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Drugstore.com Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Brian Fitzgerald – Banc of America Securities.

[Brian Russo] – Banc of America

Hi, this is Brian Russo for Brian Fitzgerald. I'm curious about, you kind of mentioned, October you saw a little bit of a recovery from September. I was wondering if you can give us your thoughts on why that might be and I guess my underlying question is you know it seems that things are you know kind of getting worse and I'm looking at your growth guidance for the fourth quarter and it looks pretty solid. I'm wondering is that conservative enough. And then I have a follow-up, thanks.

Dawn Lepore

Well, I guess, the bottom line is that, Brian, nobody has a crystal ball, including me and these are unprecedented times. What I can tell you is that OTC, and you're probably mostly talking about OTC growth, was going along about 14%. The last 10 days of September that was when all of the significantly catastrophic financial news was in the papers. The growth rate slowed dramatically as it did, I mean, consumers were obviously very taken aback on what was going on around them. In October, it bounced back to about 10.5%.

So we are looking at, for the fourth quarter, OTC growth somewhere in the 9 to 12%, or high single digits to low double digits arena and that's based on the data that we see. And we think that it's being prudent. Obviously we can't predict what this holiday shopping period will do.

On the other hand, we do have a lot of replenishment items, obviously. We have great value proposition. We have low cost items and so we do feel that consumers still will be spending some money; they're just going to be much more thoughtful and obviously spend less this holiday season. Does that make sense with what you're hearing from others?

[Brian Russo] – Banc of America

It does. And then I had one other question, just quickly. Could you provide some kind of an update on the possibility of adding department store brands such as Lancome or maybe Estee Lauder and how meaningful that could be for growth, should that happen?

Dawn Lepore

Well we've added - actually, we've added prescriptives and we've just sent out an e-mail to our customer base about prescriptives and have gotten a good response from our customers. So we're very pleased with our relationship with Estee Lauder. We've got fragrances, prestige fragrances; now we have prescriptives and we will obviously look to build that relationship over time and we believe that we will perform very well for Estee Lauder, especially when you look at the overall industry declining 1% and we had significant growth in prestige beauty.

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