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Family Dollar Stores, Inc. F1Q09 Earnings Call Transcript

Question-and-Answer Session

Operator

We are now ready to begin the question-and-answer session. (Operator Instructions). Also, as we have limited time remaining, please confine your comments to one or two questions. One moment, please.

Your first question comes from Adrienne Shapira – Goldman Sachs.

Adrienne Shapira – Goldman Sachs

Good morning. Thank you. Perhaps, if you could just talk about the earnings drivers this past quarter. We clearly saw a shift, a flip-flop from the past few quarters with better gross margin and perhaps some SG&A deleverage. Help us think about directionally, is this perhaps the way we should be thinking about it going forward?

Howard, you talked about ways to mitigate some of the pressure on SG&A and still look to lever on a 2% comp. Obviously you highlighted how that didn't happen this quarter. Perhaps share with us some of the efforts you're putting into place to offset some of that SG&A pressure going forward. Thanks.

Howard R. Levine

Sure, Adrienne. I'll start with that. I think what I'm most pleased about is the way the company has attacked the whole expense issue in the last 12 to 18 months. We've had a strong initiative to see how we can get rid of costs that aren't necessary to our business. We've implemented a procurement program which is generating some tangible results for us. The pressures on the insurance line were not a surprise to us this quarter. We talked about some huge savings that we generated last year. We do expect some pressures from that throughout the year, but what my comments were about was overall, from an expense standpoint, I think we positioned Family Dollar to compete in an environment that is challenging out there. Ken or Jim, do you want to elaborate a little bit more on that?

Kenneth T. Smith

Yeah, I'd suggest, I mean, if your question around the earnings drivers, we take a look first at the gross margin side. I mean, clearly we had a significant mix shift in the second quarter. I'm sorry, in the first quarter. We were able not only to offset the pressure on margin from that mix shift, but even more so add to gross margin. I think there are many sources that contributed to that, the margin performance. Most significantly what we call that is the markdown comparison. As we've talked about coming into this season we were positioned from an inventory perspective to expect a difficult

environment for our customer. We bought accordingly and took some risk out of our inventory coming into this season. That allowed us from a comparability perspective year over year has allowed us to have a lower markdown rate compared to the prior year. That is a significant driver to the margin benefit. We also saw a benefit in shrinkage and freight expense, as well as on the purchase mark-up. So a pretty solid story on gross margin from multiple facets.

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