Q1 2023 Earnings Call

Company Participants

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

Other Participants

- Brandon Cheatham
- Chris Horvers
- Chuck Grom
- Gregory Melich
- Karen Short
- Kelly Bania
- Michael Lasser
- Oliver Chen
- Peter Benedict
- Robert Ohmes
- Rupesh Parikh
- Scot Ciccarelli
- Simeon Gutman

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the Costco Wholesale Corporation Fiscal Q1 2023 Conference Call. At this time all participants are in a listen-only mode, and please be advised this call is being recorded. After the speakers' prepared remarks, there will be a question-and-answer session. (Operator Instructions)

And now at this time, I'll turn the call over to Costco's CFO, Richard Galanti. Richard, please go ahead.

Richard A. Galanti {BIO 1423613 <GO>}

Thank you, Bo, 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 our 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 that 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 first quarter of fiscal '23, the 12 weeks ended this past November 20th. Reported net income for the quarter was $1.364 billion, or $3.07 per diluted share, that compared to $1.324 billion or $2.98 a share last year. This year's results included a charge of $93 million pre-tax, or $0.15 per share, primarily related to downsizing our charter shipping activities, and a tax benefit of $53 million, or $0.12 per diluted share related to stock-based compensation. Last year results included an asset write-off of $118 million pre-tax, or $0.20 per diluted share, and a tax benefit of $91 million, or $0.21 a share related to stock-based compensation.

Additionally, the strength of the U.S. dollar resulted in our foreign company earnings translating into fewer U.S. dollars, with 25% to 30% of our earnings generally generated outside of the United States, this negatively impacted earnings by about $0.12 per share.

In terms of sales, net sales for the first quarter increased 8.1% or $53.44 billion versus $49.42 billion reported last year. On a comparable sales basis during the first quarter, reported U.S. sales increased over the 12 weeks, 9.3% and excluding gas inflation and FX, 6.5%, Canada, 2.4% reported, 8.3% increase ex gas inflation and FX. Other international reported minus 3.1%, excluding gas inflation and FX, plus 9.1%. So you have all totaled 6.6% reported for the company and ex gas inflation in FX of 7.1%. E-commerce, by the way, was reported of a minus 3.7% and a minus 2%, excluding FX.

In terms of first quarter comp sales metrics, traffic or shopping frequency increased 3.9% worldwide and up 2.2% in the U.S. Our average transaction size was up 2.6% worldwide and 6.9% U.S. during the first quarter. And foreign currencies relative to the U.S. dollar negatively impacted sales by a little over 3%, while gasoline price inflation positively impacted sales by approximately 2.5%.

Moving down the income statement, membership fee income reported in the quarter -- membership fee income came in right at $1 billion, that's $54 million or 5.7% higher than last year's reported number of $946 million. Again, the relative weakness in foreign currencies relative to the U.S. dollar, excluding the impact of FX or assuming flat FX year-over-year that $54 million number would have been increased by $32 million $32 million, and the membership on an adjusted basis would have been a little over 9% year-over-year on flat FX.

In terms of renewal rates. At first quarter end, our U.S. and Canada renewal rates were 92% compared to 92.4% a quarter-ago. And worldwide the rate came in at both this quarter end and the previous quarter end the same level at 90.4%. We ended first quarter with $66.9 million paid household members and a $120.9 million cardholders, both up 7% versus last year, and recognize we've added about 22 units over the course of that last year, so that was about just under 3% of that increase.

At Q1 end, paid executive memberships were right at $30 million, an increase of $904,000 during the 12 weeks, or $75,000 a week during the first quarter. Executive members now represent 45% of our paid membership and just under 73% of worldwide sales.

Moving down the income statement to gross margin. Our reported gross margin in the first quarter was lower year-over-year by 45 basis points, and lower by 21 basis points excluding gas inflation. And as I'll explain in a minute the 93% pre-tax charge, excluding that 93% -- $93 million charge we took in the quarter, gross margin ex gas inflation would have been only down 3 basis points.

As I always ask you, jot down the following numbers, two columns and six-line items. The first column is reported during the first quarter, a year-over-year delta change in basis points, and the second column excluding gas inflation. On a core merchandise basis, we reported in the first quarter minus 52 basis points and ex gas inflation minus 31 basis points. Ancillary and other businesses, plus 23 on a reported basis and plus 30; 2% reward, minus 2 and minus 5; LIFO, plus 3 and plus 3; other, that's the $93 million charge, minus 17 and minus 18. So, all told, again, a reported basis was 45, ex gas inflation 21.

So, starting with the core. Core merchandise's contribution gross margin on a reported basis was lower by 52 basis points year-over-year and lower by 31 basis points ex gas inflation. In terms of the core margin on their own sales, in the first quarter, our core and core gross margin, if you will, was also lower by 31 basis points; with food and sundries being up a little bit, offset by non-foods and fresh foods being down. Fresh foods was down. For the last couple of years it's been particularly strong and it's come down a little bit. In addition, we are looking to hold prices on some of those price points despite inflated costs in some of the fresh food categories.

Ancillary and other businesses gross margins were higher by 23 basis point and higher by 30 basis points ex gas inflation in the quarter, with gas, business centers, and travel up year-over-year offset in part by e-comm, food courts, and optical. Our 2% reward, minus 2 basis points, reported minus 5 basis point excluding gas inflation implying higher sales penetration coming from our executive members. LIFO plus 3 basis points. We had a very small LIFO charge this year but lapped a $14 million charge in Q1 last year.

You recall, last year during the four quarters we had LIFO charges in excess of $400 million pre-tax with a small amount that $14 million in the first quarter, over $100 million in Q3, and over $200 million in Q4. So, we'll see what the inflation does this year. Hopefully, it will continue in its current trends in the right direction.

Other, the minus 17 basis points and 18 basis points reported in ex gas inflation. This is the $93 million charge as mentioned in the earnings release, mostly related to downsizing our charter shipping activities.

Over a year after COVID began, you will recall that the supply chain challenges related to shortages of the containers and shipping delays greatly intensified, with container, freight, and shipping rates skyrocketing. It was in Q4 of 2021 on our earnings call that we mentioned our initial leasing of three ships and several thousand containers to help mitigate these challenges. Later, we added four additional vessels and additional needed containers with commitments made for up to three years.

Our objectives at the time were twofold. First, to increase the ability for more timely shipping and arrival of overseas merchandise. This allowed us to better stay in stock and drive sales; and second, to reduce some of the skyrocketing shipping and associated container costs. We achieved those objectives for a period of time. Over the course of a year, year and a half, we controlled the shipping and delivery of nearly 50,000 containers, many that would have been greatly delayed and at an estimated savings as compared to the then-current shipping container costs of somewhere between $1,000 and $2,000 per container.

That, of course, fluctuated. Now, with a dramatic improvement in shipping times and much lower shipping and container costs, it made sense to downsize our commitment and lower prices for our members. Moving on to SG&A. Our reported SG&A in the first quarter was lower or better year over year by 35 basis points, coming in at a 920 compared to a year ago, 955.

And that plus 35 basis point improvement would be plus 13 basis point improvement, excluding gas inflation. Again, writing down six line items and two columns. First column being reported, second ex gas inflation. During the first quarter, our core operations was lower or better by eight basis points, plus eight then; without gas inflation, minus nine; central, zero and minus three; stock compensation, plus three and plus one; preopening, zero and zero; other, plus 24 and plus 24; for a total first-column reported -- year-over-year reported SG&A plus 35 or lower by 35 basis points and ex gas inflation, lower by 13.

Now, going through those numbers, the core operations component of SG&A was, again, lower by eight basis points reported but higher by nine, excluding impact of gas inflation. These results include three sets of wage increases that were done in the past year-plus, as well as a little lower sales results in Q1 as compared to the prior quarter, still increases but a little lower than the prior quarter. Central was flat or zero and higher by three, ex gas inflation. Stock comp, again, a little lower number in stock comp as a percent, so it came down, improved a little bit.

Preopening, no impact. And the other, the 24 basis points you recall last year in Q1, this consisted of an asset write-off totaling $118 million pre-tax, which impacted the SG&A line last year. Below the operating income line, interest expense was $34 million this year, down $5 million or down from $39 million last year. And interest income and other for the quarter was higher by 11 year over year, $53 million versus $42 million a year ago.

Interest income was higher year over year, offset by unfavorable FX. Overall, reported pre-tax income in the quarter was up 4%, coming in at $1.77 billion, compared to $1.696 billion a year ago. And excluding the charges described earlier in both years, pre-tax income was up around 3%. In terms of income taxes, our tax rate in Q1 was 23% compared to 20.7% Q1 last year, so a little higher this year.

Both years' tax rates benefited from the tax treatment of stock-based compensation, as mentioned earlier. The fiscal '23 effective tax rate, excluding these discrete items -- this discrete item, is currently projected to be between 26% and 27%. A few other items of note. In terms of warehouse expansion, we plan to open a net of 24 units this year, 27 openings, including three relocations, so net of 24.

In the first quarter, the net of that 24 included seven. We plan three more in Q2, four in Q3, and 10 in Q4. In the first quarter, we opened, as I mentioned, seven net new warehouses. Four were in the U.S., and one each was in Korea, our first in New Zealand, and our first in Sweden.

Additionally, last week, we opened another building in the U.S. And just yesterday, we opened our 14th location in Australia, our second on the country's West Coast in or near Perth. In fiscal '23, again, 27 total new openings, including three locations for a net of 24. Of the net 24, it's made up of 15 in the U.S.

and nine in Other International, including our third and fourth locations in China. Regarding capex, in the first quarter, capex was approximately $1.06 billion. And our estimate for the entire fiscal year is capex of somewhere in the $3.8 billion to $4.0 billion range. Moving to e-commerce.

E-commerce, as we mentioned in the press release, on a reported basis was -- for the quarter, year-over-year sales were minus 3.7 and minus two ex FX. Including sales -- what we don't include in this number is our sales through like same-day delivery for fresh foods with our partners like Instacart, which we don't include those, and they are fulfilled in our warehouse. Our e-comm comps, ex FX, would have been if we included it in the positive low single digits. Stronger departments in terms of year-over-year percentage increases were tickets and gift cards, tires, candy, and health and beauty aids.

The largest e-comm merchandise department majors, which includes consumer electronics and appliances, which represents over 40 -- close to 40% to 50% of our -- over 40% of our e-comm volume was down in the high single digits. Subsequent to quarter-end, we did have our two biggest e-comm selling days in our company history, both on Black Friday and Cyber Monday. Now, a few comments regarding inflation. Recall, we've seen some minor improvements in a few areas.

Hopefully, continuing the comment I made last quarter's earnings call, a little light at the end of the tunnel, but it's still little. Recall last quarter in fourth quarter, we estimated that year-over-year price inflation was about 8%. In the first quarter, we estimate the equivalent year-over-year inflation number in the range of 6% to 7%. Food and sundries is still up more than nonfoods, but overall, a little better level than a quarter ago for the company.

And commodity costs are mostly coming down, whether it's corn flour, sugar, and butter or even some things like steel. A few things are up, but overall, we're seeing a little bit of a trend, but we'll keep you posted. Switching over to inventory levels. Recall that our total inventory in both -- at the end of Q3 and at the end of Q4 on a year-over-year basis were up 26% year over year.

I'm happy to report that good progress was made during the first quarter of this fiscal year. Our increase as of Q1 end dropped to a 10% year-over-year increase, largely driven by an estimated 6% to 7% inflation and about just under 2% year-over-year unit growth. So, inventories, while we still have some pockets of a little over inventory, overall, we feel pretty good about it. As a reminder, in terms of upcoming releases, we will announce our December sales results for the five weeks ending Sunday, January 1, on Thursday, January 5, after the market closes.

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

Questions And Answers

Operator

(Question And Answer)

Thank you, Richard. (Operator Instructions) We'll take our first question this afternoon from Simeon Gutman at Morgan Stanley.

Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, thanks, guys. Good afternoon. Richard, I want to start with the short-term question. November, the slowdown in the stacks. Is there anything tip of the iceberg there, macro merchandising? Is there something obvious? I mean, you were living in pretty rarefied air, but curious if there's anything notable.

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

No, I think the biggest thing, as I've said a couple of times in a quiet way, it rains on all of us during these tougher times, particularly with bigger ticket discretionary items. We're comparing against some huge increases a year ago, frankly, over the last two or three years, as you know. And that's where we've seen some of the slowdown. As I mentioned, e-comm consumer electronics and appliances, as I mentioned, was down high singles.

I think in line was also down some amount. So, that's where a big chunk of it is. When we look at food and sundries, that actually tends to be relatively strong for us. So, overall, I think it's impacting us a little bit with what's going on out there.

I think it is a combination of compared to very strong stuff a year ago, as well as the fact that big-ticket discretionary has a little bit of weakness.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. And maybe just a two-part follow-up. One is just related to that answer. Does those two couple of days, I don't know if you can judge enough from it, does it bring you back to some type of trend line or it sounds like your tone is, there's still some pressure? And then the real follow-up is on gas gross profits. If you just think about the movement of the lap throughout this fiscal year, does it progressively get harder through the year in terms of the lap? And then can you highlight to us which quarter has the highest cents per gallon lap throughout the rest of the year?

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

Yeah. I have a couple of people in the room smiling. Of course, I can't tell you all that. But at the end of the day, first of all, if you look at our November reported numbers, the fact that those two dates -- those two high dates on e-comm were in the last week.

Keep in mind, e-comm is still a little under 10% of our total company, but that helped a little bit relative to e-comm in the last four weeks that we reported. But overall, look, we don't know what kind of trend it means. We feel pretty good about what we're doing in terms of driving sales. And as I mentioned, the food and sundries as we get past big-ticket discretionary purchases for the holidays, for Christmas, and what have you, you'll have a higher penetration of some other things as well.

As it relates to gas, for several quarters now, even beyond a year ago, we talked about the gas profitability for us, and we believe our competitors -- other big chains of gas stations have made more in gas. And certainly, that's helped us use some of that to continue to hold prices where we can on some things. Who knows what the new normal is? What we know is that not only is gas more profitable than it has been in the past, and like I said the same thing a year ago, will that change at some point? Maybe. We don't know.

So, right now, it's good. And by the way, as we've mentioned a couple of times, we've seen strong gallon sales, and we're still taking market share. We -- when the U.S. gallon sales are generally close to flat, we're up in the 10% to 15% range in gallons.

So, we're driving people into the parking lot. And the fact that gallons of gas are profitable, that there's just a little bit more for us as well. So, that's helped us. There's always things that are going to help us, and there's always going to be puts and takes.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. Thanks to everyone. Happy holidays.

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

Same to you.

Operator

Thank you. We go next now to Chuck Grom at Gordon Haskett.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, how's it going? My question is on the LIFO charge. It looks like if it's a few basis points of a hit, that would back into about $30 million to $40 million. And I'm curious, I know you don't provide guidance, but knowing what you know now and if inflation holds at that, say, 6% level, would that be a good proxy for the charge, at least over the next couple of quarters?

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

Well, I think, yeah, LIFO was a slight pickup just because the dollar amount was less than the $14 million last year in the quarter. It's very slight. So, if that continues, that would be good and that would bode well and you'd have -- I guess you'd have a lot lower charge than $423 million, recognizing the big pickup was in Q3 -- the big hit was in Q3 and Q4 when we saw the beginning of inflation rising.

If inflation didn't go down, but it just stayed the same, in theory, you'd have no big charge, you'd have no additional charge. If it starts to go down from its peaks, that'll have -- will be some LIFO income. Now, mind you, some of that will be used for pricing as well. I mean, well, you know us.

Q - Chuck Grom {BIO 3937478 <GO>}

Yeah. Okay. So, what would you do to have the absolute dollar amount for the LIFO charge in the quarter for us?

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

Yeah. It was less than $1 million.

Q - Chuck Grom {BIO 3937478 <GO>}

Less than $1 million. Okay, great. And then on the ancillary line, you've had real good success there in back-to-back quarters and you outlined gas profitability, e-com, food court. Is there one that's been more outsized over the past couple of quarters that maybe we could think about in over the next few quarters because it's been a nice improvement?

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

Well, the gas is just the sheer size of our gasoline business. It's been the biggest piece of that line for a few years.

We have a -- it's a $30 billion plus business -- on the -- on our 2020, whatever billion last year we did in sales, I think a little over $30 billion was gas. So, that's the big kahuna among all that stuff.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay, great. Thanks very much.

Operator

Thank you. We go next now to Michael Lasser of UBS.

Q - Michael Lasser {BIO 7266130 <GO>}

Good evening. Thanks for taking my question. Richard, between the 31-basis-point core-on-core gross margin discussion -- decrease for core on core gross margin, the discussion around giving up some shipping capacity to have a better price for your member, is the mindset of Costco right now as the economy enters a more difficult economic period, Costco is going to be stepping up price investments in order to gain market share?

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

I mean, I think we continue just to remain competitive. You've known us long enough. When asked who is our toughest competitor, we look in the mirror, and we say it's us. So, I think that as we drive market share, part -- we believe that part of it at least is due to the fact that we've continued to be very competitive.

And so, I don't know if there's any change in that. We -- notwithstanding where our numbers come out, we're always trying to push more into lowering the prices or keeping the price increases going not as high as they could have been. (Multiple Speakers)

I think fresh foods is a good example of that of late, where, again, we've held the price points on certain items despite inflated costs, mostly in the protein area and a little bit in the bakery area.

Q - Michael Lasser {BIO 7266130 <GO>}

And Richard, you've long talked about the Costco model is driven first and foremost by stance and the need to drive at least a mid-single digit comp in order for the other parts of the P&L to merge. So, as the economy is entering a softer period where discretionary sales are going to be a little weaker and Costco's overall sales are going to be a little softer, should we be modeling and prognosticating just a lower overall earnings growth for Costco during this time as when we go to these factors?

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

Well, good news is that's your job to model it. Look, at the end of the day, I think that the comment I made about big-ticket discretionary, while we sell big-ticket discretionary includes furniture, which we sell lawn and garden, patio, too, that's not right now at the holiday season necessarily. But that being said, there is a higher proportion of big-ticket discretionary right now. And we're blessed in the sense that a big chunk of our business is fresh foods and food and sundries, which people have to eat.

And as I mentioned, that has been strong throughout this. So, I think overall, we'll probably still look at it in a positively relatively aggressive standpoint. Ultimately, when you talk about top-line sales and if they're a little lower, what do we need? I think the question historically has always been asked, what do we need to have SG&A not go up as a percent of sales? And the view is -- and this is pre-inflation. The view is always you need something -- our best guess view is somewhere in the 4% to 5% comp range.

If it falls below that, that will make SG&A a little bit of a challenge. That being said, we're pretty pragmatic, and we know how to use our margin as well. So, I think overall, we'll continue to work entirely to drive top-line sales and look at it for the long term. And we're not in any big way cutting back orders at this juncture.

Where we see some challenges with big-ticket discretionary, does it come down a little? I think the keyword there is a little. And we're feeling very good about some of our business now despite what's going on out there. We're blessed that we think, again, I think as evidenced by gas and any food and sundries business, we're blessed by taking market share still. I think that's evidenced in our memberships and --

Q - Michael Lasser {BIO 7266130 <GO>}

Your answer was a lot better than my question. So, thank you very much and good luck.

Operator

Thank you. We go next now to Rupesh Parikh at Oppenheimer.

Q - Rupesh Parikh {BIO 22151706 <GO>}

Good afternoon, and thanks for taking my question. So, just on the core-on-core decline of 31 basis points, I was hoping you provide more color just in terms of what's driving that decline in nonfoods category. And then just related to the pressure on fresh foods. I know I think you've now lapped some of the last year, I think, fresh foods is also a headwind.

So, when do we lap some of the -- I guess, some of the efficiencies that you gained during the pandemic? Because I know you've given it back in recent quarters. So, I'm trying to get a sense of when that pressure point could go away.

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

I don't know exactly. I mean, if we're three quarters of a year into it, I think if I recall over the last two or three quarters, we talked about like fresh being that way and probably exacerbate a little right now with the fact that we're trying to hold prices on some things that we think that that's driving our sales. Beyond that -- I forgot the first part of the question now.

Q - Rupesh Parikh {BIO 22151706 <GO>}

Just on non-foods, anymore color (Multiple Speakers)

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

Oh, yeah. I think that -- yeah, fundamentally -- first of all, in terms of overall, it's fundamentally fresh and then some nonfoods. Some of that has to do with some of the big-ticket things. If you've been online and saw some things we did during not just the week of Thanksgiving and Cyber Monday but we did some -- anywhere from $100 to $500 off on, I think, $500 cash card, if you bought $3,000 or more of these items.

And so, we're getting rid of some of the reason that 26% year-over-year inventory increase went to 10% was we got rid of some of the stuff that we -- some things that we had deep freeze and some things that we had delayed shipping during the supply chain challenge. So, we did take some more markdowns than normal as you would expect, to help get rid of that. And hopefully, that's not a pressure point going forward. Certainly, I don't think it will be as much.

And again, there are so many moving parts to this equation. I wish it was as easy as each basis point we could explain. We try to give you the rounded numbers. But overall, again, I get back to we feel good about how we're doing competitively.

And we certainly understand that big-ticket discretionary things have shown a little weakness, in part, because of our strength from a year ago, and in part, it's got to be part of the economy. And the good news is we have big chunks of our business that are fresh foods, food and sundries, health and beauty aids, gas, all those types of things. And even other things like that's small, but travel has come back really strong from a really weak place a couple of years ago.

Q - Rupesh Parikh {BIO 22151706 <GO>}

Great. And then maybe just one additional question. Just on the membership fee hike, if we are in a weaker economic backdrop next year, does that at all impact how you guys are thinking about the timing of a membership fee hike.

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

Well. It certainly goes into the thought process. We're still not even to the average of the last three increases in terms of timing between the last one and the next one. What we've said again and I'll say again is that, it's -- our view is all the parameters as it relates to member loyalty and value proposition that we've improved to our member, we have no problem thinking about doing it and doing it ultimately. So, it's a question of when not if. But we feel that we're in a very strong competitive position right now. And if we have to wait a few months or several months, that's fine. And I'll be purposely coy on when that might be.

Q - Rupesh Parikh {BIO 22151706 <GO>}

Thank you. Happy holidays.

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

Same to you.

Operator

Thank you. We go next now to Paul Lejuez at Citi.

Q - Brandon Cheatham

Hey, it's Brandon Cheatham on for Paul. First one, I wanted to dig into the decision on holding the price on fresh. Are you seeing competitors do the same and that's why you reacted there? Or are you kind of trying to lead the charge there? And just curious, like why make that decision since it seems like the consumer has been happy to take increased price, especially in fresh?

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

Yeah. The last thing you said there is exactly, I think, why we chose to do a little more there. We want to be the most competitive, and we can drive a lot of volume. And again, we're in it for the long term.

And it's -- fresh is one of those unique areas where prices on many items do change almost weekly on some of those items. If not sooner, if not more quickly. And so, our buyers are always looking at the, if you will, the supermarket ads, as well as the other warehouse club ads, not literally ads, but what the pricing is, and we react to that. But we're also -- part of it is also consciously keeping the price on the chicken at $4.99 and keeping -- and those types of things, keeping the price on the hotdog.

All those things go into that equation as well. But we know that that can be a driver of business. Fresh, we got great stuff, and people do notice the price. In our view, people notice those price differences.

Q - Brandon Cheatham

Got it. And just a quick follow-up. You have a large competitor that's been talking about increased members in the $100,000 plus income cohort, and obviously, it's not impacting your membership numbers. But I'm just wondering, do you see any impact on share of wallet or any thoughts there? Do you look at how many of your members might have additional memberships as well?

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

Well, we don't -- oh, yeah, somebody in the room is telling me we were also up in terms of the average household incomes. So, I think we're both seeing that. We know a lot of particularly of our executive -- our business members in many cases probably have both cards, they've always had both cards. And so, now we don't put our head in the sand as it relates to it, but we look at our numbers and how we're doing and we've seen that the -- our penetration of higher income members has also benefited during this time.

Q - Brandon Cheatham

Got it. Appreciate it. Thanks, and good luck.

Operator

Thank you. We'll go next to Oliver Chen at Cowen.

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

(Multiple Speaker) Oliver, before you ask a question, one other comment. One of the things that we have not done and don't plan to do is do a lot of promotional activities with our membership. And so, that -- certainly, that will in the short-term help drive membership, but we don't do a lot of that.

Go ahead, Oliver.

Q - Oliver Chen {BIO 15320650 <GO>}

Richard, thanks. Thanks. Happy holidays. Regarding e-commerce and going forward, what are your thoughts? You're up against some tough compares, but as we model it on a longer-term basis, how should the growth rates evolve? And then as we think about nonfood, you talked about it a lot, but do you expect the nonfood percentage mix to change from the past? Or it will more normalize? And lastly, on the higher-income consumer and gains there, would love for you to elaborate on what's happening and if you're getting more luxury consumers in terms of higher-income folks joining in the club. Thanks a lot.

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

Sure. I wrote down nonfood -- in terms of what's the new normal. Look, we don't know what the new normal is. I do know that we figure out how to drive total sales.

I do know that over the last two and a half years through COVID, people buying things for their home, whether it was indoor furniture, outdoor furniture, exercise equipment, electronics, and appliances, and it's even greater because of our acquisition in April of 2020 of the last-mile, big, and bulky delivery and installation arm from Sears. All that stuff has helped us dramatically. Look, a little bit is -- again, we don't know how much of it is just comparing against very strong numbers versus a little weakness. Our guess is a little above.

We want to drive -- we always want to drive everything, but we want to drive more nonfood things because you've got -- you don't need any extra space. If you're turning fresh foods at 50, 60 times a year or more, you're turning some nonfood categories at eight times a year. It's easy to go from eight to 10 without any extra space in the building. So, that's always been a goal of ours to drive both sides of the business, and we think we're pretty good at doing it.

And this will be -- we'll find out what the answer is a year from now. On -- what was the other question? I'm sorry.

Q - Oliver Chen {BIO 15320650 <GO>}

On e-com - in the e-com, the long-term growth rate there and off the higher income (inaudible)

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

Sure. OK. On e-comm, again, that is even more dramatic if you look at what e-comm did. We essentially doubled e-comm over a 12-month period from about worldwide from about 8 billion to 16 billion in that probably three or four months into COVID and then going fast forward a year.

So, the last half of fiscal '20 and the first half of fiscal '21, we had pretty good numbers over the last year. That, of course, dramatically impacted in a good way from our acquisition of Innovel. And doing, as I mentioned on the last earnings call, pre that acquisition in the U.S., we did about a little over 2 million drops, and a drop is anything from dropping off a sofa to dropping off and installing a washer dryer or a refrigerator freezer and taking the old one away. We've gone from a little over 2 million drops.

In fiscal '22, we did a little over 4 million drops, 70% of which is on the site and this operation that we acquired. So, we've had outsized growth on that. Helped also not only by the acquisition but COVID itself. So, we're comparing against that now.

We'll see where that goes. We think that e-commerce still long-term. First of all, as you know, we still want you to get into the warehouse as well. That's what -- so long term, we still think right now, we want to grow the e-commerce.

I would say our goal still is to grow it a little more than in line right now because so much of it has been benefited by big-ticket items, which have shown some weakness that's impacting a little bit right now. But long term, we want to still be even 9% or 10% of $240 billion or $250 billion business here is a big chunk of business. In terms of the last question, I'm sorry, I didn't write it down.

Q - Oliver Chen {BIO 15320650 <GO>}

Yeah.

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

In terms of the last question, I'm sorry, I didn't write it down.

Q - Oliver Chen {BIO 15320650 <GO>}

Yeah. I think if Costco is a luxury company too, so what are your thoughts on getting the higher income consumers and anything you're seeing with your existing consumers in terms of behavior because everybody's under a little bit of pressure as well? Thank you.

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

Well, again, when someone in the room here showed me that I think the data that somebody had asked me about where Walmart had indicated, we're all looking at that same data. We too saw the metrics of a little bit higher percentage of higher-income people coming in, notwithstanding the fact we start with a higher percentage to start with. That's -- we try to trade you up. And you know the quality of our merchandise and we'd much rather sell you a bigger ticket item with all the bells and whistles. So, I think that it's the way we merchandise. And we're not looking to change that at this juncture.

Q - Oliver Chen {BIO 15320650 <GO>}

Thank you. Best regards, Richard.

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

Yeah.

Operator

Thank you. We go next now to Greg Melich of Evercore.

Q - Gregory Melich

Hi. Thanks. I'd just like to talk about how the traffic seems to be growing closer to 2% now in the U.S. Is there anything specific going on there? We just need to get used to it as recycling lower gas prices and tough out the slower traffic?

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

Perhaps, I mean, we still think anything that's even in the low single digits is great. And we benefited clearly from -- over the course of the last year, we benefited as I've seen in our membership sign ups, more people coming in and the gas business driving that a little bit as well. And just during COVID, we pick -- we had higher than previously average tick up in new member sign ups. And so, that's probably subsiding a little bit at this juncture.

But again, we feel good -- very good about where our renewal rates are and then the loyalty that our members have. And we're pretty good at trying to figure out ways to get them in. We're doing -- we do online emails that are in line directed for hot items to come in only available in store. And so, those are the things that we continue to do.

Q - Gregory Melich

Got it. Could you update us on any private label, extra gains that you're getting in this environment or trade down perhaps between proteins or anything like that worth calling out?

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

We haven't seen -- last quarter, I mentioned a couple things on the fresh side and the protein side that we actually saw strength in canned chicken and tuna, which was the comment that the buyers made saying that we're seeing to the extent the prices were skyrocketing in some fresh protein, we saw strength in canned protein.

We don't see currently a lot of trade down on fresh. Prices have started to come down on some of those items as the commodity -- as the underlying commodity costs have come down a little bit.

Q - Gregory Melich

Got it.

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

KS penetration is up. Our (inaudible) is up. I don't have the exact number in front of me. I'm guessing it's about somewhere approaching a percentage point which is big. When it's -- I would say over the last several years, it's probably been a 0.5 percentage point, but -- so probably up a little more than normal. But again, we -- somebody asked us the question recently, are you seeing some trade down to private label, and we of course, corrected them and said it's a trade up.

Q - Gregory Melich

You also mentioned, it's a housekeeping item, but I want to make sure I get the charge right. So, you're basically writing a check to reduce the size of a contract that was at a higher price. So, yeah, when -- what's the payback period on that check? Do we see it over four quarters, two quarters, six quarters?

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

Yeah. It's a moving target honestly. It's based on rates frankly, and rates right now have come down dramatically. So, that would be a -- could be a year a little longer than a year or little less than a year depending on what happens tomorrow.

Q - Gregory Melich

Okay, great. Good luck and thanks.

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

Yeah.

Operator

Thank you. We go next now to Peter Benedict of Baird.

Q - Peter Benedict {BIO 3350921 <GO>}

Hey, Richard. Just on new member sign-ups, you kind of mentioned it a little bit there in response to I think Greg's question. But just maybe talk about new member sign-up trends. Holistically, were you seeing anything U.S. versus maybe some of these international markets you've been entering? Just interested in your latest thoughts there.

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

Well, I think the biggest thing continues to be we're better when study does sign up that they sign up in those countries where we offer executive membership, which is, I'm guessing, 85% of our company, more, maybe 90% of our company. It's just not in some of the smaller unit countries. And overall -- starting with the U.S., but overall, in Canada, we do a better job of getting you to sign up as an executive member to start with. We also do a better job of getting you to sign up to auto-renew with putting in your credit card.

All those things help -- let's face it, all those things help, too. We know that an executive member buys more and shops more frequently in a year than a nonstore member. We know that one of those members with a credit card, co-brand credit card shops even more frequently and spends more. And they do all three, they're an executive member with a card versus being a regular member, that's the big kahuna here.

And so, I think that we've seen those trends go on over the last few years, frankly. And what's helped in the last year is the fact that, again, just our new member sign-ups has been higher than they had been historically over the last few years versus the last year -- last year or two. And I think we believe that's more because of COVID, and we were in a good place to shop.

Q - Peter Benedict {BIO 3350921 <GO>}

I'm sure that makes sense. And just my last question, just interest -- interest income and other, obviously, has a few components to it. I'm curious if you can help us understand what the interest income was in the quarter? I think it was about $8 million last year, I'm not sure -- I'm sure that was up a lot this quarter. Just curious if you can give us a sense of what that number was in the first quarter? Thank you.

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

Is that in the queue. Okay. Yeah, I'll give it to you. Hold on a second. I didn't realize it's in the queue, so which is not out yet. What it is you've got a big increase in interest income and a big increase in FX downside. So, of the 50 -- I think it was 53 is -- $54 million is interest income and the negative $1 million is other, which is a chunk of that's FX. And then this year the $42 million -- I'm sorry, last year, it was $8 million of interest income and $34 million of other, the biggest piece of other being FX. So that added up to the $42 million. This year the $53 million is $54 million of interest income and minus $1 million of other.

Yeah. That's what I was looking for. Thank you very much.

Operator

And we'll go next now to Kelly Bania of BMO.

Q - Kelly Bania {BIO 16685675 <GO>}

Hi. Thanks for taking our questions. Richard, just had one on elasticity and then another followup on the big-ticket. But in terms of elasticity any changes -- I'm not sure how you measure it or monitor it, but any changes in your members response to your actions when you are taking some lower prices here?

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

I think if you asked the buyers overall that there's a little less elasticity than there used to be on some of the things. Again, now that answer comes from the fact that my comments about big-ticket discretionary items. We've put more money behind it and that successfully cleaned up our inventory where we were over in some areas like furniture, to some extent. But at the end of the day, I think in a year or two ago, we would have even guessed that could have been a little stronger.

But then that gets back to the whole question is the economy -- the concerns in the economy impacting big-ticket discretionary items. So, yeah, I mean, there's clearly still elasticity. When we do temporary price discounts or even our MVM mailers, we still get good impact from it. Some things, the bigger the ticket, not as much as we used to get.

Q - Kelly Bania {BIO 16685675 <GO>}

That's helpful. And then just a follow up again on the big ticket. What percent of your sales would you say are big ticket, maybe it ebbs and flows with the seasons but just in general? And do you see that members are pretty broad-based in pulling back, meaning across income levels, executive, Goldstar, et cetera?

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

Well, online, it's a little over 40. But online is only 9% of our sales. And store, I don't have it in front of me. 10 would be a good guess.

Q - Kelly Bania {BIO 16685675 <GO>}

Thank you.

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

I'm including that 10 furniture as well. So big ticket -- in jewelry, big ticket discretionary.

Q - Kelly Bania {BIO 16685675 <GO>}

Perfect. Appreciate it.

Operator

And we will go next now to Chris Horvers at J.P. Morgan.

Q - Chris Horvers {BIO 7499419 <GO>}

Thanks. Good evening. So, following up a little bit there, on the TV side, is it -- how much of it is a units down issue versus deflation? And is there any differentiation that you're seeing between larger and smaller screen size purchases?

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

Yeah. Units were actually up and there's normal deflation in TVs and electronics anyway. And -- but there is perhaps a little bit of smaller sizes are coming down a little bit. Not everyone wants 85-inch television and -- but which is where we over index to bigger ticket stuff to start with. But we are seeing actual unit sales up.

Q - Chris Horvers {BIO 7499419 <GO>}

So units are up with strength -- relative strength and smaller sizes.

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

Yes.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. And then a couple of sort of other bigger-picture consumer questions. I guess is there -- are you seeing maybe some mid- to low end maybe not buying the 18-pack of Bounty? Like do you think you might be losing some category share as someone's trying to economize the ticket for your -- the lower half of your income perspective? And then can you also -- can you also talk about regionality? Obviously, there's some weakness in certain housing markets in certain cities, and then there's -- you have a big exposure to California. There's been more layoff news in the technology industry, and there's some population migration.

So, what are you seeing from a regionality perspective where you're seeing more weakness versus strength?

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

Well, first of all, we're seeing strength in sundries as part of what we call food and sundries, which is everything. Food and food and sundries is everything from canned beverages to crackers and cereal, and sundries, of course, paper goods and cleaning supplies and the like. And we're seeing strength in those areas. Those are -- those are actually strong, offset by some of the weakness I talked about on the nonfood side.

As it relates to regional, I don't -- we don't really see any big differences. I mean, every month, you're going to see a region stronger or weaker. It has more to do in our view right now of late with weather than anything else. I can't give you anything definitive on what's -- is the region -- it's pretty -- they're all pretty close.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. And then --

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

I can't give you anything definitive on what's out, is the region -- they are all pretty close. Bob is saying here, they are within a couple of points of comp.

Q - Chris Horvers {BIO 7499419 <GO>}

Got it. And then one (inaudible) question. Just on the inventory, you talked about pockets. It sounded like you cleaned up furniture and electronics. It sounds like -- is there any -- where are those pockets? How much is maybe holiday decor or toys, other more at-risk categories in the month of December?

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

The good news is our merchants are sitting here. Holiday decor is fine. One example actually would be we have a small amount of air conditioners and fans, which was -- it was a hot summer, and we were very strong in it. There were delays some of the supply chain challenges, some of that stuff didn't come in until September.

And needless to say, we're not going to put it out there and mark it down when nobody really is looking for an air conditioner unit in September. And so, that's the example of a few things now. We still have some furniture. It's way down from where it had been.

So, very, very manageable. I think beyond that, there's nothing huge. And again, the big question right now would be the fact that from a standpoint of Christmas stuff, both the Christmas stuff, as well as toys, we're in pretty good shape for that. We feel pretty good about that.

Q - Chris Horvers {BIO 7499419 <GO>}

That's great. Thanks so much. Have a great holiday season.

Operator

Thank you. We go next now to Scot Ciccarelli at Truist.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Good evening, guys. I guess I have another gross margin question. And I guess it's -- look, if consumables continue to outpace discretionary goods based on what we're seeing in the economy, should we expect gross margins to compress a bit just from mix? Or do you have enough levers given existing price gaps across most of your categories to match the flattish gross margins? Just how should we think about the mix impact?

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

We'll let you know next quarter. I mean, we have a lot of levers, as you've mentioned, as you suggested, to pull and push. We're also aggressive on pricing when we want to be like in the fresh foods area that I just mentioned. And we're blessed right now with -- in some categories like gas that is a better margin.

So, all that stuff, again, there's a variety of puts and takes. We feel overall, there's nothing unusual about this quarter. And frankly, if inflation is not rising again, even if it doesn't go down, but it doesn't rise again from its current levels, we're in pretty good stead of greatly improving the component of margin that relates to a LIFO charge, particularly in Q3 and 4 when we had a $100-plus million number and a $200-plus million number. But that's to be seen, and we need to wait and see.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

So just as a follow-up on that, Richard. Like, fair to say that we're going to see lower freight rates starting to flow through the P&L and let's call it, less markdown pressure because the inventories are cleaned up a bit more than the last few quarters?

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

That should help you a little bit, sure. But as you might expect, and one of the reasons we took this charge, is we don't want to have to have the buyers worry about inputting higher costs into their -- if rates have come down and we contracted, we want to take some of that out. But that's still being worked through. That's not -- we have to continue to do that. Beyond that, as rates come down, you'll see our prices on items come down too.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it. All right. Thanks a lot. Good evening.

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

Okay. Why don't we take two more questions?

Operator

Certainly, Richard. Thank you. We'll go next now to Karen Short at Credit Suisse.

Q - Karen Short {BIO 7215781 <GO>}

Hi. Thanks for taking my question. Hope you all have happy holidays coming forward -- going forward. But I did want to clarify on two things.

So, in the past, when you have had slightly weakening traffic trends that has generally been a point to consider to actually push through higher membership rate increase. So, I'm wondering, I know this is a very unusual time, but has that philosophy changed at all? Because obviously, your comps are changing or in -- or slowing? And then I would ask the same thing as it relates to the special dividend. We all know what your cash is and available cash is on the balance sheet. In terms of timing, with respect to announcing something like that, along the lines of the fact that I think your board meeting is mid-January.

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

We have one every quarter. Look, we talked about both of those. In terms of the fee increase, I think over the last many years, we've probably done them at a time when things were particularly strong comp-wise. The good news is during all times, renewal rates were strong and have gotten even stronger.

We always look at ourselves in the mirror and feel that the value proposition has gotten better. That being said, we have done them -- I remember one time we were asked, it may have been back in '09, '10, during the Great Recession because I guess we did one probably in '11 or '12, which continued the Great Recession. And we'd be asked given the Great Recession, would you hold off on it? And our view was -- and comps were a little weaker back then, too, for at least a couple of quarters. And I think the comment I made was something to the effect, we'd probably do it anyway because we're going to use it to drive greater value in terms of pricing and everything in a big way.

And so, that really -- I think we've probably done it in times of lower comps or higher comps or good economy or tougher economy. And I think with the headline in the -- I probably mentioned in the last quarter call or even the quarter before that, with the headline being recession question mark and inflation exclamation point, there's no rush. And first of all, even if we follow the pattern of the last three -- over the last 16 or so years, they averaged five years and seven months. And I know now that five years and seven months from June of '17 is January of '23.

I know on the last call, I said, that doesn't mean it's going to be January '23. It will be -- it's a question of when, not if. But at this juncture, we'll just have to wait and see. And I'm not trying to be cute about it, but there's not a whole lot more I can tell you. There's no analytical framework we use other than we feel very good about our member loyalty and our strength. And if we wanted to do it yesterday, we could. If we want to do it six months from now, we can. So, we'll wait and see.

As it relates to the special dividend, as you know, we've said before, it's certainly an arrow in our quiver that has boded well for us, we believe. We think that's done well. We've done four of them. The last one was a couple of years ago, and we certainly do have cash. Mind you, when you look at our cash, about half of its U.S. and not cash equivalents. And so, certainly, we have the ability to do it at some point. I think we wanted to wait and see how things are continuing here. I think that, too, is probably a question of when, not if. But again, you'll be the second to know after us.

Q - Karen Short {BIO 7215781 <GO>}

Okay. Thank you very much. Have a good holiday.

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

Same to you.

Operator

Thank you. We will take our final question this evening from Robby Ohmes of Bank of America.

Q - Robert Ohmes {BIO 1541955 <GO>}

It'll be a real quick one, Richard. Can you just remind us -- you're back to 15 net stores in the U.S., but what has to happen to go back to kind of the years where you would open kind of a net 25 a year in the U.S. and maybe relieve some of the pressure on the over productive clubs in the U.S. right now?

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

Yeah. I think it's been a few years. I mean, when we opened the net of 27 or 28, maybe low 20s, or 22, 23 there, but we've been at maybe 16 or a 17 out of 23ish in the last few years. If you ask Greg, who's not in the room, but if you asked him, if we're opening a net of 24 this year, I think I said, what's the goal five and ten years from now, probably if we get it closer to 30 net and probably by five years from now, it's 50-50 U.S. elsewhere versus elsewhere. That's the same answer I by the way said five years ago in terms of the fifth of the split. But we'd like to see -- add five to that 24 in the next few years to go up a little bit higher.

Q - Robert Ohmes {BIO 1541955 <GO>}

Terrific. Thank you.

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

We have a lot of activity going on.

Q - Robert Ohmes {BIO 1541955 <GO>}

Absolutely. Thank you, sir.

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

Okay. With that, everyone, I thank you. Have a good holiday, and we're around to answer questions.

Operator

Thank you, Richard. Ladies and gentleman, that will conclude Costco's fiscal Q1 2023 conference call. Thank you all so much for joining us. Wish you all a great evening. Goodbye.

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

Thank you.