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PetSmart Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Matthew Fassler – Goldman Sachs.

Matthew Fassler – Goldman Sachs & Co.

I want to focus if we could first of all on the expense line; you had very impressive cost control including relative to the first half of the year. If you could talk about precisely where you were able to cut and also whether that was essentially a moving target through the quarter as you saw sales growth begin to moderate.

Lawrence P. (Chip) Molloy

That was really a function of things that we started at the beginning of the year and they're starting to materialize so things like headcount management, things like trimming professional fees, our insurance costs are coming down. We renegotiated all of our contracts, our store maintenance contracts. We continue to trim on expenses on supplies, so it's been an ongoing effort for probably the last nine months. Fortunately for us we continue to push those along and they're starting to materialize and something that we've been expecting for – ever since probably the beginning of the year.

Matthew Fassler – Goldman Sachs & Co.

I guess secondly, we've all seen commodity costs start to rollover. How do you think about pass through to pet food pricing as the increases abate? I would take it you don't expect to see pricing cuts, but how does that work both for street price and also for your margin as you move into next year?

Philip L. Francis

The history in pet food certainly and I think grocery as well is that when frontline prices go up and then commodity prices abate a bit they almost never, in fact I'd say, almost never, never come down. What we think is going to happen are beginning to see early signs of this. People who are on futures prices know that they're going to abate and going to come down. I think people are going to leave frontline prices alone, frontline costs. I think their promotional spend as they try to grow their business will be the way they'll go rather than a frontline based cost kind of cut.

We've been pretty religious about maintaining margin rates rather than just dollar for dollar as we've gone through and other people have followed that pattern as well. And in the last couple of weeks

we've had a couple people who, based upon a story which is delayed reaction to oil up and so forth, we actually are going to have a couple of pet food price increases we know about in January of '09.

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