Q4 2023 Earnings Call

Company Participants

- Richard A. Galanti, Executive Vice President and Chief Financial Officer
- W. Craig Jelinek, Chief Executive Officer

Other Participants

- Brandon Cheatham, Analyst
- Christopher Horvers, Analyst
- Chuck Grom, Analyst
- Erica Eiler, Analyst
- Greg Melich, Analyst
- Joe Feldman, Analyst
- John Heinbockel, Analyst
- Kelly Bania, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Peter Benedict, Analyst
- Scot Ciccarelli, Analyst
- Scott Mushkin, Analyst
- Simeon Gutman, Analyst

Presentation

Operator

Good day everyone and welcome to the Costco Wholesale Corporation Fourth Quarter and Fiscal Year 2023 Operating Results Call. Today's call is being recorded. All lines have been placed on mute to prevent any background noise and after the speakers' remarks, there will be a question-and-answer session.

I would now like to turn the conference over to Richard Galanti, CFO. Please go ahead, sir.

Richard A. Galanti {BIO 1423613 <GO>}

Thank you, Lisa, 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 of fiscal '23, the 17 weeks ended September 3rd. These results and the figures presented today compared to last fiscal year's 16-week fourth quarter. Reported net income for the 17-week fourth quarter came in at $2.160 billion or $4.86 per diluted share compared to $1.868 billion or $4.20 per diluted share in the 16-week fourth quarter last year. In terms of sales, net sales for the 17-week fourth quarter were $77.43 billion, an increase of 9.4% from $70.76 billion in the 16-week fourth quarter last year. Comparable sales for the fourth quarter and these figures are like-for-like number of weeks, in the US, reported was 0.2% comp, excluding gas deflation and FX in the US, it would have been 3.1%. Canada reported was 1.8% and excluding gas deflation and FX, 7.4%. Other International reported 5.5% and again excluding gas deflation and FX, 4.4%. Also total company reported 1.1% comp and 3.8% ex-gas deflation and FX.

In terms of e-commerce, that came in at minus 0.8% reported and minus 0.6% excluding FX. Overall for fiscal fourth quarter, food and sundries were relatively strong once again, with fresh foods, right behind and with some offsets and some of the non-foods categories. In terms of Q4 comp sales metrics, traffic or shopping frequency increased 5.2% worldwide and 5.0% in the United States. Our average transaction or ticket was down 3.9% worldwide, and down 4.5% in the US, impacted in large part from weakness in bigger ticket non-foods discretionary items as well as the gas price deflation. Foreign currencies relative to the US dollar negatively impacted sales by approximately 0.03%, and gasoline price deflation, negatively impacted sales by approximately 2.5%.

Next on the income statement, membership fee income reported in the fourth quarter $1.509 million -- billion or 1.95% of sales in the fourth quarter this fiscal year, compared to $1.327 million -- billion or 1.8% -- 1.88% in Q4 of last year. So $182 million increase or 13.7%. If you adjust for the extra week, 13.7% would be roughly 7%, ex that extra week. Excluding FX and the extra week, the increase would have been around 7.5%. In terms of renewal rates at Q4 end, our US and Canada renewal rates stood at 92.7%, which is up a 0.1% from the 92.6% figure as of the end of Q3. The world -- the world -- the worldwide rate came in at 90.4%, down a 0.1%, reflecting the impact of increasing penetration of memberships from international, which we knew at a lower rate, in large part because of new openings internationally. Membership growth continues. We ended the fourth quarter with 71.0 million paid household members, up 7.9% versus a year ago at 127.9 million cardholders, up 7.6%. That's on the new openings over the past year of 3 -- just under 3% increase in new locations. At the fourth quarter end, we had $32.3 million paid executive memberships, an increase of 981,000 during the 17 weeks since Q3 end. The executive members now represent a little over 45% of our paid membership, at approximately -- paid members and approximately 73% of worldwide sales.

Moving down the income statement, next is our gross margin. Our reported gross margin in the fourth quarter came in higher -- came in at 10.60%, up 42 basis points from 10.18% a year ago and 42 basis points is up 16 basis points excluding gas deflation. As I always ask you to jot down a few numbers, with two columns, both reported and excluding gas deflation. The first line item would be core merchandise, on a reported basis up 51 basis points year-over-year in the fourth quarter and ex-gas deflation up 28 basis points. Ancillary and other businesses, minus 32 and minus 38, 2% reward minus 4 and minus 2. LIFO plus 27 and plus 28. And total that up on a reported basis, gross margin was up 42 basis points year-over-year and ex-gas deflation, up at 16 basis points. Starting with the core, again, 51 year-over-year with deflation of 28. In terms of core margin on their own sales, our core-on-core margins were higher by 35 basis-points. With food and sundries and non-foods being up and fresh foods being down a little.

Ancillary and other business gross margin was lower by 32 basis points and lower by 38 basis points ex-gas. This was driven -- was driven almost entirely by gas in view to the other components of ancillary and other, which would include pharmacy, e-comm, food court, business centers, optical, all those things on a relative basis year-over-year with a couple of basis points plus or minus from a year earlier. 2% reward higher by 4 and higher by higher by 2 basis points. So a negative 2 basis points including gas deflation, that represents higher sales penetration coming from our executive members. And LIFO, of course, if you recall last year in Q4, we had a $223 million pre-tax LIFO charge, while there was a small charge this year of $30 million on a year-over-year basis to push that showed the basis point improvement in margin. While we continue -- while we've continue to see sequential improvement in year-over-year inflation, I'll talk about that later. We still had a small amount relative to the first day of the fiscal year, just a small charge in Q4.

A couple of final comments on margins. First, we are off -- we're asked often recently about our inventory shrinkage results and whether it has dramatically increased in the past year versus historical shrink results. The answer is no, in the past several years, our inventory shrink has increased by a couple of basis points in part we believe due to the rollout of self-checkout. Over the past year, it has increased by less than 1 basis point more. So no, thankfully, not a big issue for us. And second, year-over-year margin improvement has in part been due to fewer markdowns due to better inventory positions this year than last. Our inventories overall are in good shape.

Moving onto SG&A, our reported SG&A in the fourth quarter 8.96%, up from 8.53% a year earlier or up 43 basis points, and ex-gas deflation of 21 basis points. Again jot down the two columns of numbers, both reported and excluding gas deflation, operations minus 37 basis point, minus being higher by. And without deflation, core would be minus 18. Central minus 6 and minus 3. And those are the really only two line items, the others were all zero, plus stock compensation, preopening in other. So, total reported margins were up 43 basis points year-over-year and ex-gas deflation up 21 basis points. In terms of the core operations being higher by 18 ex-gas deflation and on a reported basis higher by 37, this negative included the impact of lower sales growth as well as the impact of eight weeks of additional top-of-scale wage increases that went into effect July 4 of '22, so midway through Q4 last year, and a full 17 weeks of this past March is higher-than-normal top of scale increase. Central be higher by 3 basis points ex-gas deflation again not a lot of sales operating leverage there. And again, as I mentioned, the other line items that I typically read out were flat, both with and without gas deflation of zero year-over-year change.

Below the operating income line, interest expense came in at $56 million this year versus $48 million a year ago, one extra week, of course. Interest income and other for the quarter was higher by $171 million year-over-year $238 million this year versus $67 million last year. This was driven in large part by an increase in interest income due to both higher interest rates and higher cash balances as well as the extra week. In addition, FX was slightly favorable year-over-year. In terms of income tax rate, our tax rate this year in the fourth quarter came in at 27.1% compared to 25.4% in Q4 last year. So full 1.7 percentage points higher year-over-year. This increase in our rate as of Q4 is primarily attributable to increased penetration of international earnings, which overall incurs a higher income tax rate than in the US.

Overall, reported net income was up 16% year-over-year in the quarter or 9% if you adjust for the extra week this year -- quarter -- this year in the fourth quarter versus last. A few other items of note, in the fourth quarter, we opened nine net new warehouses, including five new buildings in the US, two in China, and one each in Japan and Australia. For the full fiscal '23 year, we finished with 23 net new units, as well as we did three relocations. And for the first quarter, the first 12 weeks of fiscal '24 and we plan on opening 10 net new units, as well relocating one unit. All 10 locations net new are -- nine are in the US and one is in Canada. Regarding capital expenditures, we've actually included the cash flow in the quarterly report, but CapEx spend in Q4 was approximately $1.56 billion and for all of fiscal '23, a total $4.32 billion.

Turning to e-commerce, e-commerce sales in the fourth quarter ex-FX as I mentioned, decreased 0.06% year-over-year, while still negative. Relatively speaking, our e-commerce showed good improvement. Results showed good improvement this quarter versus our year-over-year results in Q2 and Q3. In the previous two fiscal quarters, big-ticket discretionary majors, home furnishings, small electrics, jewelry, and hardware were down 15% and 20% -- 15% and 20% year-over-year, respectively, and down just 5% year-over-year in the fourth quarter. With those big ticket departments making up over half of our e-commerce sales. A couple of other items to note, within the sales of big ticket discretionary, appliance were up over 30% in the quarter. Second, I've gotten a couple of calls that people have seen online that we've been selling gold -- 1-ounce gold bars, yes, but what we load them on the site, they're typically gone within a few hours and we limit two per member. And lastly, I'll point out Costco Next. We continue to grow that. We currently have 60 -- 62 suppliers on costconext.com, and we continue to onboard additional ones in many product areas from home improvement to apparel, to pet, to home and kitchen, to electronics and accessories, to sports and bicycles and toys and the like.

Excuse me, now a few comments on e-com mobile digital efforts, which we're always asked about. As I discussed during the last quarter earnings call, when I said that we were in the early innings of our digital mobile transformation efforts, progress is being made. In terms of recent additions and upgrades, we've recently redesigned account -- the account page and the digital membership card. We also redesigned the header with larger search bar and expanded selling space. We've added an ad [ph] box for messages and advertisements, right in the app. We've recently, a few months ago opened an optical digital store where you can virtually try on the glasses and then order them for pickup prescription glasses.

And lastly -- lastly there are ongoing improvement in our Costco app, offering in-warehouse shopping tools for our customers such as a digital membership card. Managing shopping lists, viewing warehouse savings, seem the gas prices if there is a gas station there. And so you'll be able to search warehouse inventory and scan barcodes from the app. With the improvements made thus far over the past, our app store rating has gone from a digital 2.3 stars to currently 4.7 stars. Visitors in the site are up 40% year-over-year and the Costco app installs are up 46% year-over-year. So all in all, progress is being made.

Lastly, a couple of comments regarding inflation, most recently in Q3 '23, we had estimated that year-over-year inflation was in the 3% to 4% range. Our estimate for Q4, Inflation is in the low -- in the 1% to 2% range and it's actually trended downward during the quarter. So hopefully these inflation trends will continue. We'll have to see. Finally, in terms of upcoming releases, we will announce our September sales results for the five weeks ending Sunday October 1st, on Wednesday, October 4th, after the market closes.

With that, I will open it up for Q&A and turn it back over to Lisa. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions). We'll take our first question from Simeon Gutman with Morgan Stanley.

Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, Richard. How are you?

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

Good.

Q - Simeon Gutman {BIO 7528320 <GO>}

I guess my first question, I don't mean a tongue-in-cheek, but is -- I guess, is the membership price increase part of the fiscal plan? And then part of the question is -- is there a point at which this membership increase is part of, I guess the hedge against inflation? Is there a point at which model fuels more weight without it, in other words, can you go another year without it?

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

Well. My (inaudible) answer, of course, is -- is a question of when, not if. It's a little longer this time around, since June of '17. So we're six years into it and -- but you'll see it happen at some point. We can't really tell you, if it's in our plans or not. We'll let you know when we know. We feel good. These say about all the attributes of member loyalty and member growth. And frankly, in terms of looking at the values that we provide our members, we continue to increase those. It's certainly a greater amount than even more than if and when an increase occurs. So stay tuned. We'll keep you posted, but there's not a whole lot I can tell you about that.

Q - Simeon Gutman {BIO 7528320 <GO>}

Fair enough. And then an ultra-short term, as gas prices have moved up, have you seen any effect or impact on spending at the store?

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

No, I mean, you look at the numbers over the last few months that we report monthly and quarterly. There has not been a heck of a lot change. Big ticket discretionary, while improved relatively as I mentioned online -- online items, we have seen the number of items in the basket tick up a little in the last few months, but I think that has more to do with the fact that we consciously added. I had mentioned in the last call, we've consciously added 40 or 50, what I'll call smaller ticket indulgent items, whether it's snack items and the like, just impulse items. And so that's what we do as merchants, but overall we haven't seen any big change. We've been able to correlate any big change to what's happened with gas prices.

Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, thanks, Richard. Good luck.

Operator

We'll take our next question from Michael Lasser with UBS.

Q - Michael Lasser {BIO 7266130 <GO>}

Good morning -- good afternoon, I should say. Thank you so much for taking my question. Richard, you ended your prepared remarks, saying that this quarter or this month inflation is on pace to be 1% to 2% and you suggested it may be even lower than that. So should outside observers be prepared for the prospect of deflation, either because that's what's happening with some underlying cost that Costco has been experiencing or Costco will look to invest in price, as a way to continue to drive volumes, especially at a time when core on core margins are expanding, so nicely?

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

Well, first of all, your comment that there was 1% to 2%, but then as we looked at the 17 weeks if you are the four months roughly, we saw -- if we look at it internally at each of the end of those four months, we saw the level that 1% to 2% is from the beginning to the end of the year -- I'm sorry, the beginning at the end of the quarter. But during the quarter, we saw that trending downward, if you will, a little. And when I talk to the merchants on the fresh side, it's flat-to-down a little right now on the food and sundries side, it's up a little, primarily in some of the CPG stuff and on big-ticket -- not big-ticket, but our non-foods partly because of freight, which is down year-over-year in a nice way. And in some cases, some of the commodity costs on steel and the like that has come down. So that being said, we're not a big change, but at least it's trending that way. Who knows what tomorrow brings. And as it related to (multiple speakers), well, as I say, as it relates to us, we're always pushing prices as fast as we can. We want to be the first to lower them when those things happen and drive sales.

Q - Michael Lasser {BIO 7266130 <GO>}

And so...

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

I think we've seen that with -- I think we've seen that with our -- with our traffic.

Q - Simeon Gutman {BIO 7528320 <GO>}

So just to clarify what you're saying is food and sundries prices are down on an average year-over-year, (inaudible) products are up year-over-year, gen merch is down. So in totality, it would seem like the store -- the box is deflating, does it get -- does the rate at which you see deflation continue to increase from here and would you expect that to be just driven by the factors that you mentioned or are you driving that as a way to drive this traffic?

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

Well, first of all, I want to correct one thing that it maybe I missed to state or you misunderstood. In terms of fresh, fresh is pretty much flat. Food and sundries, which has everything from sundries and package goods and CPG goods that tends to be up a little bit. And I'd like to think that we're pushing the envelope as much as we can with our suppliers that has certain freight costs have come down. Recognizing the headline today in the paper is -- oil is approaching $100 a barrel. So, who the heck knows what happens tomorrow.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. My follow-up question is, as low -- as long as you see big-ticket under pressure, discretionary under pressure, which influences your total sales, because it's important for you to remember to come in and buy these big-ticket items. Is this going to influence how you think about managing labor in the store? Should the market just anticipate late -- labor and other SG&A is going to delever as long as the big tickets under pressure?

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

Well, I think we've seen that over the last year, frankly. We had such operating leverage over a couple of years when we had outside sales during the kind of two years of COVID, call the spring of '20 to spring of 2022. And, it was before COVID, when our SG&A was over 10% -- slightly over 10%, and we said, would it ever be able to get below that, it's now still below 9%. So, notwithstanding the fact, when I looked at the last several quarters on a year-over-year basis, again, particularly over the last couple of quarters, we've seen some deleverage of that. Look, we want to drive sales and we'll do that in the best ways we can. So -- but we recognize when we used to get the question all the time, what comp number do you need to -- to have zero, negative or positive leverage with SG&A, recognizing there was low -- very little inflation back then. We used to say somewhere, who knows, but somewhere in the 4.5% to 5% range. So we don't know exactly where it is, but we're certainly not going to change the level of service that we have and we're certainly -- you're going to respect our employees in terms of what we've done with wage increases overtime. That's what we do.

Q - Michael Lasser {BIO 7266130 <GO>}

Thank you very much and good luck.

Operator

We'll take our next question from Chuck Grom with Gordon Haskett.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, Richard. Just sticking on this -- on the inflation topic here on unit elasticity, particularly in categories where you're seeing prices actually start to fall or compress. Curious, what you're seeing on units, if you're seeing them improve at all to offset those price declines, if there's any examples in either food or (inaudible) that you can talk about?

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

Well, yeah, I remember when we talked to a few quarters ago about some of the slowness in big-ticket discretionary, well, we got harder on price. It did a little bit, but not as much as we would have thought to start with. But again, that perhaps was the impact of what's going on with the concerns of the economy and everything else. We know that when we put hard buys and what we call TPDs, temporary price discounts on items, even medium-sized ticket items, we do see -- we do leverage -- see the units increase, but it's not as predictable I would say as it used to be.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay, great. And I know you don't provide guidance, but I got...

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

It's a little easier on the food side to see that sometimes more, when taking the price of meat item down.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. So you are starting to see some units increase as prices drop in certain parts of the business?

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

Sure. (Multiple speakers). And by -- even a big-ticket, when we see $300 and $400 price declines because of freight and raw material cost on some big-ticket non-food items, we'll see -- we'll see some of the sales pick back up on that. But, there's nothing guaranteed.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. All right. Thank you. And I know you don't provide guidance, but I actually do remember when you did give some directional help back in the day, but are there any big puts and takes that we should be thinking about on the -- on the gross margin and SG&A line over the next four quarters that we should be thinking about? Clearly, the LIFO LAP [ph] will be -- will be an obvious tailwind, but just curious, any other things that we should be thinking about from a modeling perspective?

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

No not really. I mean, LIFO is certainly one that was impacted over the last year and started to slow down. Assuming that trend continues, there won't be much LIFO going forward for right now what we see. Beyond that, no, we're still opening. We opened 23 net new units this past year. We're on board to do something in the mid-to-high 20s this year. But that's not enough to move the needle in terms of the leverage standpoint or anything. No, I'd say it's steady as she goes. And if anything I look to be the margins overall, given everything that's going on, including competition that we're doing pretty well there. We -- with some of the wage hikes that we continue to do and sales being a little weaker than they had been a year ago, I think we're doing pretty well on that as well. We're optimistic about our future, but we'll see what happens.

Q - Chuck Grom {BIO 3937478 <GO>}

All right, great. Thank you.

Operator

We'll take our next question from Peter Benedict with Baird.

Q - Peter Benedict {BIO 3350921 <GO>}

Hey, guys. Thanks for taking the question. Richard, just -- first one, just on LIFO. Just curious, I mean, $30 million chartered, it's small, but just curious, why they were even last (inaudible), can you give us little more color, maybe what drove?

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

Yeah, well, I think it was on things like gas was one, and then in some of the fresh food items there was -- even though there was deflation in things like eggs and some dairy products, there was -- there were some inflationary trends and beef. Beyond that, do you have that handy [ph]. Yeah, it's really small, but on $16 billion of inventory, it's a lot. I mean, it's still a small number of $30 million and that, but -- that's all. I don't have the details on that.

Q - Peter Benedict {BIO 3350921 <GO>}

That's fine. Yeah, that's fine, just in the context of the broader disinflation it was interesting to see that. And then, just really the international stuff you talked about the rural rates impact, can you remind us maybe on the international membership trends, when you open up a new core outside the US, maybe give us some framework or some benchmarks around how many new members tend to sign-up? How does that compare to what you would see, let's say in the next club (inauidble) opening in the US? And then, what kind of renewal rates you tend to see year-one, year two, just so we have a frame of reference there? Thank you.

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

I don't have the exact numbers in front of me, but generally speaking, in Asia, whether it's Korea, Taiwan, Japan or China, we'll open a new unit including the 10 or 12 weeks of sign-ups prior to opening, with anywhere from 50,000 to 100,000 new members. We had a couple of extremes like when we first opened in Shanghai Minhang of well over 200. Now, some of that look, that don't renew and we usually in that first year of renewal and those types of outsized numbers, we might be as low as the mid-to-high 50s and it takes a few years to get even to the mid-70s. But we see those numbers overall continue to increase every year and I don't -- I can't -- I don't -- I actually probably go back to what it was in the first 10 years of our 40-year history with even the US. My guess, it wasn't that extreme, but we didn't have as many -- it wasn't national and local news events, the day we opened. We had a lot of people coming into some of these markets that are signing up that may be live too far away or choose not to come back. So we're seeing that continuing to grow. So by -- even as simple -- that's like 10% decline, it's round the year in the sense that you opened up a couple of more units a year ago, they've just renewing for the first time that increases that number.

Q - Peter Benedict {BIO 3350921 <GO>}

Yeah. No, understood. Last one, I think I heard you say, mid-to-high 20s in terms of unit opening plan for fiscal '24. Can you give me -- can you assess how many of those are in the US and then how many would be international? Thank you.

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

70% plus in the US and Canada, mostly US, of course.

Q - Peter Benedict {BIO 3350921 <GO>}

Got it.

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

Which in my view is we're finding more openings -- more opportunities in the US to in-fill, given our high volumes. And we got plenty going on over the years, overseas.

Q - Peter Benedict {BIO 3350921 <GO>}

Yeah. Thanks so much, Richard.

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

Thank you.

Operator

We'll take our next question from Rupesh Parikh with Oppenheimer.

Q - Erica Eiler {BIO 20192312 <GO>}

Good afternoon. This is actually Erica Eiler on for Rupesh. Thanks for taking our questions. So I guess first, I was hoping maybe you could give us a quick download, maybe on how you're feeling about the health of your consumer right now? I mean, obviously some concerns out there on student loan impact starting to roll in here, those restarts. So maybe any color you can provide on how you're thinking about discretionary from here, maybe some of those concerns out there? Anything on trade down or private-label, anything of note on that front in terms of consumer behavior as well?

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

Right, well, look, first of all, first and foremost, our traffic continues to do very well. Being up continually 4% to 5% on a year-over-year basis is great. And our renewal rates continue to be very strong. So that's the starting point. It makes sense to us on big-ticket discretionary that's where you'd see the biggest weakness. We see some of that in some areas going back. When we look at our numbers compared to MBD, that tells us where we are versus our competitors. Overall, not in every category, but overall we tend to do better. So even a negative number here is a lower negative number elsewhere. So -- and again, what do we do, we brought in some smaller ticket items that are impulse snack items to get an extra partial item in everybody's basket. So, yes and newness, bringing those new items. And there's not been a whole lot and especially our unit sales in TVs are pretty good, but the average price point has come down, as they do anyway, there's always deflationary. When you don't have new technology yet and that's just, we haven't seen a whole lot of new stuff yet there. Gaming is good right now and Christmas is good. I mean, we're one of the -- not the only one, but one of the few that are bringing in seasonal items early, everything from decor to trees, to toys, that's starting off well so far. But it's new, it's in the last few weeks.

Q - Erica Eiler {BIO 20192312 <GO>}

Okay, that's really helpful. And then just -- go ahead.

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

I'm sorry, what else did you ask?

Q - Erica Eiler {BIO 20192312 <GO>}

And then just shifting gears, so, I just wanted to touch on Retail Media. So obviously a significant focus on driving retail media at some of your peers. So just curious if you could maybe talk a little bit about what Costco is doing in this area and the bigger opportunities that your team sees here?

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

Well, part of that is some of the things we're doing with digital and mobile and the app. And we're not giving out quantifiable numbers, but certainly, some of our competitors are talking about doubling these numbers in the next two or three years. In my view, there is some low-hanging fruit out there and we're actively working on it. We've hired a couple of people that are helping us with that as well and more to come.

Q - Erica Eiler {BIO 20192312 <GO>}

Okay, great. Thank you so much.

Operator

We'll take our next question from Paul Lejuez with Citigroup.

Q - Brandon Cheatham

Hey, everyone. This Brandon Cheatham on for Paul. I just wanted to -- when you look at the retail landscape, I was wondering, how did your wages compare to your competition? Are you seeing similar trends in inflation pressure on the wage front and anything that you can help us with, what your plans are over the next couple of quarters?

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

Well. First of all, we've always prided ourselves in providing the best hourly wage package out there, wages, benefits, contributions to 401(k). I'm using US numbers here, but our average US -- 90% of our employees like many big retailers are hourly. And our average hourly wages approaching 26 is in the high-25s. That's on top of a very rich healthcare plan, where the employee only pays around 11% or 12% of it I believe. And on top, little less than that -- and on-top of that, irrespective of what employee contributes to his or her 401(k), we contribute anywhere from 3% to 9% based on years of service. So you've got a 20-year cashier making on a full-time basis in the mid-60s with another $4,000 or $5,000 being contributed to his or her 401(k) plan with a very rich healthcare plan.

So we stand apart in our view compared to anybody. Our pressure is that, it comes from ourselves. In the last few years, as there have been wage pressure, starting with the frontline workers during the beginning of COVID, we like many retailers added a 2% premium -- $2 premium rather. We kept it longer to our knowledge than most anybody for a full year and at the end, we kept a dollar in there. And since then we've had at least three or four increases on top of the normal top-of-scale increase that we do every -- generally have done every year -- we have done every year. So we'll -- in our view, the pressure comes from us and we feel that we're way ahead of our competition in that regard.

Q - Brandon Cheatham

Got it. That's helpful, thanks. And I think you mentioned the next iteration [ph] of the app, you're going to be able to scan barcodes. Is the idea that eventually the customer are going to be able to scan and go and how could that help flow operations in your stores, if that is the case?

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

I don't think we're prepared for Scan and Go, yet. We're just going to scan, but they can't go. So at the end of the day, the first order of business is getting the merchandise on there and haven't had numbers that where a member, he goes online to say, hey, you can also get this currently at your local location. So knowing what's in store when somebody wants to come out, I think that's going to be a big positive to start with and part of the scan is to be able to get more product information on the item as well.

Q - Brandon Cheatham

Sure, that makes sense. Okay, I appreciate it. Good luck.

Operator

We'll take our next question from Greg Melich with Evercore.

Q - Greg Melich {BIO 1507344 <GO>}

Hi, thanks. I have two questions, Richard. First, I'd love an update given the volatility in gas prices last year and a half is to, where we are on penny profit? I know it has improved a lot, but I'm curious it came back down in the last 12 months or if it's sort of stabilized at that higher level?

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

Well, we don't give specific numbers. Gas has been stronger for us and we believe all retailers in the last few years. In fact, it was Q4 last year, which I think it was our strongest quarter, recognizing it's 16-week quarter. This fourth quarter, it was still strong, down from its strongest a year earlier on a weekly basis, but nonetheless quite strong. And so it's part of the profit picture currently of all big retailers that sell gas, the supermarkets, the Walmarts and the Costco of the world. So it's still a profitable business. It's -- our view has been, you used to be when prices -- given that the return it so fast, literally almost daily, when profits are going up -- I'm sorry, when the price of gas is going up, the guy down the street is turning it every eight or nine days is paying a little less four days ago. And so we're making it the less, when sales went down -- gallons -- the price per gallon went down, we made a little more. I think that equation, while it's still true, is not the driver of the bottom line of gas.

Everybody seems to be wanting to make more on gas, which allows us in our view to make a little more and still be even more profitable. We've seen our -- our competitive spread versus our direct competitors at every location on average improve over the last couple of years to now be in the -- I want to say to 30-set range per gallon, mid-30s is the average, which is up. It's an average and it can range from 10 to 45. But at the end of the day, we feel good about our competitive position, it's increased and we're still quite profitable down a little bit from a year ago, but nonetheless quite profitable.

Q - Greg Melich {BIO 1507344 <GO>}

That's helpful, thanks. And then my follow up is on cash. I think you finished with $13.7 billion. I think the last time you got to 2013 was when you had a special dividend in 2020. What are your thoughts on how much cash you need or want? And especially now that there is a positive interest rate on holding cash, because that would make you more interested in keeping it, with any pay more tax, just how do you think about?

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

Well, I think, look, at the end of day, we've done four special dividends in the past. It's part of our DNA. At some point, we may do that again. Again somewhat like the answer to the other question about membership fees, it's probably a question of when, not if, but we'll let you know. Certainly with earning 5%-ish on that money instead of (inaudible) on that money, does make it a little harder to do. But we're not selling the kind of earnings multiple, but we earn 5% on our assets. So, at some point, we'll do something and we'll have to wait and see.

Q - Greg Melich {BIO 1507344 <GO>}

Got it. Thanks and good luck.

Operator

We'll take our next question from Kelly Bania with BMO Capital Markets.

Q - Kelly Bania {BIO 16685675 <GO>}

Hi, thanks for taking our question, Richard. Just wanted to ask, I think I've asked this many, many times, but it seems like another huge quarter for executive membership growth of almost 1 million more this quarter. And just curious if you could talk about the profile of that member today that's either upgrading or starting out as an executive? What's the characteristics of that customer? And any changes in how that executive member spends in their first year in that upgrade, compared to the prior years?

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

I was joking, when I say, first of all, they are very smart to be an executive member. Look, I think we over the time -- we've done a better job of communicating the value of the executive member. So, we clearly get more people to sign up that way in advance and we see that over time a regular member over the first few years will buy more every year and executive members start at a higher level and will buy more every year from that higher level. So that's really the profile that we've seen. I don't have any specifics on how old the member is. I know that when we look at age characteristics of new members, we're still -- everybody used to be concerned 10 years ago, how we going to get millennials when we have an older average customer and all that and we did with things, with items, with things like organic. We're doing the same thing now. We're still getting whether it's Gen Z or Gen A or whatever the next is, we're getting our share of those new members when we look at the profile of our members.

Q - Kelly Bania {BIO 16685675 <GO>}

Thanks, and Richard, I may have missed this, but did you quantify the extra week impact in terms of EBIT or EPS or anything for us?

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

No, it's -- I mean, the simple math would just say it's (inaudible) of our quarter is equal to a 16-week quarter. That's about as good as we can do.

Q - Kelly Bania {BIO 16685675 <GO>}

Okay. Thank you.

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

I think that particularly on net income it takes the 16% or whatever percent number down to 9% or something, and that's just simple math.

Q - Kelly Bania {BIO 16685675 <GO>}

Perfect.

Operator

Okay. We'll take our next question from Oliver Chen with TD Cowen.

Q - Oliver Chen {BIO 15320650 <GO>}

Hi, Richard, inventories being well-positioned, what are your thoughts about where they are now and versus -- and also how we will model them going forward relative to sales? And then as we look at overall, particularly it comes in negative, that compare starts to ease. So does that imply that one flexion on partly the nature of the ticket comparisons overall? The same question is for e-commerce, as you anniversary some of the headwinds, can we expect the comparison to help as well? Thanks a lot, Richard.

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

Sure. Inventories, as I mentioned, we feel -- the merchants feel very good about our inventory levels right now. Are there a few departments are higher than they want, a few that need a little bit more sure. But overall, they're very good. Look at our fiscal year and inventories stood at just under $16.7 billion and payables stood at $17.5 billion. So I think this -- running above 100% on that simple ratio is something new. We used to be -- we used to enjoy running 90% to 95%, it fluctuates, but overall, we feel good about our inventories, where they are now. And in terms of supply chain, things coming in on time, we feel good about that as well.

Now as it relates to -- as we, excuse me, as we anniversary the inflection of when we saw some weakness, I think a couple of quarters ago, I mentioned that will help your big-ticket sales, I said, well, at least in a few several more months we'll anniversary this weakness. So certainly that's -- that's going to help. I would like to think that not just that thing that's going to help, but -- and the same would be commerce. I mean, we're -- again one bright spot and it is literally always e-commerce, not nearly always -- is nearly always e-commerce was the appliances that -- and I think we've done a better job also of showing the value of these items online, not just the price the item within our case includes delivery and warranty and things like that more so than some of our competitors. And showing great value there.

Q - Oliver Chen {BIO 15320650 <GO>}

Okay. Thanks, Richard. Just a couple of short ones, would love any thoughts on Instacart. It seems like it's a great partnership that you've had for a while. Also another question we have is, EV charging play a role and how you're thinking about future services for customers? Finally, China, any -- it's a smaller percentage of total, but it's an important market for the long-term. I mean lots happening there. Has anything changed the value proposition or the geopolitics? Thanks.

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

Okay. Yeah. I had the second and third, what was the first question? Oh, Instacart, I know they just went public. So we've gotten a lot of questions. At the end of the day, we were good partner with them, they were good partner for us. We used them throughout the US and Canada. And as sales are growing, we've added over the last -- during COVID, we added some non-food items that still can be carried in the car, if you will. And we're doing, I think prescriptions with them now. And so, no, it's -- a good relationship and it has been for a while. Yeah, I might add, though that with regard to those sales, we include that in our warehouse sales, not our e-commerce sales, because it's their employee or their employee coming into Costco to shop, purchase at the register and then take it to the customer. So that's not in our mobile e-commerce sales. As it relates to EV charging, we're testing it in a number of locations. Not a whole lot to be said. If there is a charge for it, it's going to be less Costco and we'll wait and see. And then as it relates to China, no, we just opened a few weeks ago, our fifth location. We have two more planned this fiscal year, both in the -- I think one in Shenzhen [ph] in early calendar '24 and one other one before the end of August. So we'll have seven locations, up from two, a year and a half ago. And so far, our openings there have treated us well overall.

Q - Oliver Chen {BIO 15320650 <GO>}

Thank you. Best regards.

Operator

We'll take our next question from Scott Ciccarelli with Truist.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Good evening, guys. Can you help us understand a bit better how the Costco Next process works? I mean, is it similar to how your e-commerce business used to work, where products were essentially drop-shipped from their vendors? And if that's the case, Richard, how do you control the quality of the product and delivery process, because I thought that became an issue for you guys before you took over your own distribution pretty calm?

A - W. Craig Jelinek {BIO 1505432 <GO>}

Yeah, Costco Next is drop-shipped. We currate the items with these suppliers. And for the most part pretty well-known brands. And so far we have not had an issue on that, recognizing it's -- they tend to be items that are easily shipped to home. Yeah, we're doing -- we have all the tracking information as well. So all I can tell you is, you're right about that, that's a good point. Years ago when we did this, there was a difference, but so far it's worked quite well for us. We've had very few customer issues as it relates to items purchased on costco.com on costconext.com.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Okay. Understood. Thank you. And then another inflation question, if we do wind up getting outright deflation outside of improved traffic or unit block, are there ways to protect margin because it seems to me like that could wind up being a deflator to the margin, if we're in a deflationary environment there?

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

Well, yeah that's what our business is about, where we'll take a 10-pack and make it a 12-pack, I guess. But at the end of the day, if there's is inflation, it will impact all of us, but again. I think it should be favorable with us because we will show the best value -- we'll still show the best value out there.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Understood. Thank you.

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

Before you do it, the comment was made in the table here, that if there is deflation and disinflation, we've got a $450 million and $500 million LIFO reserve, that'll be -- on a reported basis will be part of a tailwind of disinflation.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it. Thank you.

Operator

We'll take our next question from Scott Mushkin with R5 Capital.

Q - Scott Mushkin {BIO 7138867 <GO>}

Hey, Richard, thanks for -- thanks for taking my question. I don't think we've talked about it, but what's competition like out there, now that we're seeing inflation come down in volumes, particularly for some guys are negative, just wondering if you -- what it looks like out there?

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

I think, look we've said this for a few years now, our competition with Sam's is the most direct and we've seen improvements in parts of what they do from our perspective. They are tough competitors and so are we, and -- but I think they continue to get to improve overtime, as have we. I don't -- we don't really see a whole lot of other things. BJ's is why we expect their model and what they do. It's a slightly different model. So there's not as much -- there is certainly -- when we are competing directly as a membership warehouse club, we're making sure we're sharp on pricing, particularly in fresh and things like that supermarket items. Beyond that, our view is on the non-food side, we are gaining share. As evidenced by the numbers we see in some of these MPD [ph] results. And the thing that I just called out on appliances grew like that. Recognizing appliances of whatever a $30 billion business, we're still a small piece of it, but growing -- growing rapidly.

Q - Scott Mushkin {BIO 7138867 <GO>}

Thanks. And then, I know it came up earlier about raising membership rates, but I kind of philosophical like this recession, not recession, maybe there will be one, how does the company look at raising the membership fee, if the economy is slow and fast? Does it matter? Does it factor in?

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

I think. I think it matters. It does matter and I think it really mattered as we approached kind of the 5.5 years. Post June 17th, we were in the high -- the headline every day was inflation and economy. And so, we're doing great. We've got great loyalty. If we wait a little longer, so be it. And that's kind of how we feel right now. So...

Q - Scott Mushkin {BIO 7138867 <GO>}

Okay, great. Thanks, I'll yield.

Operator

We'll take our next question from Chris Horvers with J.P Morgan.

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks. Good evening, Richard. So your core and core margins were up a lot in this quarter. Can you talk about what drove that? I think you mentioned food and sundries, that successful vendor-funded promotions, is there anything one-time in nature about that gain that we shouldn't extrapolate forward?

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

Yeah, well, aside from LIFO, markdowns were lot less, quarter-on-quarter, so no markdowns. It was a big piece of it, particularly on the non-food side, that helped. Last year we had -- it was a year ago that all of us including Costco, I think our inventories on a year-over-year basis were up 26% for two quarters in a row. And, of course, those will come down and -- and so that was probably the biggest single thing in those numbers. And the comment that was made at the table here, we're back on track on seasonal in and out dates. So we're not having -- a year -- it was a year, year and a half ago where certain seasonal items came in late and just to move them out, not to have to store as much, some we did store, but to move them out where we felt that was the best way to do it, we take extra markdowns. So that helped.

Q - Christopher Horvers {BIO 7499419 <GO>}

And then a follow-up question around the consumer, you just came through the back-to-school season. There are some important electronics categories that are a big part of the basket during that time of year that also become a big part of the basket around holidays. Are you seeing, iPads and PCs and notebooks? Are you seeing positive unit trends and how does that make you feel about the upcoming holiday season?

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

Gaming is up, some of the Apple products are up, TV units are up, but again, the average price points have come down some. Tablets are up and audio is up a little.

Q - Christopher Horvers {BIO 7499419 <GO>}

But not notebooks and computers?

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

No.

Q - Christopher Horvers {BIO 7499419 <GO>}

Got it. Thanks.

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

Let's down was the answer yet.

Q - Christopher Horvers {BIO 7499419 <GO>}

Understood. Thanks so much.

Operator

We'll take our next question from John Heinbockel with Guggenheim.

Q - John Heinbockel {BIO 1508150 <GO>}

So Richard, first thing, maybe just talk about how you look at cannibalization versus expanding the market in the US, right? And if you -- obviously, you can now put -- it looks like locations closer together. When you kind of look at the US in total, is there a number, right, that you guys have in mind that's now possible, given what you're doing with density?

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

Yeah, our view over the next 10 years that we could add easily another 150 and that's on top of however many business centers following and -- but just in the US. So -- and that number keeps changing. If you had asked me six or eight years ago, where we'd be today, I would say, if we were 70/30 US back then, we'd be 50/50 by now, outside of the credit (inaudible). And today, we're at 65 to 70 in the US. So, we're finding more opportunities here and it's evidenced by just the sheer volume of the units -- that our units are doing today versus three or four years ago. It's much higher than we would have expected three or four years ago. So we think that there is still a lot of runway in that regard.

Q - John Heinbockel {BIO 1508150 <GO>}

And then just quick follow-up, I know you guys haven't been particularly interested in BOPUS, right for cost reasons and I assume that's still the case. There's a consumer argument for it, but -- I think it's hard to make the cost side of it work, is that still your view?

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

That is still our view overall. In addition to the thing I mentioned a little bit with what we're doing with Instacart on non-food items as well. We are testing in-store some big-ticket items like TVs, but on a limited basis to see what happens for Buy Online and Pickup in Store.

Q - John Heinbockel {BIO 1508150 <GO>}

Okay, thank you.

Operator

We'll take our last question from Joe Feldman with Telsey Advisory Group.

Q - Joe Feldman {BIO 4772233 <GO>}

Hey guys, thanks for taking the question. I wanted to ask about the CPG guys, are they -- are making promotions a little more regularly with you guys? I know you did something, I think with P&G that seems like a clever promotion to get a gift card back from them, it seemed. And I'm just wondering what you're seeing across the other vendors?

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

Yeah, with P&G, actually we did that last year as well, done it for a couple of years. We will say, we'll do it again. It's growing. So, and once we do that with one, we want to share that excitement with others to see where the types of things we can drive that way. So I'd say there's probably a little bit more increase on that type of promotional thing. And then inventory is available for those things. We could really drive sales of those items in a short period of time.

Q - Joe Feldman {BIO 4772233 <GO>}

Right, that makes sense. They have the volume and you guys do. And then are you guys approaching the holiday any different this year? I know you mentioned Christmas goods are off to a good start, but is that -- earlier than normal? I feel like you are about the same timing, but maybe you could share thoughts on the approach to the holiday season.

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

Yeah, if it's earlier, it's a week or two earlier. And some things came in early, and yeah, it's a little early compared to some of the supply-chain disruptions we had, which screwed up a lot of things. But if you go back to where we were before COVID, we're probably at or very slightly earlier. And in terms of how we're approaching it? We're approaching it aggressively in terms of having stuff to sell to the members. But we want to be -- we want to be out to. Typically this is nothing different here, even on things like toys will bring in a few things in the last couple of weeks before Christmas, that if they don't sell through, we're not at risk of having to mark them down dramatically because they're not unique just to Christmas.

Q - Joe Feldman {BIO 4772233 <GO>}

Understood. No, that's great. Thanks, guys and good luck this quarter, Richard.

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

Well, thank you, everyone. We are around, to answer your questions and have a good holiday and we'll talk to you soon.

Operator

That's concludes today's presentation. Thank you for your participation and you may now disconnect.