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Q4 2020 Earnings Call

Company Participants

- Bob Nelson, Senior Vice President, Financial Planning, Investor Relations, and Treasury
- Richard A. Galanti, Executive Vice President and Chief Financial Officer
- Unidentified Speaker

Other Participants

- Blake Anderson, Analyst
- Chris Horvers, Analyst
- Chuck Grom, Analyst
- Greg Melich, Analyst
- John Heinbockel, Analyst
- Karen Short, Analyst
- Kelly Bania, Analyst
- Laura Champine, Analyst
- Michael Baker, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Paul Lejuez, Analyst
- Peter Benedict, Analyst
- Robert Moskow, Analyst
- Rupesh Parikh, Analyst
- Scot Ciccarelli, Analyst
- Scott Mushkin, Analyst
- Simeon Gutman, Analyst

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Costco Q4 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session (Operator Instructions)

I would now like to hand the conference over to Richard Galanti. Please go ahead.

Richard A. Galanti {BIO 1423613 <GO>}

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Thank you, Laurie, and good afternoon to everyone.

I will start by stating that these discussions will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties that may cause actual events, results and/or performance to differ materially from those indicated by such statements. The risks and uncertainties include, but are not limited to, those outlined in today's call as well as other risks identified from time to time in the company's public statements and reports filed with the SEC. Forward-looking statements speak only as of the date they are made, and the company does not undertake to update these statements, except as required by law.

In today's press release, we reported operating results for the fourth quarter and fiscal year 2020, the 16 and 52 weeks ended August 30. Reported net income for the fourth quarter came in at $1.39 billion, or $3.13 per diluted share, compared to $1.097 billion, or $2.47 a share -- per diluted share last year in the fourth quarter. This year's fourth quarter was negatively impacted by incremental expense related to COVID-19 premium wages and sanitation costs totaling $281 million pre-tax, or $0.47 a share, as well as a $36 million pre-tax charge or $0.06 per share related to early payment of the $1.5 million -- $1.5 billion of debt. These items were partially offset by an $84 million pre-tax benefit or $0.15 a share for the partial reversal of a reserve of $123 million pre-tax, $0.22 per diluted share, related to a product tax assessment taken in the fourth quarter of last year.

Net sales for the quarter increased 12.5% to $52.28 billion, up from $46.45 billion in the fourth quarter a year earlier. For the fiscal year and it's entirety, the fiscal 2020 came in at $163.22 billion, a 9.3% increase over the $149.35 billion in fiscal 2019. Comparable sales for the fourth quarter fiscal 2020 were as follows. On a reported basis for the 16 weeks, US was 11%. Excluding gas deflation and FX, US was 13.6%. Canada reported 9.1% up. Again, ex-gas deflation and FX, 12.6% up. Other International reported 16.1%. Ex-gas deflation and FX, 18.8%, bringing the total company to a reported number of 11.4% comp. And again, ex-gas deflation and FX, up 14.1%.

For the company, e-commerce reported was 90.6% up and ex gas and FX -- ex Fx, 91.3% up. In terms of the fourth quarter comp sales metrics, foreign currencies relative to the US dollar negatively impact sales by about 50 basis points and gasoline price deflation negatively impacted sales by approximately 220 basis points. Traffic or shopping frequency on a worldwide basis was down 1.2% during the fourth quarter and showed an increase of 1.2% in the US.

Our average transaction or average basket size was up 12.7% during the fourth quarter, notwithstanding the negative impacts from gas deflation and FX, which were included in that number. We've kept you up to date in our monthly sales calls on the impacts from pandemic -- from the pandemic, as we've been able to identify those. Overall, merchandise sales in the core, core being food and sundries, hardlines, softlines and fresh, as well as pharmacy have all been strong, while sales in our ancillary -- other ancillary and travel businesses, though now open, have been soft.

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Next, moving down the income statement, membership fee income. We reported fourth quarter membership fee income of $1.106 billion, up $56 million from $1.05 billion in the fourth quarter of '19. The $56 million increase ex-FX would have been $60 million up. During the quarter, we opened eight net new units and 13 for the entire fiscal year. In terms of renewal rates at fourth quarter end, our US and Canada renewal rate remained at 91.0% and worldwide rate also remained at its similar number from a quarter ago at 88.4%. In terms of the number of members at Q4 end, both member households and cardholders, total paid households at fourth quarter end was up -- came in at $58.1 million and cardholders $105.5 million.

In the fourth quarter, we standardized the membership count methodology globally, which we've apparently done differently in different markets of North America versus others. And so that increase includes that slight adjustment. The change resulted in adding approximately 1.3 million paid members and 2.0 million cardholders to our member base. So as an example from Q3 to Q4, when we showed going from 55.8 million to 58.1 million are up 2.3 million. That 2.3 million increase includes the 1.3 million adjustment upwards.

Similarly, the 3.7 million increase from the end of third quarter to fourth quarter, that 3.7 million increase includes 2.0 million of an adjustment. I'd like to note, however, that neither the membership fee income dollars nor the renewal rate calculations were affected by this adjustment. At fourth quarter end, paid executive memberships totaled 22.6 million, an increase of 765,000 during the 16 weeks since third quarter end.

Going down the gross margin line -- growing down to the gross margin line. Our reported gross margin came in at 11.24%, up 18 basis points from last year's fourth quarter gross margin of 11.06%. That 18 basis point increase, excluding gas deflation, came in -- would have been minus 4 basis points. And excluding a portion of the direct COVID expenses would have been up 8. And I'll show you that in the numbers that I ask you to jot down here.

If you jot down the following numbers, two columns. First column will be fourth quarter has reported. Second column will be fourth quarter ex-gas deflation. The first line item would be core merchandise. Year-over-year, on a reported basis, core merchandise was up 101 basis points, ex-gas deflation of 82 basis points. So plus 101 basis points and plus 82 basis points in the first line item. Ancillary businesses, being the second line item, reported minus 66 basis points and without gas deflation minus 71%. 2% reward, minus 4 basis points and minus 2 basis points. Other, minus 13 and minus 13 basis points. And that would give you totals on a reported basis, plus 18 basis points, which I mentioned and ex-gas deflation of minus 4 basis points.

Now the core merchandise component of gross margin again was higher by 101 basis points year-over-year and 82 basis points higher ex-gas deflation. Similar to last quarter and even more dramatic of an impact during this quarter, we had a significant sales shift from ancillary and other businesses to the core. This resulted in a higher contribution of our total gross margin dollars coming from the core operations versus last year.

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Looking at the core merchandise categories in relation only -- to only their own sales, so core on core, if you will. Margins year-over-year were up by 70 basis points. Fresh Foods was the biggest driver of the year. With a strong sales in Fresh, we benefited from efficiency gains in both labor productivity and significantly lower, what we call D&D or damage and destroy of your product spoilage. Food and Sundries, Softlines, Hardlines as well as -- as I mentioned Fresh Foods already, but in addition, Food and Sundries, Softlines and Hardlines, all had higher margins year-over-year in the quarter as well.

Ancillary and other businesses gross margin again, was lower by 66 basis points and 71 basis points, ex-gas deflation. Most of our ancillary businesses were lower year-over-year with the most significant negative impact coming from gasoline and travel, which accounted for about three-quarters of the decline. Costco Logistics, which was primarily our acquisition this past March of the big and bulkier last-mile carrier called Innovel. That was our newly acquired business. That impacted ancillary margins by minus 8 basis points. Again, we acquired this, this past March and we anticipated losses in this business as it ramps up. Note that these losses do not take into account any added sales or extended product -- expanded product offerings, lower delivered prices and improved member satisfaction.

Next, 2% Reward, nothing really to say there, minus 2 basis points, ex-gas deflation and other, the minus 13 basis points, nearly all of this is attributable to the cost from COVID, $64 million -- $64 million of the $281 million previously mentioned. These are direct cost for incremental wages and sanitation allocated to our cost departments and to our merchandise fulfillment operations, so it impacts cost of sales.

Moving to SG&A. Our reported SG&A percentage, year-over-year was lower or better by 47 basis points, coming in at 9.62% of sales this year in the fourth quarter versus 10.09% last year in the fourth quarter. Ex-gas deflation, SG&A was lower or better by 66 basis points. Again, if you jot down the following two columns of numbers, first column is reported year-over-year SG&A change and the second column would be ex-gas deflation. Core operations, as reported were better or lower by 42 basis points and ex-gas deflation, lower or better by 57 basis points, so plus 42 basis points and plus 57 basis points. Central, plus 1 basis points and plus 3 basis points, stock compensation plus 3 basis points and plus 4 basis points, other plus 1 basis points and plus 2 basis points, and that gives you the total on a reported basis, SG&A being better by 47 basis points and ex-gas deflation being better by 66 basis points.

SG&A in the core, excluding COVID-related expenses, which I'll discuss in a moment was significantly leveraged of course, with a strong core merchandise sales increases. As I mentioned, Central, stock compensation, showing small improvements year-over-year as a percent of sales. And now the other, plus 1 and plus 1 basis point reported and plus 2 basis point ex-gas deflation. As I discussed earlier in the call, the quarter was positively impacted by an $84 million reversal of last year's fourth quarter of $123 million pretax reserve related to a product tax assessment taken a year ago in the fourth quarter. The net impact from this item was plus 43 basis points. That plus 43 basis points is in this plus 1 basis point and plus 2 basis point number. Also included in other are the incremental COVID costs or $217 million of $281 million total amount. That equates to 42 basis points or 41 basis points without gas deflation, offsetting the other way. So, that's why you have a

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very small number on that line. Again, these are the cost for incremental wages in safety and sanitation.

Next on the income statement, pre-opening expense, pre-opening expense last year in the fourth quarter was $41 million, this year in the fourth quarter was $15 million less, coming in at $26 million. Last year in the fourth quarter, we had 12 gross openings, 10 net and two relos and that compares to 10 openings gross or eight net in the fourth quarter of this year. The big difference in those two numbers, this year's fourth quarter relates primarily to warehouses opened during the quarter, as well as warehouse scheduled to open in the first quarter. Last year's pre-opening excluded $12 million in pre-opening expenses related to our new -- are then new poultry complex. All told, reported operating income in Q4 increased 32%, coming in at $1.929 billion this year compared to $1.463 billion last year. And it would be a slightly higher percent increase if you excluded the items that I mentioned earlier.

Below the operating income line, interest expense was higher year-over-year by $6 million, coming in at $51 million this year compared to $45 million last year. Interest income and other for the quarter was lower by $83 million year-over-year. As discussed earlier following the completion of the debt offering, we prepaid $1.5 billion of debt during the quarter. There was a pre-tax expense of a -- or what's known as a make-whole payment of $36 million related to the early retirement of that debt. That's in this interest income and other line. Actual interest income was lower by $28 million lower -- it was actually lower by $28 million year-over-year in the quarter, due principally to lower interest rates being realized. And lastly, FX and other was lower by $19 million.

Overall reported pre-tax income in the fourth quarter was up, came in higher by 25%, coming in at $1.869 billion this year compared to $1.492 billion last year. Again, these exclude those items I point -- that's including those items I pointed out earlier. In terms of the income tax rate, our tax rate in Q4 of '20 was 24.9%, a little lower than a year ago when it was at 25.7% in the fourth quarter a year ago, so a little benefit there. A few other items of note. In terms of warehouse expansion, with COVID, we had some delays in some of the planned openings for the fiscal year that just ended this past August 30, and a few of those have been pushed into this year that we are in now. For the year, we opened 16 total units, including 3 relos, so last year we opened a net increase of 13 locations. Our plans for this year is to open about 20 net, 23, including three relos, that's our best guess plan at this point. And as of Q4-end, our total warehouse square footage stood at 116 million square feet.

In terms of capital expenditures, for the 16-week fourth quarter, we spent approximately $852 million and the full year, we spent $2.8 billion. Our estimated CapEx for all of fiscal '21 is in the $3 billion to $3.2 billion range. E-commerce. Overall, our e-commerce sales, as you've seen, each month have increased nicely. For the fourth quarter on a reported basis up 90.6% and ex-FX 91.3% increase during the fourth quarter. A few of the stronger departments, there are several, health and beauty aids, food and sundries, appliances, TVs, computers and tablets, housewares and small electrics. Total online grocery grew -- total online grocery grew at very strong rate in Q4, several hundred percent. This e-commerce comp, if you will, that numbers -- the e-commerce numbers I just mentioned above follow our usual convention, which we exclude the third-party same-day grocery

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program. If we included that third-party same-day, our e-commerce comps result would have been approximately 120% up during the quarter. Overall, our e-commerce sites were relatively smoothly during the quarter, despite the dramatic volume increases and we were able to improve our delivery times throughout -- delivery times throughout the quarter as we adjusted to the ramped up order volumes.

Now quickly turning to COVID and coronavirus and some of the issues and impacts surrounding it. From a sales perspective, as indicated by our past three monthly sales releases, we've enjoyed strong sales results during the June, July and August timeframe. Certainly these -- the sales strength starts with our being deemed essential, resulting in strong sales of Fresh Foods and Foods and Sundries and Health and Beauty Aids, and the like. We've also benefited from the much improved sales in products and items for the home outside of the food area. As people are spending less on travel, air and hotel and dining out, they seem to have redirected at least some of those dollars to categories like lawn and garden, furniture and mattresses, exercise equipment, bicycles, housewares cookware, plastics and the like.

And lastly, a few of our ancillary businesses, notably, our optical and hearing aid operations were closed for 12 to 16 weeks and reopened during the mid-summer. From a supply chain perspective, kind of a 40,000-foot view, in terms of China, at least judging by the shipments to us, most of the factories are up and running. There is still some production challenges due to certain components downstream in the supply chain in the areas like electronics, computer and certain white goods. It is getting better and improving each week. And like us, we feel that our suppliers' factories have gotten a bit better over the last several months of instituting safety protocols. That's our best guess.

And in terms of getting back to normal, each week is showing improvement and catching up. Still a little behind. Food and sundries, some limits on paper goods, we are getting better. Toughest area overall is still sanitizing wipes, as well as latex gloves. In terms of other PP&E, we're in pretty good shape. We are selling quite a bit of masks and the like. Milk and butter, things like that are generally okay.

In terms of fresh foods, proteins are all -- are currently all pretty good. There had been some slowdowns over the past few months and some allocations and some limits that we had put on some sales of those items. But that's gotten back to normal at this point. Seafood and produce, all good, as it has generally been throughout. In terms of holiday merchandise planning, Halloween, a few -- some small reduction in the amount of costumes, some more basic candy items, as well as for Christmas, going a little more basic in some areas and as well as looking at things in needs and uses for the house. But viewing it, given our strength of late, relatively optimistically.

And Costco Travel has shown some very modest improvement, but still significantly impacted during the quarter due to reduced demand. We do see our members starting to book travel again, although generally further out, then we have historically seen. Our warehouses overall have remained open and they are back to regular hours with additional -- with additional hour on certain weekday mornings in many markets for seniors and persons with disabilities. The warehouses are still, of course, following the social distancing and sanitation guidelines -- sanitization guidelines. And since May 4, as you know, we've required all members and employees in the warehouse to wear masks. Finally, in terms of upcoming releases, we will announce our September sales results, which is for the five-weeks ending Sunday, October 4, on the following -- on that following Wednesday, October 7, after market close.

With that, I will open it up to Q&A and give it back to Laurie. Thank you.

Questions And Answers

Operator

Yes. (Operator Instructions) And your first question is from Simeon Gutman from Morgan Stanley. Your line is open.

Q - Simeon Gutman {BIO 7528320 <GO>}

Hi, everyone. Hey, Richard. My first question is, how should we think about or how you planning COVID cost for Q1 of the next fiscal year? And if I'm not mistaken, I thought that for this fourth quarter, there was a range, I don't know if there was a range, but we were expecting them to be lower sequentially and I think they were pretty similar. So, you mentioned the basics, what it constituted. But can you talk about why?

A - Richard A. Galanti {BIO 1423613 <GO>}

Sure. And as you may recall on our third quarter conference call, we indicated that such types of costs in the Q4 would be at least $100 million or over $100 million. And of course, $280 million [ph], one is over $100 million, quite a bit larger. But the reality is the biggest factor is, we chose to continue at least for the time being the $2 an hour premium. That represents about $14 million a week. To-date, we are doing that and we've committed to doing that at least through, I believe the first eight weeks of fiscal -- of this fiscal quarter. And again, we'll take that time. And again, our numbers have been very good. Our employees are on the front line. And so that -- mind you, the fourth quarter was a 16-week quarter versus Q3, which is a 12-week quarter. So on a per week basis, it's come down. There is other things that have been -- that won't be repeated in the first quarter at least.

If you go back to the very beginning of time for the first four weeks to five weeks when we stopped doing food samples, we employed those third-party employees ourselves. We paid our third-party to have them -- help us in the warehouse. That was during those three weeks to four weeks of craziness in late February to mid to late March when people were coming in and hoarding and what have you. And that helped quite a bit. So, there is some costs that have -- that I don't expect to be continued. The biggest component, of course, would be the $2 premium. And we'll see. At this juncture, we've committed to it -- to our employees for the first eight weeks of this quarter

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. Thanks for that. My follow-up, as you mentioned the holiday and I think you said, you're looking at it optimistically or favorable for now. Can you talk about maybe a little more detail why? It seems like the results speak for themselves for now, but there could be

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a lot of change over the next couple of months. And has your customer diversified the basket with you and you think you'll be able to retain them across more categories and keep trips as more retail get their traffic back? Thanks.

A - Richard A. Galanti {BIO 1423613 <GO>}

Sure. Sure. Well, look, I mean the main data points that we look at is, is how strong things have been in the last three and a half, four months. June, July and August sales results, which we've all shared with you guys, the trend in traffic has improved. So it's been positive the last couple of months instead of slightly or even more than slightly negative, going back to April and May, while the average ticket -- average basket sizes continue to be relatively strong. So -- and that probably, if you ask, what are the -- what's some of the bigger surprises that we've -- that we had looking at the last three months of sales results compared to what we expected a few months before that?

I mean the big surprise is, is we expected fresh and food and sundries and paper goods and the like and health and beauty aids to be strong, particularly food because of the weakness, people dining out. But I think we were a little surprised by the strength in many of these discretionary non-food categories, things for the house and big ticket items, again, not only furniture for that, inside the house, patio furniture, live goods were particularly strong, where in some instances, we had tried to cut back a few orders back in March and April for seasonal summer goods like patio furniture.

Very quickly, we were having to scramble for more of those. And so, so far so good. We recognized that people were coming into Costco. We believe they feel safe, given the safety protocols and the mask requirements, the sheer size of the building itself and the width of the aisles. So, all those things have helped us in that regard. We're also back to, after a couple of months of not having our traditional multi-vendor mailer coupon type of offerings because several key items were limited on allocation. We've gotten back to that. And so I think our -- at least our most recent three-plus months' history has given us some comfort at this point. Now soon as I say that things may change, but at this juncture, we feel very good about how we will be -- what it looks like going forward. Recognizing, looking at some of these things with a more basic in terms of Halloween and Christmas and the like.

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Operator

Your next question is from Chris Horvers from J.P. Morgan. Your line is open.

Q - Chris Horvers {BIO 7499419 <GO>}

Thanks. Good evening, guys. So, my first question is what's driving that strong core-on-core margin outside of the fresh category, which clearly would benefit from a shrink perspective? Is it sell-through and the clearance that mix within the categories or is it something else?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, on fresh, it's all of the above. I mean it's strong sales on a relatively higher initial margin business within our small confines of margin range. But then two components of cost of sales and fresh is labor productivity and spoilage. We don't have spoilage. We sell out, not literally, but almost literally to the piece on this and things. And so you're not throwing stuff away. You're not -- there's -- it's a great business from a gross margin dollar perspective given the sales strength in it. So that's clearly the biggest thing.

But again, if you look at the other three core areas, core food and sundries, hardlines, softlines, they're all up, but up a nice amount but nothing like fresh foods. So that's helped. Now mind you other things have offset that. And the sum of all of those things is still a positive. And the things that have offset it would be things like the fact that certain ancillary businesses, which are higher margin businesses were closed for 12-week to 16-week period. Our food court, of course, has been limited of what we do there. We took out all the tables. We've limited the product offerings. Travel, which is a -- while a small business, is an extreme example of high margin. Many items in travel is just the brokerage fee, almost sales, minus no cost of sales equal gross margin, if you will, is the markup or the commission on some of that stuff, a portion of that. So those things have come down, but the sum of all those negatives are outweighed by the overall strength in core merchandise sales as well -- and pharmacy. Pharmacy has been relatively strong too and within that Fresh has been the biggest driver of it.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. So, a final question that you were surprised by the negative gas impact in ancillary. I mean, your peers, while not the same quarter saw tailwinds for the periods that crossed over. And so can you talk about how much of that 66 basis points is specifically gas versus the other businesses? And as you look forward, considering that opticals open and food courts at least with a smaller menu open and starting to see some traction around travel and gas prices being stable, do you expect that at this point that the ancillary headwind could abate?

A - Richard A. Galanti {BIO 1423613 <GO>}

I think it will, it will be less negative, but I think it's going to be around for a while. I mean if you look at gas, gas is more profit -- more profitable per dollar per gallon of sales than it was a couple of years ago, because I think as prices have come down, traditional retail has not been as competitive, which allows us to be more competitive, but still make a little more. At our trough, at the lowest point, I'm guessing back in April or May, there was a week where our gallons were down close to half. Today, they're down closer to, maybe down 10%, maybe 5% to 15% depending on the day of the week.

But in normal times for the last few years pre-COVID, when the US gasoline industry had comps in the very low-single digits, we'd be in the very, very high-single digits or close to 10 or 11 even sometime. So we've -- so things have changed there. It's still a profitable business and -- but when your sales kind of -- when your price per gallon goes down 20%, 30% and your gallons are down even some small amount, and it's a -- 10 plus percent of sales of our business, it has, it has that effect on it. At the end of the day, the sum of all this has still been quite good for us.

Q - Chris Horvers {BIO 7499419 <GO>}

And could you break out that -- the 66 basis point that specifically related to gas.

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A - Richard A. Galanti {BIO 1423613 <GO>}

What we said three-quarters of it was gas and travel, that's as good as we got here. I don't have the detail in front of me. My guess is gas is more of it than travel but they're both impactful.

Q - Chris Horvers {BIO 7499419 <GO>}

Your guess is better than mine. Thanks very much.

Operator

And your next question is from Chuck Grom from Gordon Haskett. Your line is open.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, good afternoon. Curious Richard how you're thinking about the recovery of your, of your gasoline business, particularly from a gallons perspective? And I guess how this interplay is holding back foot traffic into your storage, clearly getting better, but and it being impacted a little bit by the gas business?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, I don't know exactly. I haven't seen numbers in the last week or two, but I believe our -- call it 10% negative gallon comp is still way better than the US as a whole -- the US gallon -- gasoline industry as a whole. And so, but we rather have plus 10% to minus 10%. The fact is, is that people are coming in less but they're buying more each time and sum of those two things, as we've shown, we used to enjoy 5% to 8% comps pre-COVID on a regular basis and the last three months we've enjoyed 14%, if you will, and so overall the -- we'll take that. But it's got to be some small impact still.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay and then just, it's been a while since I asked it, but the crossover between customers that purchase gas and then shop in the store unlike kind hours, do you have that number handy?

A - Richard A. Galanti {BIO 1423613 <GO>}

I haven't seen it lately but historically, it had been for -- during the hours that the warehouse itself is open because gas station open a couple of hours perhaps I need to say that, it's in the low-50s.

Q - Chuck Grom {BIO 3937478 <GO>}

Low-50s, okay, great. And then just switching gears a little bit on capital allocation, the end of the year with over $30 per share in cash and cash equivalents and you obviously remain significantly under-levered. Curious how you and the Board are approaching this high-class problem?

A - Richard A. Galanti {BIO 1423613 <GO>}

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Well, we have our regular quarterly Board meeting in a couple of weeks, we'll see, but at the end of the day, we talked about it every Board meeting and all the different alternatives. Certainly, we -- when we went out to borrow the $4 billion, which was really a net increase of $2.5 billion because we used $1.5 billion to pay off existing debt. The fact was is that we were planning for a worst-case scenario where we would need more -- there would be a slew of, of seasonal summer merchandise that we might have to hold for a year, as well as there would be a lower inventory turn, particularly on discretionary non-food categories. Up until June when we've seen the numbers really go in the northern way, June, July and August, much of that need has not occurred. So yes, we are in a good position right now. We'll continue to look at it, but you'll know us after we know.

Q - Chuck Grom {BIO 3937478 <GO>}

Got it. Thanks a lot.

Operator

Your next question is from Karen Short of Barclays. Your line is open.

Q - Karen Short {BIO 7215781 <GO>}

Hi, thanks very much. I guess first question, just on the $2 premium. I guess the real question is, I mean I know you called out the eight weeks, but would it be more prudent as we kind of model this to just kind of think that's more or less the new norm, meaning $14 million a week is kind of what we should add on an ongoing basis. It just seems that it's hard to take something like that away once you've offered it. So, just thoughts on that?

A - Richard A. Galanti {BIO 1423613 <GO>}

I don't -- I don't think it's completely hard to take away. We communicate via our CEO and our Head of HR to our employees. We've done that and we've continued to extended it, but saying this will be it and we've added a little more. Well, I think we'll see. I think something will -- I think, it may be hard, but not impossible. And we want to make sure we communicate to our employees of why we're doing it and we'll have to wait and -- we'll just have to wait and see Karen.

Q - Karen Short {BIO 7215781 <GO>}

Okay. And then I wanted to just...

A - Richard A. Galanti {BIO 1423613 <GO>}

I wouldn't necessarily budgeted in for the, for the full fiscal year, but we don't know at this point.

Q - Karen Short {BIO 7215781 <GO>}

Okay. And then...

A - Richard A. Galanti {BIO 1423613 <GO>}

We know it's at least eight of the 12 weeks in Q1 and maybe more.

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Q - Chuck Grom {BIO 3937478 <GO>}

Okay. And then just back to traffic for a second. So, within your reported traffic numbers is obviously e-com, right. So, I wanted to just ask a little about what your physical in-store traffic looks like? And then I think on the last call, you were asked on color on traffic with your more loyal executive members versus you know the lower level members. Do you have any -- do you have any color on both of those?

A - Richard A. Galanti {BIO 1423613 <GO>}

I -- I'm looking real quick, I really -- I don't -- I don't have color in terms of, generally, executive members do everything, spend more, come in more frequently, buy mortgage time and renew it at a higher rate. I'm looking real quick, hold on. I don't have traffic. Comps -- within our comp number, e-commerce benefits -- benefits it by a little over 3% of the comp. It's not the traffic number.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay.

A - Richard A. Galanti {BIO 1423613 <GO>}

The average ring has more than doubled.

A - Bob Nelson {BIO 19296866 <GO>}

No, no. The average ring on e-comm is...

A - Richard A. Galanti {BIO 1423613 <GO>}

I'm sorry, the average ring on e-commerce versus the warehouse...

A - Bob Nelson {BIO 19296866 <GO>}

Is about...

A - Richard A. Galanti {BIO 1423613 <GO>}

...is about twice and that's because you got a lot of these, still even though we've expanded on Food and Sundries and Apparel, you still got big ticket items like electronics and furniture, exercise equipment and the like. Bob, here is saying...

Q - Karen Short {BIO 7215781 <GO>}

Thanks.

A - Richard A. Galanti {BIO 1423613 <GO>}

...he's guessing that the traffic impact would be 1 to 2, but we don't have that's broken out.

Operator

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And your next question is from Michael Lasser from UBS. Your line is open.

Q - Michael Lasser {BIO 7266130 <GO>}

Thanks a lot for taking my question. So, Richard, now that we're six months into the pandemic, does Costco come out of the situation in better position to experience incremental margin expansion over time? And is there any factor that you learned that would allow the company to generate more margin expansion than it would otherwise?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, the more margin we can generate, the more likely we're going to give some of it back. In this case, arguably given our strength, we've certainly given it back, but we remain very competitive. But we've also maintain that $2 premium to our employees, which we appreciate. I think the first part of your question, when you started to asking about how do we feel we are going to come out of pandemic and as things change. I mean, look, there's factors, as people eat out more and go out more or travel more. There's less for the home. That's on a macro basis. We have to believe here and we do believe that we have picked up new members. We've picked up sales from existing members from the categories that they are buying more at Costco now, relatively speaking, in part because certain other venues or traditional venues, they are either closed or not frequently -- not frequent as often.

So, again, we've been blessed in that regard. I think the other thing that I've witnessed over the last several months is our merchants' ability to pivot and to add items for that -- houseware items, additional items. And so, I think, net of all those things, I still think, on a macro basis, when people start eating out more and start flying more and attending -- going on vacations, some of these monies that are now being used for purchasing things for the home is going to move that way. That being said, I think there are several areas where we've -- we are retaining more of their dollars and some portion of that will continue to retain when it gets back to normal.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. And on an unrelated note, e-commerce growth, what percentage of your membership is currently buying from you online? What's the profile of the members driving the growth? And presumably, a lot of the spend is incremental, because the spend of those numbers is going up. So did that change how you are thinking about emphasizing or investing behind your e-commerce business?

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah. I don't have all those specifics. What I know is, is what was -- what was happening even before COVID and has been exacerbated in a positive way since COVID is more -- some members have signed up to utilize those services. More members are utilizing those services and spending more on it. If you think about the one-day fresh, it is up several 100% fold, recognizing it was a smaller base. Even as it has gone down from its peak a couple or three months ago, it's still a lot higher than it was before.

And my guess is even as people get used to one if you got out, there is some people right now that aren't going to the supermarket or aren't going out to shop or the Costco shop.

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They love the service. There are some people -- there's going to be some group who's going to like that. And given our quality and value, we, in a supermarket are not mutually exclusive of one another. And we think we'll keep some of that. So, we are certainly doing more to market, to members, not only in-store promotions but online promotions as well. Yeah. We feel -- I feel better about our offerings today certainly than a year ago or two years ago. Recognizing, there is still a lot of low-hanging fruit because there were some of the things we had done historically.

We know that on the -- on the -- I hate to use the phrase again. But on the big and bulky side, a lot of those things. For four years, we had talked, which is pre-COVID. We had talked about going from $50 million in white goods sales in-store in the US with a limited sales penetration, if you will, to fiscal ' 19, doing almost $700 million, I think just under $700 million. That business has increased at a more rapid pace in the last year for two reasons, COVID, and people buying things for the home, as well as in our view, the regional things we're seeing trends wise in terms of how to utilize, better utilize our big and bulky Innovel acquisition what we call now, what we now call Cosco Logistics for big ticket furniture items, lawn and garden items, exercise equipment and the like.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. Thanks very much and good luck.

A - Richard A. Galanti {BIO 1423613 <GO>}

Thanks.

Operator

(Operator Instructions) Your next question is from Paul Lejuez of Citi. Your line is open.

Q - Paul Lejuez {BIO 6299659 <GO>}

Hey, guys, Paul Lejuez. Richard, can you maybe talk about what you're seeing in terms of spending by new customers relative to existing customers, but also relative to what you would typically see from a new customer? And then, second, I guess I'm curious if you have looked at club usage by members at all. What percent of your members use the club this quarter versus last quarter? Any way to frame that? Thanks

A - Richard A. Galanti {BIO 1423613 <GO>}

I don't know if I can answer all those specifically. But keep in mind, some of our new members signed up simply for same-day fresh or two-day dry. Same-day fresh, you have to be within a market trade area where there is a Costco. Two-day dry, you can be anywhere, I think, almost anywhere in the United States. And with Instacart, it's both United States and the part of Canada now. And so we have some members. If they weren't a member, but they are signing up just to get two-day dry and they're not near Costco, needless to say, they are just buying those types of basic dry grocery items and that's it.

Generally speaking, what we've seen in a given member, whatever type of member, they buy more each year over the first few years of their membership. And then there is the age

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thing as well. The sweet spot for us is still 40-years old to 55-year old, as they've grown economically, grown family wise and are not on the downside of that curve in terms of empty nest and what have you. But I don't have any specifics beyond that to give you.

Q - Paul Lejuez {BIO 6299659 <GO>}

How about club usage?

A - Richard A. Galanti {BIO 1423613 <GO>}

Club usage, same thing. Again, I can tell you, I don't have anything specific the last few months. But club other than traffic has improved greatly from its trough five months ago, not back to where it was pre-COVID. But one of the things that we see is, is that the typical member over the first three years to five years is growing their total purchases, which is a combination of their basket and their frequency. And clearly, when we -- where we can convert somebody to an Executive Member, they are buying more and shopping more frequently than that.

Q - Paul Lejuez {BIO 6299659 <GO>}

Got it. Thank you. Good luck.

Operator

Your next question is from Oliver Chen of Cowen. Your line is open.

Q - Oliver Chen {BIO 15320650 <GO>}

Hi. Thank you. Richard, on the e-commerce frontier, it's been really impressive what you've done. What is some of the lower hanging fruit that you see there? And also if you could brief us on the penetration now and how you might see that step change and where that will head in the future?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, I mean the main lower penetration things are, if you go back three years or four years ago, I don't think we had good email addresses for much more than a third of our member base and we didn't focus on that kind of stuff. Today, we have well over 60% and growing. We now require you -- when you sign up -- and more members are signing up online and in-store in general anyway. When you sign up, you sign up with an email address. So, we're doing a lot more to collect and gather those email addresses and then communicating with them more often. So that's probably the single biggest low-hanging fruit.

The other thing is, is we feel that we've been able to use emails, if you will, not only to drive e-commerce special promotions but also in-store special promotions as well the COVID. We were pleasantly surprised by just the sheer increase in people using same-day fresh. Anecdotally, I can't tell you how many people have mentioned to me how they love it. And they may very well be shopping same-day fresh or same day whatever from their local supermarket as well, but we've got a lot of great items on there and it's hitting a cord.

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Q - Oliver Chen {BIO 15320650 <GO>}

And Richard, as we looked at this holiday season, which is definitely like no other, what factors would you prioritize as how you're planning and as best you can differently this year versus others? And is a multi-vendor mailer in good shape and are you going to leverage that a lot for holiday as well? I would love thoughts around dynamics of supply chain and marketing for holiday.

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, the multi-vendor -- the multi-vendor mailer is back and there may be a few items that we don't have because of certain supply limitations. But for the most part, it's completely back after, I think two weeks or three weeks of those or six weeks or nine weeks of multi-vendor mailers, if you will, that we didn't do. I think the biggest difference is, is, again, for the Christmas holidays, it's getting back to basics. But you're still going to see some hot exciting items at Costco. Again, as I mentioned even on Halloween, we still have costumes. I think we brought in something like 80% of what we would have normally brought in, 80% or 90% and we're actually selling them.

So, we added some vendors over the last several months given certain shortages. One of the challenges is right now, we've had great numbers in electronics and white goods, notwithstanding the fact that the numbers will be better if there was greater supply. We all read about there are certain supply issues on laptops and computers and things like that on some of the gaming things. On some of the white goods, where there might be downstream shortage or at least some allocation of compressors. So, we're doing very well on that. We've added some different vendors in some cases. And I think -- I think the fact that we did so well this summer relative to what we had anticipated has given us the confidence to to be still pretty aggressive going into the fall.

Q - Oliver Chen {BIO 15320650 <GO>}

Last question on same-day fresh and the momentum there. What are the margins like and what are your thoughts about that margin and the take rate and also taking some of those capabilities in-house versus using the white label?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, at this juncture, we have a very good relationship with other competitors, I'm sure, having a good relationship also with Instacart. There is a few other smaller ones that we're using. We're not necessarily looking to take that in-house at this juncture. But we are always looking at various third parties and we have good existing relationships, so we want to keep growing those as well.

Q - Oliver Chen {BIO 15320650 <GO>}

Thank you. Best regards.

A - Richard A. Galanti {BIO 1423613 <GO>}

Thanks.

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Operator

Your next question is from John Heinbockel of Guggenheim Partners. Your line is open.

Q - John Heinbockel {BIO 1508150 <GO>}

Hey, Richard. So, a couple of things on gross. If you -- even if you take fresh food, right, it looks like the other three were up quite a bit. Maybe dive into a little bit similarities driving those three big categories versus what might be unique each. And then how sustainable is that, right? This is -- this obviously is one of the better core on cores we've seen in a while.

A - Richard A. Galanti {BIO 1423613 <GO>}

Sure. Well, look, first and foremost, there is -- well, I guess two things. There is a little bit less promotional activity going on and you think about TVs and electronics, those have been such a strong category, not just for Costco, but in general, the manufacturers haven't been doing as many promotional things. So, -- and the other thing is, is, given just the sheer sales strength, when you're comping -- if we comped at a whatever is was in August 14, I don't have in front of me -- whatever, but in some of these categories that we talked about what was stronger, you're talking comps in the -- in the low-to-high 20s. When you got -- those -- that kind of sales strength, you have very -- on a much smaller scale, you have less markdowns. So, you've got a -- whatever your regular margin is on those categories, less -- a little bit less -- without a little bit of an offset from from end of cycle or in some of those cycles are 60 to 90 days by the way on some of those SKUs, so that's helped you a little bit.

Q - John Heinbockel {BIO 1508150 <GO>}

And then on ancillary, right, you said 75% was gas and travel. Was gas the bulk of that? And if so, was gas more the compare last year versus any decision you made, right, to take less margin? I imagine it's not that to take less margin and try to drive traffic, I guess market is just not there, right?

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah, I think in terms of less margin that's more of our DNA. When things are really good, we're going to drive sales even further and do that or when things are good, we're going to, we feel a little more comfortable doing that $2 an hour for another month, whatever it might be. But at the end of the day, there is probably less price competition out there today than there was a year ago. And so -- and we're able to maintain our fair margins.

Q - John Heinbockel {BIO 1508150 <GO>}

All right. And then lastly, what's the current thought process on two things, expanded both as right, which you haven't wanted to do for cost reasons and a third tier of membership. I don't know if it be a higher tier, or a middle year but sort of segmenting that a little more.

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah, well on buy online and pickup in store, we continue to look at what others do, we continue to scratch our head a little bit. It's not that we'll never do it, but it's not on the agenda for, for this week. And as it relates to additional tier of membership, again, I don't think that's on the top of the priority play at this juncture given everything else that's going on.

Q - John Heinbockel {BIO 1508150 <GO>}

Okay, thanks.

Operator

Your next question is from Scott Mushkin of R5 Capital. Your line is open.

Q - Scott Mushkin {BIO 7138867 <GO>}

Hey guys, thanks for taking my question. So, I guess what I want to get back Richard to the e-commerce, the traffic mix and the comments that you've made prior about really wanting to get people into the club. If the pandemic shifts that where you're going to see permanently traffic being an issue there, how we're supposed to -- how you are thinking about like impulse purchases and just the Costco model, once we exit the pandemic if this -- if this kind of sticks with omnichannel just being a much bigger piece of the pie overall?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, first of all, can you remind if our -- if our online business was 5-ish percent a year ago and now it's 8-ish percent, that's a big delta in one year and it will continue -- it will probably continue to increase as a percentage from there and that excludes the the third-party Instacart type business, the one day grocery. And so, look, we've been pretty good at pivoting along the way and we recognize there is lots of attributes to value. The first and foremost is the lowest price on the greatest quality or quantity of goods, services and the trust that we've endured with our members. I think that we'll figure that out as we go along. We're not -- we may be occasionally stubborn on something, but we're not -- we're not completely intransigent if we see, we need to do something. We figure out how to do things in a little different way than others and we'll continue to do that.

Q - Scott Mushkin {BIO 7138867 <GO>}

And as far as the pickup, I know, I think you were quoted in a recent article on this. I mean, how are you thinking about pick up over time? And is there a way to bring that to -- bring that arrow into what you guys are doing without -- at better economics? I know you've always been cautious about those economics.

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, keep in mind when third parties do it, their cost for picking, we believe, we don't know exactly what they are, but we believe based on our wages and benefits, is less and they've created a model that works with their density and everything else. They're not just buying and delivering from Costco, they're buying and delivering to others. So, there is some economics in that model that makes sense.

The -- our view also is there are some retailers that are doing it because they feel they have to. One of the things, the article, you're talking about is the article today. The one --

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in my view, the thing I would disagree in the article is that we should be concerned, because our -- our sales have started to slowing, which is the contrary, they are stronger than they've ever been the last three months. So, we don't have our head in the sand on it, we look at it, we have people here that study it and maybe will surprise you one day, but at this juncture we're not prepared to do that.

Q - Scott Mushkin {BIO 7138867 <GO>}

Hey, thanks for taking my questions. I appreciate it.

Operator

Your next question is from Rupesh Parikh of Oppenheimer. Your line is open.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Good evening. Thanks. Thanks for taking my question. I guess just two related question on real estate. So, as you look at your store growth for this year, what's the split between international and domestic? And also just given some of the challenges of brick and mortar, I'm also just curious if you're starting to see more opportunities on the real estate front?

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah, I mean, I think our general view is, is that we still feel that we want to open -- looking at this year and the next five years, open somewhere between 20 and 25 a year net new units. About half of those -- a little more than half will start by coming in the United States and that will trend over the five years to maybe being slightly over 50/50 in the US to slightly under 50/50 in the US. We still think we have plenty of opportunity in US.

It does take longer in certain other countries. I think we're just about ready to do a second unit in France. We just opened our third unit in Spain after having opened our first unit in Spain, gosh five years ago. We have one unit in China with two planned for fiscal 2022, we're now in fiscal 2021. And so some of these countries do take longer. But we are also putting a little bit more emphasis on that where we've been successful, we think we can be successful. And -- but I think -- again at the 40,000-foot level, if we did 20 to 25, a little more than half in the first couple of years is US and by year four or five or six, probably be instead of 60/40 or 55/45 US, it will turn to be just the opposite.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Great. Thank you.

Operator

Your next question is from Scot Ciccarelli of RBC Capital. Your line is open.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Thank you. Hi, guys. Actually, another store growth question. What is the limiting factor for you in terms of accelerating your store growth further? Like you've got grand total of one

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in France and a grand total of one in Spain, like, and you've been there for five years like. It just seems to me like there could be a lot more store expansion if you really want to push it. And I guess what I'm wondering is, what keeps you from accelerating that further?

A - Richard A. Galanti {BIO 1423613 <GO>}

I think there are couple of things. First of all, I've always said that we're a very hands-on company. And one of the things we've learned when we've gone a little bit too fast, not just -- just one in five years is too fast. It's lot. And I remember in Japan, we got to 10 or 12 locations and then in about 18 month period, we opened eight or nine and we had a little bit of operating indigestion [ph]. As it relates to France, it took us close to 10 years to get our first open. The level of people and entities that can appeal that process invite you to keep you out is unbelievable.

And again, in Spain, we actually have three and a fourth this year. Generally speaking, if I look at various countries, we opened five in the first five years. That would be relatively fast for us. And -- but again, it gets back, I think to getting that hands on and make sure that we feel comfortable how the market is doing. We're probably a little slower than we could be, but we feel good about it. And it's worked for us and we'll, I think, continue to do that.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

But Richard, that's on the international front. That makes sense. You've got to be comfortable with the market and supply chain, of course. But what about just in the US, like you're obviously comfortable with all the -- how to navigate kind of store openings and what kind of restrictions you might have. It just seems to me like, if you've got a decent amount of white space.

A - Richard A. Galanti {BIO 1423613 <GO>}

Fair enough. Well, I think some of the white space gets better each year. If I look at even the Seattle market, there was a multi-year period where we didn't open any additional units and then we opened on the east side here, Redmond and a couple of others. And part of it is, is cannibalizing nearby units. But no -- we try to be relatively methodical and disciplined of kind of the returns that a new unit can generate, net of cannibalization. And could we open 20 instead of 12 or 13 in the US? Absolutely. But it's how fast the real estate people and the regional operations people get with our CEO to go through that process and finding the right properties. Yeah.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it. Okay. Thanks a lot, guys.

Operator

Your next question is from Mike Baker of D.A. Davidson. Your line is open.

Q - Michael Baker {BIO 4323774 <GO>}

Hi. Thanks, guys. And it's getting late. So, I'll be quick. But I wanted to ask you about the membership fee income, up about 5 unchanged, I think this quarter, which has been

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pretty consistent throughout the year. But I guess how much of that do you think is from new members that you're picking up because of the pandemic? Some of your competitors are seeing big increases in new members from the pandemic. It's hard to piece that out from your numbers. I mean, we compare this -- we can compare it to pass MFI numbers, but it's a little bit lumpy because of the fee increases. So any idea of what you're picking up in terms of new members because of the pandemic?

A - Richard A. Galanti {BIO 1423613 <GO>}

We don't disclose that. It's still a smaller percentage of the total. It's not a majority of the total.

Q - Michael Baker {BIO 4323774 <GO>}

And does it surprise you that those membership numbers aren't accelerating more as you might see from some of your competitors?

A - Richard A. Galanti {BIO 1423613 <GO>}

Our view when we looked at some of our competitors' numbers is partly because they have a much lower number of members per location than we do. And we -- that's what -- that's our view. But the fact is, is when we look at how penetrated we are in so many of our markets, I mean we are even in California where we have 120 units, 130 units, I don't know how many units we've got there. I believe we're north of 60, slightly north of 60% member household market share. In states like Oregon, Washington, we are well in excess of that. So, I think that's part of the issue in our view. We've got a lot of people already

Q - Michael Baker {BIO 4323774 <GO>}

Right. Yeah. Yeah. Makes sense. All right. If I could ask one follow-up on gas gallons sold. You said, you're at 10% today. That's not 10% for the quarter, down 10% that is, I believe, right? That's sort of a point in time. Did you mention how your gas gallons sold were for the -- as we go through the whole quarter?

A - Richard A. Galanti {BIO 1423613 <GO>}

We did not. That's a more recent number in the last month, let's say. I mentioned that it may have been even in the end of Q3, which ended like May 10 or May whatever around then, where we were like a minus 50. But my guess is we're somewhere in the low to mid-teens for the last month.

Q - Michael Baker {BIO 4323774 <GO>}

For the last month -- for the last quarter or for the last month?

A - Richard A. Galanti {BIO 1423613 <GO>}

The last month low-teens.

Q - Michael Baker {BIO 4323774 <GO>}

Okay. And so the total quarter is somewhere in between those two numbers presumably?

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A - Richard A. Galanti {BIO 1423613 <GO>}

Yes. Yes.

Q - Michael Baker {BIO 4323774 <GO>}

Got it. Great. Got it. Understood. Thank you.

Operator

Your next question is from Peter Benedict of Baird. Your line is now open.

Q - Peter Benedict {BIO 3350921 <GO>}

Yeah. Hey, Richard. Just a question on how the product shortages issues that you guys have seen around COVID might be influencing your view on where you might go next in terms of vertical sourcing. I mean, I don't assume there's anything electronics or white goods. But has the experience in the last four months or five months maybe bent the curve in terms of when certain initiatives might be pulled forward?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, in terms of vertical initiatives, we've got -- the last two years or three years have been quite a bit, not only a bakery commentary that serves US and Canada just across the Canadian border, not only a second meat plant in Illinois versus the one we've had for many years in California, not only the poultry complex and not only a couple of smaller produce initiatives we've got going on right now. And last but not even expected with the acquisition of Innovel or what we now call Costco logistics. So, we've got a -- we've got our hands full with a lot of things right now. I don't necessarily see.

I think one of the things that we've learned from COVID, we have great relationships with large companies, both consumer product named companies and private label named companies of doing literally multi hundreds of millions of dollars of one item. When there has been some shortage of supply, we've had to expand that vendor network a little bit. There are some instances where given our sheer volume in Asia now, can we find a comparable manufacturer or an existing supplier that wants to do something over there? So, I think there is some -- there'll be some ways to continue to reduce costs on key items. But in terms of what's the next big vertical, I don't know if we know at this point.

Q - Peter Benedict {BIO 3350921 <GO>}

Okay. No, that's fair. And then just thoughts on the travel bookings. You had mentioned that you were starting to see a pickup there, but it's further out than normal. Can you give us -- can you frame maybe what's normal? And what you're kind of seeing right now of those interests [ph]?

A - Richard A. Galanti {BIO 1423613 <GO>}

This is my definition of what I've understood previously at normal is that if you go back pre-COVID, the majority of your bookings each day related to stuff for the next few months. Maybe a little further out for five months before Christmas or five months before

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the beginning of summer. Today, you've got people booking things out five months and nine months in some cases. Now there is two reasons. One, there is some great deals out there. And two, in many instances, there is no cancellation charges and so we'll have to wait and see. And part of that will be dictated by -- we've actually sold and had some members go on some cruises of late, still a very small number. The car rental business has picked up a little bit better than the other, but still down relative to what it had been pre-COVID. Overall, (multiple speakers)

Q - Peter Benedict {BIO 3350921 <GO>}

Okay. Great. Thanks a lot.

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah, overall -- and mind you, if we booked something out nine months, we don't take it into revenue until the trip is taken. So even though business has improved in terms of what we show in our numbers, there is very little. It's just starting to -- it's not -- first of all, it's not negative right now. There are few months there in April, May, June or April, May, certainly where cancellation costs were greater than than trips being taken.

Q - Peter Benedict {BIO 3350921 <GO>}

Yeah. Makes sense. All right. Thanks, Richard.

Operator

Your next question is from Kelly Bania of BMO Capital. Your line is open.

Q - Kelly Bania {BIO 16685675 <GO>}

Hi, Richard. Thanks for taking our question. Just wanted to ask maybe a two-part question here. More and more retailers are talking a little bit about advertising maybe as a way to offset their lower margin e-commerce business. And so, I was curious, one, if you could talk about where our e-com margins just with all the acceleration and maybe just also remind us what bucket that is in, in your table?But then also just philosophically, how do you think about that? Maybe any -- taking on any more ad revenue to your dotcom business? Thank you.

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, we're taking on more ad revenue and we keep learning more about that as well as we drive that business. And -- but overall, the margins -- it's lower gross margins. Part of that is category-specific. Electronics, which is by far the largest single component of, of e-commerce is a high-single digit margin we think about it. In the Costco warehouse, you've got fresh, that's in the low-double digits, sometimes pre-teen or early teen and you've got -- again conversely, electronics, which is mid to high.

You also, as we try to drive the business in certain new categories like apparel, where you buy two items and get $5 off for whatever the marketing or promotional item is, there is a lower realized margin on a given category and some of those categories versus online -- versus in-store. So overall, you also have less SG&A and I get back to what Costco has

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always been a top line company. We're looking to grow our topline. Certainly, the profitability of e-commerce has improved dramatically in the last year with these strong sales, but it's part of the ecosystem. Oh, where it is in the matrix. It's in ancillary.

Q - Kelly Bania {BIO 16685675 <GO>}

It is in ancillary. Okay.

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah.

Q - Kelly Bania {BIO 16685675 <GO>}

Thank you.

Operator

Your next question is from Laura Champine of Loop Capital. Your line is open.

Q - Laura Champine {BIO 4748805 <GO>}

Just a quick one, Richard. You've managed to improve inventory turns or grow inventory slower than sales since the onset of COVID, I know that some of this has been supply chain issues or issues with certain SKU sourcing, but that seems to be clearing up. How long can you keep improving inventory turns at this pace?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, if we keep doing 14% sales for a while, but I'd say that tongue-in-cheek because we -- if you go back to April and May, the inventory turns had come down. One of the reasons we are planning for additional capital, working capital needs. I -- yeah, look, I think we've gotten to a point -- when we've enjoyed a turn based on how you calculated it in the 12% to 13% range, when you get up to that range, it's difficult to some extent as well. Gas helps it, because we turn gas every day; fresh foods helps it, because we turn fresh foods every week or less, I think about every week, maybe a little better than that. And the fact that we didn't have a big denigration on non-food items, which we had thought would be an offset to that, so it's helped it a little bit right now. But if you ask me, if I could just keep where we are right now, I'd say sure.

Q - Laura Champine {BIO 4748805 <GO>}

Got it. Thank you.

Operator

Your next question is from Christopher Mandeville of Jefferies. Your line is open.

Q - Blake Anderson {BIO 21621956 <GO>}

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Hi, this is Blake on for Chris. Thanks for squeezing us us in here. I was wondering if you comment at all on the extent to -- how much of your existing customers you had before the pandemic that historically didn't buy general merchandise that are now shopping in that category? How much of that example have you seen?

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah, I don't know of top of my head that, sorry.

Q - Blake Anderson {BIO 21621956 <GO>}

Okay. And then just lastly, can you talk about renewal rates and your expectations on those? Should we expect them to maybe creep higher given -- given all the comp strength you're seeing now?

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah, sorry, you're owed for two. We don't guide -- no, we don't guide. There are things that help the comp, that help the renewal rate, getting people to executive, getting people to do our credit card. Some of the things we do now when you sign-up online, auto bill. And so, those are things that help push it upward a little bit or -- yeah the fact to extent, but conversely, if we ramped up internationally and not that we are going to do that overnight, but if we ramped up internationally, you start, in any new market, or new -- the first few warehouses in a new country, you were kind of much lower renewal rate to start with but a much higher number of initial sign-ups, because there's lot of looking those. And so all those things weigh in. We feel so far that I know as soon as we show a minus tenth of a percent in a quarter, which is knock on wood, we haven't of late, people worry what's going on. But our view is, is that we're hanging onto our members, we're getting them to -- we're -- in most countries, even in new countries, we've seen the trend to more often improve than not and so I think we feel pretty good about that.

Q - Blake Anderson {BIO 21621956 <GO>}

Got it. Thanks so much.

A - Richard A. Galanti {BIO 1423613 <GO>}

Why don't we take two more questions.

Operator

Yes. Your next question is from Greg Melich of Evercore ISI. Your line is open.

Q - Greg Melich {BIO 1507344 <GO>}

Thanks. Richard, just one clarification and one question. Did you say e-commerce was 8% and then over 10% including Instacart, was that for the year or the quarter?

A - Richard A. Galanti {BIO 1423613 <GO>}

Quarter and roughly.

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Q - Greg Melich {BIO 1507344 <GO>}

8-ish and 10-ish, got it. And then -- so on traffic, I guess that was my follow-up, right, you talked a lot about and it's nice to see the US traffic come back through the quarter. Could you help us understand why international traffic remains negative and if there is any outlier countries driving that or is really the US the outlier with traffic come back? And if you're concerned that that could influence the renewal rates in those international markets? Thanks.

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, Canada is the outlier internationally. Mind you, if US is -- a little over 17% of our company's sales, Canada is around 10%, maybe 15% -- I'm sorry, 15%. And so you've got other international being less than (multiple speakers). Yeah, there have been more restrictions in Canada. Australia also, there have been more lockdowns of late, but in Canada and we have no direct warehouse competition in Canada. We've seen their traffic (multiple speakers) yeah, more negative with a basket even bigger than the US. So, we still kind of buying and we've seen that improve also. It's -- that negative has been reduced. So, hopefully that will continue as well. Trendwise, last four months have been on the up and up.

Q - Greg Melich {BIO 1507344 <GO>}

Got it. So, the trend is the right direction, it's just taking longer for those country-specific reason?

A - Richard A. Galanti {BIO 1423613 <GO>}

It went further down to start with too. I mean, I think even I'm shooting from the hip here, but even several months ago with the US was a minus 5 traffic, Canada was a minus double-digit traffic.

Q - Greg Melich {BIO 1507344 <GO>}

Got it. Great, thanks a lot. Good luck.

A - Richard A. Galanti {BIO 1423613 <GO>}

Thank you.

Operator

And we have Robert Moskow of Credit Suisse. Please ask your question. Your line is open.

Q - Robert Moskow {BIO 6299775 <GO>}

Hi, thanks for having me on the call. I wanted to know if you're noticing any regional differences in terms of how consumers are behaving during the pandemic? Infection rates are rising in certain states and there is threat more, I don't know if they will fully go to lockdowns or not, but do you see any differences in terms of how they're getting ready for

Halloween or worried about trigger treating or anything like that and how are you responding to that?

A - Richard A. Galanti {BIO 1423613 <GO>}

I can't be specific, specific about Halloween. The only -- if I look back over the last several months, the only thing that we saw was is when certain states unlocked more quickly, we saw a little pickup there faster, earlier because people were getting out -- getting out faster. Some of those states that -- they did that. Other than that, we haven't seen anything dramatic.

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A - Bob Nelson {BIO 19296866 <GO>}

I would say, honestly too that as the pandemic progressed, people are just comfortable. (inaudible).

A - Richard A. Galanti {BIO 1423613 <GO>}

Yeah, I think Bob makes a good point here. I think and we are all guilty of it is, as the pandemic has progressed, we're all hopefully -- hello, hello?

A - Unidentified Speaker

Yeah. We can hear you.

A - Richard A. Galanti {BIO 1423613 <GO>}

Oh, you hear me now. I thought I hung up on you, sorry. I think, as the pandemic has continued, people have gotten a little more comfortable hopefully still maintaining the safety protocols, but going out more often and that's helped us the numbers pick up a little bit as well. And overall, again anecdotally we feel that people feel more comfortable coming into a place where masks are required, where the places, the physical spaces are larger with more cubic feet of open-air, if you will. So, I think those things have probably helped us. But the only real difference we saw was during those couple of months where some states opened up a little faster than others.

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Q - Robert Moskow {BIO 6299775 <GO>}

Okay. Does that mean, net-net, past re-openings eventually improved, that's a net positive for your business in 2021?

A - Richard A. Galanti {BIO 1423613 <GO>}

Well, it's a net positive but we don't know. Does that also mean that if people eat out more frequently, they're going to buy less food -- fresh food or food items at supermarkets and Costco. There's probably some different offsets there. Again, we believe that some of the things that we've picked up through this pandemic, in part, because a lot of these non-food discretionary categories and big ticket categories, some of that's going to be sticky. And once they shopped and had a good experience at Costco at a great value, they will hopefully continue that.

Q - Robert Moskow {BIO 6299775 <GO>}

Okay. Thanks so much.

A - Richard A. Galanti {BIO 1423613 <GO>}

Okay. Well, thank you, everyone. Have a good day. And we're around. Have a good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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