between our different properties, whether it's our website or our app, you know, we are coming up with more ways to engage our members and allow our advertising partners to reach our members with compelling values that first and foremost, help our members, but also help us and our advertising partners. So we will continue to invest in that business in the future. Again, it's still small, but it is growing quite nicely and allows us to make other investments in member value as we go forward. Everyone talks about AI. We are no different. AI is a big part of our future. It is most notably used in our digital group at this point. And the use cases not surprise you. They were on the vanguard of using it to make coding more efficient, making testing code more efficient, and they will continue to use AI in consumer-facing avenues as well. And so I'll give you a couple of examples. We talked about in the prepared remarks. We've got, you know, beta launched, AI shopping assistant. And are using AI to do predictive shopping lists for folks. Probably the thing that's most well along, however, is partnering AI with the robotics that we have in our stores. We have a robot that roams our stores named Tally. And initially, Tally was just helping us with inventory accuracy and price sign accuracy. And now, we have taken that much farther where Tally's imagery creates a digital twin of each of our buildings something that we've never had before because our buildings don't have warehouse management systems. And that has enabled really cool things from an operational perspective where not only are we getting better inventories and better price signing and accuracy, but we are efficiently spotting problems for our team members to take care of. We are efficiently generating to-do lists for our team members in the clubs. Find them and try what needs more of return, what should they be doing first within the building. We're using it to really help us spot quality issues in our fresh businesses as well so we can make sure that our standards there are tip-top every day. We're finding new ways to use Tally and the data that it provides every day. I think the thing that's been most so far has been using those digital twins to predict the most efficient pick paths for our team members to pick orders for BOPIC or curbside or same day. Where they are about 40% more efficient today than they were before. So we'll continue to build on the use of AI. We'll continue to focus on long-term investments that really will allow us to continue our mission, which is to offer our folks the best products the best prices. Probably the next thing up from a robotics and AI perspective will be our automated distribution center in Ohio that will go live next year. That will be, when it gets going, far more efficient than a traditional distribution center. And will operate almost entirely in a robotic fashion. So it'll be fun to see that. I've been out there to see it recently. And I can't wait to see it with all the machinery going in there to see how it works. But it's all in the same spirit of providing even greater value for our members.

Laura L. Felice: Pedro, I'd just add, all that commentary that Bob just said about Tally and the robotics we have in our club, there's a close tie to that with the work that our planning and allocation teams are doing that we already spoke about in our prepared remarks. And that is producing our in-stock levels that have improved kind of year over year. So there is a tie beyond some of the digital efforts into how we're putting product on our shelves and how our teams internally are using the data from Tally as well.

Pedro Gill: Awesome. Fantastic. Thank you for that. And as a follow-up, if I could ask you, if you could comment on the competitive environment. You had nice improvement in merch margin in the first half, a little more even this quarter. To the extent that you can comment, and I totally get it, it's still early, how

should we think about the level of investments next year? Are there any particular areas within grocery or gen merch that you're looking to prioritize?

Robert W. Eddy: Look. I don't wanna talk too much about next year, but I would just echo the comments that I've already made around the fact that our job is to provide our members great value every day. We've made considerable investments all year in doing so, and I've been pretty creative to find ways to fund it. You know, having the merch margin results that we had in Q3 while making the investments that we made was a good result. I would anticipate further investment going forward. As the competitive environment out there is, I think, consistently competitive. And we need to continue to do our jobs to reward our members for their faith in us and the membership fees that they pay. So, we will continue to try and ride that balance between margin and value, but we will always err on the side of value to try and operate the business for the long term.

Pedro Gill: Okay. Great.

Operator: Thank you.

Robert W. Eddy: You bet.

Operator: Thank you very much. As a reminder, if you would like to raise a question, please signal now by pressing 9. Our next question comes from Chuck Grom from Gordon Haskett. Chuck, your line is now open.

Chuck Grom: Hey. Good morning, guys. On the margin front, to move down the P and L a little bit, your SG and A square foot levels have been really tight, which is good, but your peers are up a lot suggesting, maybe some investment in technology in other areas. So I guess my question is how sustainable do you think maintaining that SG and A per square foot at that level over the next couple of years, particularly as you move into Texas?

Robert W. Eddy: Yeah. It's a good question, Chuck. Good morning. You know, our teams have done a good job over time being very efficient with our buildings, making sure that they're in good shape. They're in far better shape today than they were five years ago. With that said, we need to continue to do that and maybe even accelerate it. You know, I think one of the things that we're seeing out there is our competitors getting sharper with their boxes. And so we will have to continue to do that not just because of the competitive environment, but we wanna show our members the best box we can. Every day. And so I would imagine we'll spend some capital going forward, remodeling our boxes. We will obviously continue to spend into our new club pipeline as well. And we'll do that as efficiently as we can, but obviously with an eye for the long term.

William C. Werner: Yeah. Hey, Chuck. It's Bill. I'll just tack on to that as well. You know, in addition to our existing clubs, you know, for the first time ever, we've really started to build a relocation program for some of our older clubs as well. So we had great success with our recent relocation in Mechanicsburg, PA. We announced this morning that we're gonna relocate Rotterdam next year. And so it's not just an eye to our existing clubs, but also to the long-term future of these strong markets where we may have buildings that are a little bit on the older side. We're taking the opportunity to invest into the future there as well.

Chuck Grom: Gotcha. Great. Thanks. And then, on general merchandise, right, like, up 1.8% on the stacks, you know, much better than front half of the year even with limiting inventory. You talked a little bit about the category improvement. I guess, what do you think it's gonna take to get home and seasonal to catch up to CE and apparel and other areas? And then I guess anything that you guys are excited about as we walk stores over the next couple of months into the holidays. Thanks.

Robert W. Eddy: Yeah. Sure. Maybe I'll start and you guys can pick up. Look. I think we've done some great things from a general merchandise perspective. As we talked about, we had a strong showing Q3 from a consumer electronics perspective and from an apparel perspective. You know, consumer electronics has been a hallmark of GM for a while. It's always been a pretty good business for us. And, you know, again, better. We have very talented merchants in that group. Our apparel team has done a great job over the past few years. You know, really making sure that we simplify our assortment, and bring in better brands, put great value out in front of our members every day. We need to continue to do those things. Right? We might need to simplify our assortment a bit more. We need to continue to put great brands out there and put fantastic values on there as well. Need to apply those same lessons to the rest of the business, and we are actively at work on those things. We've seen some green shoots in

previous quarters. We've talked about those with you like toys and of our gifting in previous quarters. I like our toy assortment this year as well. And I'm excited about the way our gifting looks in the front of our clubs as well. But we need to have more sustained transformation in home and in seasonal going forward. These are probably the toughest categories, particularly the seasonal categories, maybe in the building. But certainly among the GM categories, these are really tough categories. You need to be right on trend. You need to be right on style and color on price point, all sorts of different things. And while we've made strides, we're not done. We're not satisfied with where we are. We need to continue to turn the crank and get better going forward. So we were under no illusions that renovating general merchandise would be easy or short in tenure. We've had nice success in the past, and we need to keep investing in that business because it is such an important part of the wholesale club model. Where it provides that treasure hunt, that emotional connection, those cool wow items. Are so important to driving incremental trips and, quite honestly, that question around membership renewal is not only tightly linked with the grocery business, but it's really tightly linked with our general merchandise business when you can have more opportunity to save your entire membership fee in one purchase. Rather than stacking up just good values on smaller ring items. You can save a couple \$100 on a television or a mattress or a great seasonal item. That becomes a really important part of our overall long-term growth of our company. So let me see if the guys wanna pile on. No? Alright. So we're happy with our GM so far. We've gotta get better, we'll continue to work at it.

Chuck Grom: Great. Thanks a lot. Have a nice weekend.

Robert W. Eddy: You too. Thank you.

Operator: Thank you very much. Our next question comes from Rupesh Dhinoj Parikh from Oppenheimer. Rupesh, your line is now open.

Rupesh Dhinoj Parikh: Good morning. Thanks for fitting me in. So just going back to your commentary about 25 clubs, the membership counts 25% ahead of plan. What do you think is contributing to that significant outperformance?

William C. Werner: Hey, Rupesh. It's Bill. Yeah. I always come back to the success with the new club program. Comes back to the culture that the team's built. I think I've mentioned this a couple of times on previous calls that everyone that is involved with the new club program internally is fully engaged and fully bought in. And wants to see us be successful. So you know, we started this program way back in 2016, and the rep that we've built along the way, you know, we talked about the goal of making the next opening the best opening in the history of the company. You know, opening a new club where you have to build up especially in a new market, membership a membership base entirely from scratch. Is not easy to do, and it takes a lot of practice and a lot of learnings to do it right. And, you know, we're executing at a higher level than we've ever executed. And as we think about going into the Dallas Fort Worth market next year as well as all the other markets. So market like Foley, Alabama that we announced this morning is a really cool unique market, and we're gonna be really excited to be there. And we wouldn't be able to do that. We wouldn't have the confidence to do that without all the success that we've built up to this point. So like I said, we're really pleased with what we've done here in 2025. It really has been, probably the best class that we've ever opened in at least those far as I've been here. And it gives us a lot of confidence going forward. So yeah, more to come, but excited about what we've accomplished.

Rupesh Dhinoj Parikh: Great. Thank you. I'll pass it on.

Operator: Thank you very much. This marks the end of the Q&A; session. I'd like to hand back to Robert W. Eddy for any closing remarks.

Robert W. Eddy: Great. Thanks, Carly. Thanks, everybody, for your attention this morning, for your thoughtful questions, for your interaction, your support of our company. Wish you all a happy Thanksgiving, and we'll talk to you at the end of the fourth quarter. Thanks so much.

Operator: As we conclude today's call, we'd like to thank everyone for joining. You may now disconnect your lines.