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Q1 2022 Earnings Call

Company Participants

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

Other Participants

- Blake Anderson
- Brandon Cheatham
- Christopher Horvers
- Chuck Grom
- Edward Kelly
- Greg Maddux
- John Heinbockel
- Karen Short
- Kelly Bania
- Laura Champine
- Michael Lasser
- Rupesh Parikh
- Simeon Gutman

Presentation

Operator

Good day and thank you for standing by and welcome to the Q1 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions)

I'm going to liked hand conference over to our speaker today, Richard Galanti. Thank you. Please go ahead.

Richard A. Galanti {BIO 1423613 <GO>}

Thank you, Sadie and good afternoon to everyone. I'll 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 they are made and the company does not undertake to update the statements except as required by law.

In today's press release, we reported operating results for the first quarter of fiscal '22, the 12 weeks ended November 21. Net income for the quarter came in at $1.324 billion or $2.98 per diluted share, compared to $1.166 billion or $2.62 per diluted share last year. This year included a tax benefit of $91 million or $0.21 per share, related to stock-based compensation and a write-off of certain IT assets of $118 million pre-tax or $0.20 per share. Last year included tax benefits of $145 million or a $0.33 per diluted share, $0.16 of which was due to the deductibility of the $10 per share special cash dividend received by the company's 401k plan participants, and $0.17 related to stock-based compensation. As well an incremental expenses for COVID-19 premium wages of $212 million pre-tax, which was a hit last year in the quarter of $0.35 per share.

Net sales for the quarter increased 16.7% to $49.42 billion, up from $42.35 billion a year earlier in the first quarter. Same-store sales for the first quarter were as follows: In the U.S., on a reported basis for the 12 weeks, up 14.9% and excluding GAAP inflation and the impacts of FX up 9.9%. Canada reported 17.2%, ex-gas and FX plus 8.3%. Other international reported 13.4% ex-gas in an inflation and FX up 10.9%. All total, the company reported 15% increase on a comp basis, and 9.8% up ex-gas and FX. In e-commerce, which was reported of 14.3%, ex-FX was 13.3%.

In terms of Q1 comp sales metrics, traffic or shopping frequency increased 6.8% worldwide, and up 5.9% in the U.S. during the quarter. Our average transaction or ticket was up 7.7% worldwide and 8.5% in U.S. during the quarter. Excluding the positive impact from gas inflation and FX, the average ticket was up ex that plus 2.5% worldwide and plus 3.5% in the U.S. Our foreign currencies relative to the U.S. dollar positively impact sales by about 90 basis points and gasoline price inflation positively impacted sales by approximately 430 basis points.

Next, on the income statement, membership fee income reported in the quarter $946 million, up $85 million or 9.9% from last year's $861 million figure. Ex-FX the $85 million increase would have been $80 million and the 9.9% increase would be 9.3%. In terms of renewal rates, at first quarter end, our U.S. and Canada renewal rate came in at 91.6%, up three tenths of a percent from the 12-week earlier figure at Q4 end. As well, the worldwide rate came in at 89.0%, also up three tenths of a percent from 12 weeks ago at Q4 end. The renewal rates are continuing to benefit from more members auto renewing as well as increased penetration of executive members who on average renew at a higher rate than the non-executive members. And first year renewal rates, which have improved a little.

In terms of number of members at end of first quarter, in terms of member households as well as total card holders, at Q1 end total paid households was $62.5 million, up 800,000 from $61.7 million a quarter ago, and total cardholders $113.1 million, up $1.5 million from the $111.6 million 12 weeks ago. At Q1 end, paid executive members totaled $26.5 million, an increase of 836,000 during the 12 weeks since Q4 end. Executive members represent 42% of our members and a little over 70% of our sales.

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Moving down to the gross margin line. Our reported gross margin for the first quarter was lower year-over-year by 49 basis points and excluding gas inflation lower year-over-year by six basis points. As I normally do, I ask you jot down a few numbers the two columns, both reported year-over-year in Q1 and then without gas inflation, year-over-year in Q1. First line item would be core merchandise, minus 63 basis points year-over-year on reported basis and minus 26 basis points without gas inflation.

Ancillary and other businesses plus 2 on a reported basis and plus 12 ex-gas inflation. 2% reward plus 3 and minus 1 basis point. LIFO minus 3 in both columns, other plus 12 basis points in both columns. Total then on a reported basis margins were down 49 basis points year-over-year and ex-gas inflation down six basis points. In terms of the core merchandise component of gross margin being lowered by 63 year-over-year and 26 basis points ex-gas inflation. Recall last year in Q1, the core reported was up 83 basis points and ex-gas up 66 basis points. So we retained a good portion of the improvement from two years ago in the quarter.

In terms of the core margin on their own sales, in the first quarter our core-on-core margins were lower by 18 basis points with non-foods slightly up, and food and sundries slightly lower year-over-year. Also lower year-over-year fresh foods was the primary driver of the core-on-core being lower in the quarter. Fresh continues to lapse -- to lap exceptional labor productivity and low product spoilage, that occurred from the outside sales that began the year -- that were that happened a year ago in the quarter.

Ancillary and other business gross margin was higher by two basis points on a reported basis. And again, plus 12 basis points ex-gas inflation. Gas and travel were better year-over-year as they anniversary a softer quarter a year ago, offset by e-comm, which was particularly strong a year ago and also related to the pandemic. LIFO, we had a three-basis point of $14 million LIFO charge in the quarter. 2% reward, higher by 3% on a reported basis and lower by 1% excluding gas inflation, a reflection of slightly higher sales penetration going to the increased number of executive members. And other was up 12 basis points. This is related to COVID-related costs from a year ago, that portion of the COVID-related wages that go into the cost of sales like our manufacturing businesses and our meat and bakery departments. Given the inflationary pressures and our ongoing efforts to mitigate price increases to our members in the face of inflation as best we can. Our Q1 gross margins results on all I think we're pretty good.

Moving to SG&A, our reported SG&A in the first quarter was lower or better year-over-year by 66 basis points and 29 basis points excluding gas inflation. Again, jotting down two columns of numbers; first column being reported, and the second column being ex-gas inflation. Operations was better or lower by 40 basis points and ex-gas inflation better or lower by 11 basis points. Central reported better by 10 without inflation, gas inflation better by 6. Stock compensation better by 2, and worse by 1 and 2 columns two columns, and other better by 14 and better by 13 year-over-year. Total then, again on a reported basis, our SG&A was better or lower by 66 basis points, and ex-gas inflation lower or better by 29 basis points.

Keep in mind, in terms of the core, again, better by 40 or better by 11 ex-gas inflation. Keep in mind this result includes the permanent $1 an hour wage increase that began in

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March of 2021, and four weeks of additional starting wage increases that we just took this past October going from $16 to $17 and from $16.50 to $18 for our two main categories of hourly employees. These latest changes in the starting wages went into effect October 25, just six weeks ago and four weeks of those six weeks ago were included in Q1. Central, no surprises there, again, on an ex-gas inflation basis better by 6. Stock comp as I mentioned, a little better -- a little worse by 1 ex-gas inflation, and other the 14 basis points and the 13 basis points numbers. This consisted of the COVID expense of $159 million last year and the $180 million write-off of the impacted IT assets that I mentioned earlier.

And next, on the income statement is pre-opening expense. This year in the quarter $28 million. Last year in the quarter $22 million or $6 million higher. All total, reporting operating income in the first quarter increased 18%, coming in at $1.693 billion this year in the quarter compared to $1.43 billion last year. Below the operating income line, interest expense was $39 million in each of the first quarters of fiscal '21 and '22. Interest income -- interest expense rather, interest income and other for the quarter was higher by $13 million year-over-year, primarily due to favorable FX.

Overall, reported pre-tax income in the first quarter was up 19% coming in at $1.696 billion, this year compared in the first quarter last year of $1.42 billion. In terms of income taxes, our tax rate in the first quarter of '22 was 20.7% compared to 16.8% in Q1 last year. Again, both year's tax rates benefited from the tax treatment of stock-based compensation as mentioned earlier, $91 million this year and $75 million last year in the quarter. Additionally, last year's tax rate benefited from tax deductibility of the special dividend that portion payable to the company's 401k plan participants. The fiscal '22 effective tax rate excluding these discrete items is currently projected to be between 26% and 27%.

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A few other items are note in terms of warehouse expansion. As you know for fiscal '21, we opened 22 units, including two relos. So, a net increase of 20 units during fiscal '21, and this quarter that ended a couple weeks ago. We opened nine units including one relo, so net openings of eight. For the remainder of the year, we plan to open 23 new units and also -- plan to open 23 units, four of which would be relocations. So a net of 19 if all goes as planned. It's been a busy past seven days. We opened our second Costco in France last Saturday on December 4, followed by our second building in China, which opened yesterday, as well as two buildings opening this morning, opening today, one in the U.S. and Florida, and our fourth unit in Spain.

Regarding CapEx, our first quarter fiscal '22 spend was approximately $1.5 billion. Our full-year CapEx spend is estimated to be just about just about $4 billion. This would represent an increase of more than $400 million over last year's entire CapEx figure of $3.6 billion. The largest areas of increased coming from international spending for new warehouse expansion and increased investment in our logistics and e-comm fulfilment operations.

In terms of e-commerce, sales in the quarter ex-FX increased 13.3% year-over-year. That's of course, on top of an 86% plus increase a year ago in the first quarter. Stronger departments in terms of Europe percentages include jewelry, tires and home furnishings. Our largest merchandising department in terms of sales majors, which is everything from consumer electronics and TVs to appliances, et cetera, was up in the high single digits also on a very strong sales increase a year earlier.

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In terms of an update on Costco Logistics, it continues to drive our big and bulky sales. For the quarter, Costco Logistics deliveries were up over 50% and now represent about 70% of our U.S. e-comm big and bulky shipments. We've averaged during the quarter more than 50,000 stops per week. And for the year, we project more than 3 million stops, which would be everything from dropping something off to installing and taking away the old appliance for logistics in the full year.

Our e-comm mobile app, we continue to improve the site with additional features. Thus far, as I've talked about the last few quarters of quarterly calls, we redesigned the app header and footer. We've updated and improve the menu layout. Our members now have the ability to view warehouse receipts online via both the app and desktop. Our co-brand Citi Visa card can now be linked to the digital membership card and can be used for payment. Our members are now able to much more easily reschedule e-comm deliveries in the U.S. and Canada, same goes for rescheduling returns and pickups.

And delivering the first half of the new upcoming new calendar year, labeling of fulfillment -- better labeling of fulfillment methods, members will be able to easily see fulfillment options be it e-comm, same day and even nearby warehouse availability of a particular item at a particular item level. We're rolling out new e-comm kiosks in the warehouse with video signage and easy touchscreen ordering, as well we're rolling out e-commerce lockers. Currently in the U.S., we have 112 locations with more -- and we plan to more than double that number during calendar year 2022.

In terms of e-commerce, there's a program that receives some press just yesterday called Costco Next, and a way, it's like our warehouse roadshows, but online. Currently, their 34 suppliers and growing, but it's still quite small, offering just under 1,000 items. Curated items with Costco values, so please check it out when you have a chance.

From a supply chain perspective, similar issues that we outlined in 12 weeks ago on the last quarterly call, each issue ebbs and flows a little bit. But overall, the factors pressuring supply chains and inflation include port delays, container challenges, COVID disruptions, shortages of very components raw materials ingredients and even packaging supplies, labor cost pressures, and truck and driver challenges. Overall, we feel we've dealt pretty well with the supply chain challenges in terms of delayed container arrivals on the Pacific Coast, about 79% of our import containers are late by an average of 51 days. A few percentage of those are actually a few days early and many of them are few days more than 51 late.

Virtually, all departments are impacted. We've ordered early in many cases. I mentioned, I think in earlier calls, given the lower longer lead times, less product and packaging challenges, but still quite a bit. Still some limitations on key items, but improving again at ebbs and flows. Chip shortage is still impacting many items, some more than others. In some instances, delayed inventory simply extends the season. An example might be lawn and garden and patio. As soon as the product arrives, it sells pretty quickly, but it may extend into -- beyond the normal seasonal time. Toys in seasonal impact, same thing some inventory in fact won't make it before Christmas, but we've mitigated that as best as possible and feel pretty good about it. And in terms of -- moving on to -- despite all the

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supply chain issues again, we're pretty -- feel pretty good about staying in stock and continuing to work to mitigate cost and price increases as best we can.

Moving on to inflation. Again, it's pretty much the same story that we told during each of the last two quarters. There have been in our variety of inflationary pressures that we and others are seeing from labor costs to freight cost, to higher demand, to container shortages and port delays to increase demand on certain product categories. Much of what you see and read out there. A very shortages on everything from chips to oils and chemicals supply by facilities hit by the Gulf storms while back, a higher commodities prices.

For Q1 '22 and talking with our merchants, we estimate that overall year-over-year price inflation to be in the 4.5% to 5% range. That's a little bit higher of an estimated inflation rate that I discussed a quarter ago, but I think pretty consistent with what you read out there. All this said, much kudos to the job that our merchants in our traffic department and our operators have all been able to do in order to get the products that we need. Pivot when and where necessary and keeping our warehouses is full. While keeping prices low for our members and continuing to show value versus our competitors. Now look, I think overall, this is best reflected in the operating results that we continue to achieve despite these many challenges.

Anecdotally, on merchandising holiday stuff has been strong. Again, sometimes it depends on when the merchandise gets in. Baking items, more people seem to be getting together or strong. Gift cards are up dramatically from a year ago, but it was week a year ago. Pet products, as you might expect are strong with the benefit of increasing pet population over the past couple of years. Alcohol and spirits are strong, including gift boxes of various items and of course, continue to strengthen consumer electronics, appliances, furniture and mattresses in the like.

Apparel actually has enjoyed much stronger sales growth this year, albeit compared to relatively flat apparel sales a year ago. One last comment, our sustainability commitment website received a major refresh this week. So, please feel free to visit the site. It's linked directly from our homepage, under the column About Us and then click on Sustainability Commitment. Finally, in terms of upcoming releases, we will announce our December sales results for the five weeks ending Sunday, January 2nd; on Wednesday, January 5th after market close.

With that, I will open it up to questions and turn it back over to Sadie. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) For our first question, we have Michael Lasser from UBS. Michael, your line is open.

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Q - Michael Lasser {BIO 7266130 <GO>}

Good evening. Thanks a lot for taking my question. Richard, your point about the 4% to 5% inflationary increase across the assortment -- typically, Costco's been slower to raise prices than everyone else. That seems to be a number that's in line with others across the retail sector. So, has the posture changed with respect to passing along price increases? Why is that the case? And if Costco have more pricing power today than it ever had in the past, given the pricing gaps between you and others in the market?

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

Well, I think, as it relates to passing on, we've always said, we want to be the last to raise the price and the first to lower the price. Recognizing, there's a limit to what you can do based on these cost increases, first and foremost, I think because of our relative purchasing power and our relationships with our vendors, we with our suppliers work to mitigate those increases in any way shape or form we can. Ultimately, that may include us taking a little more less markup and maybe, them taking a little less markup. There's no complete consistent answer throughout as you might expect. But overall, I think we've done a relatively good job of that, and there is inflation in those numbers.

Those numbers are kind of a combination of our cost increases, as well as our -- some price increases. And again, it fluctuate -- there for every few examples that are something going up there may be an example of something flatter going down a little bit for unrelated reasons. And so again, it's a best guess, it's fluid. We saw inflation starting several months ago in a bigger way in our fiscal Q4 in this summer and continuing into this fiscal year. And as we all have read articles, general articles out there about certain different major consumer product manufacturers announcing increases and continuing to do so. So, I think it's going to continue. Hopefully, we're getting towards the top and it'll start flattening out and subsiding, but we'll see.

Q - Michael Lasser {BIO 7266130 <GO>}

My follow-up question is with the core merchandise margin ex-fuel and the core -- and core gross margin, getting less, bad or declining at a lesser rate this quarter than last. Is this a sign that the margin here is stabilizing? And do you think the Costco exits the pandemic with the structurally higher gross margin than it had in the past or all these dynamic simply a function of what you've often said, which is when overall retail margins go up so do Costco or just a little less than others? Thank you.

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

I think on the last comment, yes, in terms of that -- the last comment you made. Look, I think at the end of the day, I think we in many ways have benefited from market share gains. Hopefully, some or most of which will be sticky. The biggest thing that impacts margins mainly often is not only on the buying power side. And arguably, I can't think of any company that has the buying power per item that we do, because we do our -- roughly, $200 billion in sales with 4,000-ish items versus anybody else that's doing it with hundreds of thousands of items or 50,000 items. But I think that having higher levels of sales productivity, particularly in things like fresh foods helps your margin.

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We'll keep some of that and we'll use some of it to be even more competitive, and hopefully, build a bigger mode a little bit. But I think that some of it is probably structurally there, but as some famous TV actress said once, it's always going to be something, and we'll keep fighting that battle out there. But we feel pretty good about some of the structural things that occur that hopefully will help us in the future, but we'll have to wait and see?

Q - Michael Lasser {BIO 7266130 <GO>}

Thank you very much and have a good holiday.

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

Thank you.

Operator

For our next question, we have Simeon Gutman from Morgan Stanley. Simeon, your line is open.

Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, everyone. I'll be Simeon for this call. My first question is actually a follow-up to Michael's second question. Maybe, I'll ask it a different way, Richard. The two-year core on core looks like it's actually getting better. And you said it yourself you thought -- you did a pretty good job on it and it looks like you are. So, if we're kind of getting, it feels like -- you are managing through the worst of it and the environment may be getting better at the margin. I don't want to go too far and say that. Why shouldn't be -- this be the worst for the core on core notwithstanding comparisons, but they -- it means they get harder, but then they start to get easier.

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

Yes. Look, I think that's hopefully how the storybook goes. It's always going to be something. But no look, we -- jokes aside, we feel pretty good about structurally what we've been able to accomplish, and part of that's market share with higher sales levels. And we've not stopped the -- what I'll call the buyer creativity of working with suppliers to figure out how to continue to drive greater value. I could think of 50 examples, but at the end of the day, we're continuing to drive value in lots of ways and whether it's changing packaging or using our volume, moving certain production to different parts of the world, and to take -- again to make that mode even a little bigger. So, I agree with you that so far, the story -- that your suggestion is playing out and hopefully it'll continue to play out.

Q - Simeon Gutman {BIO 7528320 <GO>}

Fair enough. My second question is more on SG&A and the business' leverage point. We used to chat about Costco always doing mid-single digit comps and that's good enough to cover the SG&A dollar growth. I think this quarter, the business did about 6.5% growth adjusted and you're going to have some of these wage investments that annualize maybe not to the middle or to closer to the end of the year. So, I'm trying to get at what a normal

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post COVID SG&A rate may look like? And then does that mean it's sort of that mid-single digit comp rate that levers those expenses.

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

I think, it relates to -- probably the best guesstimate, and I say, guesstimate not estimate on where do you start, we're seeing an inflection point of leveraging SG&A, probably still is in that mid-single digit range. Beyond that, who the heck knows? I mean, we've been able -- notwithstanding some of these increases, we've been -- in particularly in wages, we've been able -- to again strong comps have helped these numbers. But I think we feel pretty good about having the sales volumes that continue to be able to leverage those expenses.

So as soon as we find out, we'll let you know. But again, we're feeling pretty good about things at this juncture. And at some point, I would assume comps to have to come back to him hopefully better than that, better than peer average, but something back to where they had been pre-COVID, but on a higher base, and even that helps you a little bit.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay, great. Thanks. Happy holidays, everyone.

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

You too.

Operator

For the next question, we have Christopher Horvers from JPMorgan. Christopher, your line is open.

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks. Good evening, everybody. So, I want to ask a little bit about your thoughts on holiday pull forward. Obviously, you saw an acceleration in trend on a two-year basis in October, and then November it -- thing is obviously still amazing comp and gaining share. But trends decelerated and it was sort of a -- against what was the weaker I think end of the month last year. So, can you talk about like what do you think is driving that? How do you think about the rest of the holiday season? And as you think about a consumer that's going to lap a bunch of stimulus in the first half of next year? What are your initial thoughts on how that all could play out?

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

Well, I think, again as you just mentioned, November's comps were a shade under outside expectations, still very good, a couple of percentage points different than what we have been enjoying the couple of months prior that. Probably, the view is, a little bit of that was pulling forward, but even within in last month's number, the weeks varied. And overall, we're good, but, just when it comes -- is reduced a little, the next day, it's better than you expected. So, I think, the one thing that I feel good about is our in-stocks.

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Our senior merchant the other day had indicated, and his view is that -- his feeling is that we're better in Stockton and anybody out there, and I think part of that is the fact of limited selection. We are an item business, we could put something else in place or something. But we've done a pretty good job. I mean, I had a -- with a little bit of a chuckle at a call, just yesterday from a reporter asking about how are we doing on cream cheese? And so I checked and we're having the cream cheese shortage out there and the bagel shops are being challenge. We actually got it -- as the buyer said, it took a little extra work, but we've got all the cream cheese we need. So, I think we've done a good job in merchandising.

Q - Christopher Horvers {BIO 7499419 <GO>}

Got it. And so I guess as you think about last year and the stimulus, I mean, do you think that -- I think -- actually I think the consumer, as you get closer to Christmas and New Year's, probably comes back if people are entertaining more like you said in the baking side. But as you get into January and stimulus in the spring, do you think your business lifted off a stimulus last year?

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

It couldn't hurt, it probably helped a little bit. I know historically when there's been some stimulus items out there, factors, our view is that we have not been impacted as much as other, but directionally, we've been impacted the same. Look, if next year, there's a reduction in stimulus, lord knows what's going to happen when then stock market in general and how people feel about where there -- they feel financially. That may all change a little bit. But I feel -- we feel pretty good around here that in one of the things that we've shown over the year is that in -- both in good and bad times, we tend to do well, and good times because people want to spend more and even in less good times people want to save more. And so I think from a merchandising -- and in tougher times, there's additional products and services that might be willing to sell us for the first time. So, in our own perverse way, we sometimes benefit from good and bad, and right now, we're feeling pretty good about what the future looks like.

Oh well, by the way, the other thing Bob just mentioned that even if certain things head south in some way, shape or form like a reduction or -- or elimination of certain stimulus items. Supply chain, at some point, is going to get better. As good as our members are, we could do better if we had more supply of certain of those items. Even in some categories and non-food that are up 20% and 30%, the buyers view, we're still running out of stuff or could do better if we had more, and that's not just us. I mean that's -- it rains on everybody. But I think some improvement in supply chain will be an offset to any other things that are detrimental to that thought.

Q - Christopher Horvers {BIO 7499419 <GO>}

Got it. Thanks very much, and enjoy the run-on cream cheese at the clubs this weekend. Take care.

Operator

For our next question, we have Chuck Grom from Gordon Haskett. Chuck, your line is open.

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Q - Chuck Grom {BIO 3937478 <GO>}

Hey, Richard, Bob, team, hope you guys are doing well. Just a question on leveraged. If we back up the one-time charges, the quarter looks like you enjoyed over 100 basis points of improvement year-over-year and 65 basis points last quarter. The fully realizing the comps on a stack basis were better, but wondering if some investments or other costs may have rolled off, just some thoughts on that front.

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

I think more of it is just a leverage of sales growth frankly. Again, taking out the specific COVID-related charges that we talked about and fact that what we didn't talk about in terms of separating in the press release was that dollar an hour increase we did in March and new one that had a small impact in Q1, because it started six weeks ago. But in that regard, there's nothing that stands out in my view, in my estimate. I am looking at my guys here do -- it was strong -- strong sales would be the number one factor.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. Okay, fair enough. And then just on the store front, 14 opened thus far in '22. So, you're more than halfway to the goal, which is great. I was just wondering, bigger picture, has there been any more discussions to the backfill some of your existing markets, your higher density areas or perhaps some stores just can't handle any more productivity, anymore throughput just because of the volumes?

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

I think that's -- the answer is yes, and I think that will be a small methodical increases in that thought over the next several years. I mean, it used to be that we talked about when we had 400 warehouses in the average, I'm making those numbers, so the average was 180. And now the -- I think we have an average several years later in the high 200s in the U.S. at least. What? And we have a number of units in the 300 or 400 range. Not -- I mean, not 100s, but 10s of. And so we're looking for more infill. And we've been doing that and we feel this 3 to 5 year or 3 to 7 -- 3 to 5 a year, then the last five 5 years is it going to be 5 to 8 a year? Could be, I don't have that kind of detail in front of me.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay, great. And then my last one is just the follow up on Christmas on November. I believe you guys did call out that there was some moderation in retail inflation, and it maybe 150 basis points or so. I was just wondering if you could provide any color on, I guess, on where that retail inflation came in. And I guess why that happened? Was it self-inflicted? Just if you want to give some color there? One thing that was a little lower whereas from the increases in food and sundries and -- some food and sundries items and fresh, that had spiked even more. It's still up year-over-year, but despite a little -- it came down a little bit from where it had been. And then we haven't quantified anything specific beyond that.

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

Okay. All right.

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Q - Chuck Grom {BIO 3937478 <GO>}

And by the way -- and as you might expect, there is supply that's out there that are saying, hey, come January, February, you'll see some more increases. And again this is not inconsistent with what you -- what I've read in general articles in the various business periodicals.

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

Okay. So, just a lot of timing differences. Okay.

Q - Chuck Grom {BIO 3937478 <GO>}

Yes.

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

Great. Thanks a lot.

Operator

For the next question, we have John Heinbockel from Guggenheim. John, your line is open.

Q - John Heinbockel {BIO 1508150 <GO>}

So Richard, how is KS performing? And what happens or how do you think about in the inflationary environment in terms of how you take price versus like items on the national brand side? And does KS do better in an inflationary environment?

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

Look, many of our KS items are such large volumes, it's not unlike dealing with the comparable large volumes we do in a branded CPG item. And so we're out there fighting with both of them to try to mitigate those cost increases. KS still grows at a little faster rate than others, but nothing discernible. I think we keep finding new items to do KS with, and for a variety of different reasons, and so it continues to drive that brand. But no, I don't think there's a -- we don't see a big difference of how that's changing.

Q - John Heinbockel {BIO 1508150 <GO>}

Got it. Secondly, 70% on Costco Logistics -- is 70% of your needs, they are -- what capacity in logistics? Is it still 50% or has it crept about that?

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

It's in the 50 range, and maybe it's slightly higher than that based on our -- when we originally bought what's now Costco Logistics a year and a half ago. We moved over a bunch of volume, we've grown it as well, grown our total base of need. And I think we're a slightly above the 50% that we felt we had capacity for at the time, and certainly have plenty capacity over the next few years. Mind you, we're spending money on it, part of our

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fulfillment and logistics as -- and I think, I mentioned on the last quarterly call, within CapEx, we expended $340 or so million on a multi acre million, 1.6 million square foot distribution facility in Southern California.

That's for a variety of needs. Some of the -- much of what we bought and the Innovel acquisition in March or April of 2020, more than 10 million square feet of space around the country, much of its leased, much of it is fined by the way, but we're -- not all of it was geographically, particularly the big sites, the million-square-foot sites, we're in areas where we're stronger relative to where Sears is stronger or they had most of their business at the time. So, we're still spending money on it and upgrading it. And but we're -- again from a merchandising standpoint, we're very excited about it and it's helped us grow that business in a big way. And given our small market share of many of those items, particularly on the appliance side, we feel there is a lot of growth potential for us.

Q - John Heinbockel {BIO 1508150 <GO>}

Okay. Thank you.

Operator

For the next question, we have Karen Short from Barclays. Karen, your lines open.

Q - Karen Short {BIO 7215781 <GO>}

Hey, thanks very much. I wanted to just talk about ticket a little bit. So, U.S. ticket at 3.5%. Can you kind of parse that out on -- it's per transaction versus AAP, but also tie that into the inflation numbers that you called out for the quarter and/or your expectations on inflation.

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

Honestly, I can't. I don't have that detail or thought in front of me. Generally speaking, you've got electronics that like TVs and what have you that are going down in price, maybe a little less this year, because there's less promotions because of shortages. I mean every budget meeting every four weeks were presented, examples of items where we're taking down the price of high-volume key items by changing the packaging, by moving some aspect of manufacturing to another part of the world. And so I don't have the detail, Karen, in front of me for that. Sorry.

Q - Karen Short {BIO 7215781 <GO>}

Okay. And then I wanted to -- I don't think this has been asked for a while, but can you give an update maybe on what the average ticket is for executive members versus Gold? And then I know you gave the -- obviously, you've given the percent of sales, but frequency of Executive versus Gold, how maybe that's changed over the last almost two years of the pandemic?

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

I will -- somebody's just running out of the room to see if they can grab that sheet, and I'll answer it as soon as they get back. If you want to ask another question or move on to the

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next one, and then -- but I'll intervene when he gets back.

Q - Karen Short {BIO 7215781 <GO>}

Well, my standard question would be just on your cash balance in terms of stats on the special dividend?

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

Well, as soon as we know, you'll know or the day after. The -- look, our cash position is strong. One of the things I pointed out is our CapEx is also increasing in a conscious way. Notwithstanding that, our cash flow from operations is growing at quite a stronger rate as well. And it's something that we've done 4x in eight years. We and the shareholders seem to like it when we do it. And so I'm not trying to be cute, but we haven't made that decision at this juncture. It's probably a when not if, but when will be when we do it.

Q - Karen Short {BIO 7215781 <GO>}

And then maybe just while you're waiting for that numbers on the Executive, can you just maybe give us some color on what percent of freight is actually spot versus contract? I don't know if you've ever given that number.

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

I don't have the exact number, but I'm willing to bet, it's 80% plus. I could be wrong a little bit, but contracted. Now recognizing with contracts, we might do one, two and three-year contract, so we're still benefiting on three-year stuff and benefiting a little on two-year stuff, and have now gone beyond the benefit of the one-year stuff. And so it's over two or three-year period. But our assumption is it'll take less than that time to start to normalize somewhat.

Q - Karen Short {BIO 7215781 <GO>}

Okay, great.

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

Is it happy today than it was? Yes. But -- yes, but it's -- I think we -- again, we probably with other large users of freight and containers have probably done a pretty good job of at least staggering that not having to do a lot of spot stuff so far.

Q - Karen Short {BIO 7215781 <GO>}

Great. Yes. I mean if you got those numbers on Executive and Golden ticket and frequency, that'd be great. Thank you.

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

Okay. What they came back with right now is we don't have -- I don't have quickly average ticket changes, but the total spend per Executive member compared to Gold Star remember is almost 3x.

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Q - Karen Short {BIO 7215781 <GO>}

Okay. Thank you.

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

Call it 2.5x to 3x. Thank you.

Q - Karen Short {BIO 7215781 <GO>}

Okay. Thanks so much.

Operator

For our next question, we have Greg Maddux from Evercore ISI. Greg your lines open.

Q - Greg Maddux {BIO 1706757 <GO>}

Hi thanks. I have two questions, Richard. One is digging a little bit into the margin or the gross margins. You said gas and travel have helped, but then offset by e-commerce. Can you sort of explain where -- so the gas penny profit was up even at the mixer? Is that --

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

Margin percent was down, but you've got a 40%, 50% increase in price per gallon.

Q - Greg Maddux {BIO 1706757 <GO>}

Got it.

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

So you still might have more pennies per gallon, but the margin itself was down.

Q - Greg Maddux {BIO 1706757 <GO>}

Got it. And then, that was offset by e-commerce.

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

Well, e-commerce -- yes, and again, I wouldn't read a lot into any of that description. We're just trying to share with everyone directionally what helps and it hurts it a little bit. E-commerce, just give all the activity of that and the expenditures on fulfillment and expansion and doing what we can over time when we're pulling tickets, if we -- if something else happened, I don't view it as a big issue from a -- it's not whatever -- whether the margin is up a little or down a little, it's less about competition and more about what's the product mix that month of the week, and what else is going on with this rapid expansion and investment in it.

Q - Greg Maddux {BIO 1706757 <GO>}

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Got it. And then maybe, to tie back your discussion on the logistics, big and bulky, if we look at -- if e-commerce is roughly 8% of sales, is big and bulky a quarter of that, is that the kind of scale we're talking about?

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

It's over a third.

Q - Greg Maddux {BIO 1706757 <GO>}

It's over a third, great. And then last but not least, the renewal rates continuing to tick up, I guess, impressive -- how do we -- shouldn't that come off at some point just given that you have more first year members?

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

When we get to 100. Well, just kidding. Look, I think as I mentioned in the -- earlier in this -- and when I was speaking, probably the single biggest thing that's helping it right now is auto-renewal. As we get more people on a credit card, both in the two big co-branded and in U.S. and Canada, that's a no-brainer to help a little bit. As we convert people to executive member and as we -- for every hundred new people signing up slightly higher number of them sign up as executive members, they are more likely to reduce. So, those things help as well.

The thing I mentioned about new warehouses and markets around the world tend to be -- while they have a very -- a much lower renewal rate in their first year of renewal or year two, then that'll continue to grow as more people have renewed the prior year. Those are starting it. And generally, those are starting at higher rates than they were. So, all those things help a little bit. I'd like to think it's all the wonderful things we do and the value proposition and -- but certainly, auto-renewal is probably a good help there.

Q - Greg Maddux {BIO 1706757 <GO>}

Got it. And then last -- because someone has to ask it, just fee increase, I guess back half of next year is when will be five years since the last one. What are the thoughts on that just given that the members seem to be self-selecting a fee hike already through the executive membership? Does that change your thought process as to when you might hike the fee?

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

No. And our only thought is, is we're probably started getting questions about now. And so when -- it's still a while away and -- but we certainly feel good. And as I've said in the past, renewal rate, strong renewal rates and loyalty, help that process -- in that thought process. And we'll see -- but it's -- there's still a little bit of time to think about it.

Q - Greg Maddux {BIO 1706757 <GO>}

Very well. Have a great holiday season, everyone.

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

Thank you.

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Operator

For our next question, we have Rupesh Parikh from Oppenheimer. Rupesh, your line lines open.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Good evening. Thanks for taking my question. So, I wanted to touch on Canada and other internationals. So, we saw a strong and accelerating two-year content [ph] for both Canada and other international. Is there any more color you can provide in terms of maybe, what you're seeing in those geographies?

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

I'm getting a little help here. It's more -- it's probably most, I agree, it's probably most about how COVID impacted different countries differently timing-wise. I remember a year ago, a year and a half ago, some of the foreign countries did better while we were being locked down. And then a little later, they got locked down. And so part of it is one of the reasons I think everybody's picked up on the two-year stack concept. But I think that's as much as anything that that's the reason.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Okay, great. And then as you look at your ancillary businesses, is there a way you can find and update in terms of how they're trending now versus pre-pandemic?

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

I don't have that detail with me, but generally speaking, tires are picked up as an example as an ancillary business. But Costco auto program is down, because there's a shortage of cars out there. Travel is up, not where it was pre -- it was almost back to where it was pre-COVID and then Delta variant hit. And then it was coming back again, and then Omicron hit. And so it fluctuates pretty quickly. Omicron. And I'm trying to think of the other things.

Food courts have come back. I don't think they're quite where they were, but they're almost there. Hearing aids have come back, but still I think slightly below pre-pandemic. Optical is doing great, pharmacy is doing great helped frankly by the shots. We like other retail pharmacies are providing plenty of vaccines.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Okay, great. Thank you for all the color.

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

Okay.

Operator

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For our next question, we have Stephanie Wissink from Jefferies. Stephanie, your line is open.

Q - Blake Anderson {BIO 21621956 <GO>}

Hi. Good afternoon. This is Blake on for Steph. First question would be higher level. You guys are a big proponent of the in-store shopping experience and seems like store sales have been fairly strong as of late for retailers. So, wondering, how of your -- how's your in-store shopping compared versus e-comm, versus your expectations recently? And then maybe, if you can share any e-comm pilots you might have that you've been working on? I know you mentioned you did a pickup test, but you discontinued that. Anything maybe, in the works that you can share.

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

Well, both in store and online have picked up. The pickup from things like Instacart for same-day fresh skyrocketed during the lockdowns in mid to Summer -- mid to late summer 2020. Came down from those peaks, but it's still way above where it was pre-COVID. E-commerce is, as you know, because we talk about it every quarter, is 8% or 9% of our sales, company did a $192 billion in sales for the year ended this last August. So that's a lot bigger than it was. Two years ago, it's -- well, I think last three or four quarters, the two-year stack is 100 plus percent.

But notwithstanding that, and part of that is the big and bumpy that has helped that number which we really weren't driving that kind of business in-store anyway. The fact that I think that as we've heard occasionally that notwithstanding some people don't like our mask requirements when we first we put them in -- back in back in May of 2020, I think overall people felt if I've got to go out, I'm going to go out to one place and bulk up on stuff and -- with taller ceilings and wider aisles and all those things. I got to believe that psychologically that's helped a little bit.

At the end of the day, we were all surprised by -- going back to March of 2020, we were surprised by the strength in non-foods categories summer and fall of 2020 much less now -- much the same now. And it was because people weren't traveling and they weren't going to games and concerts, but they were buying things for their home, and we certainly had, on top of all the food items, all the other things they could buy for their home. So that was a pleasant surprise to us and that's continued.

And in terms of other tests, not a whole lot, I mean we did have that small test in New Mexico with buy online and pick up in store. We're -- as I mentioned on the call have over -- a year from now, have over 200 of our U.S. warehouses with lockers. In terms of buying online and pick up in store, we're not quite sure about that. We have very busy locations, there's not a lot of room for it, and it doesn't seem to be a lot of people clamoring, in fact, half -- over half of the people that come in and do that on a few things that we buy online and the lockers, they come in and shop while they're there. And so -- and that's what we want. So, beyond that, I don't think -- I think some of the things we're doing that I mentioned briefly about mobile and digital, some of these things everybody else have, we are sometimes late to the game on some of these things. But those are -- should be all net additive to what we do.

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Q - Blake Anderson {BIO 21621956 <GO>}

That's super helpful. I was also wondering on your inventory positioning. How much are you getting ahead of any seasonal items or any challenges you may foresee for Q2 and Q3 for the spring and summer?

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

I don't know exactly. I know that consciously (inaudible) when they presented the budget, it means they're talking about those issues. We are bringing in things early. We certainly have -- you think about it our -- what we call our depot, our view of distribution system in the U.S. was something like 10 million square feet and we essentially slightly more than doubled that with the Innovel acquisition aside from other things that helps us with a little storage if we needed or bringing in things early.

And recognizing, we start with -- we are somewhat seasonal, but historically, we've always brought things in early anyway. So, we've -- whatever it may be, we certainly have the cash as somebody mentioned earlier to have some extra billion dollars invested in inventory even if it hangs around for a little bit. But I think overall, some of our items are still a little later than they would be pre-COVID, but better than they would be if we were not doing as good a job as I think we are doing on forward buying.

Q - Blake Anderson {BIO 21621956 <GO>}

Perfect. If I could sneak one last one in. I might have missed it, but I think you said for the net new openings this year, you said 19. I thought the last quarter you're aiming more towards 25. Is there anything to call out there?

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

What I said is 19 more in the last three quarters of the fiscal year, the fiscal year, plus the 8 in Q1.

Q - Blake Anderson {BIO 21621956 <GO>}

Perfect. Thank you very much.

Operator

For our next question, we have Paul Lejuez from Citi. Paul, your line is open.

Q - Brandon Cheatham

Hey, everyone. This is Brandon Cheatham on for Paul. I was wondering if we could talk about the increase in CapEx. I think, last we spoke, we still have -- the CapEx would have a three in front of it. That sounds like it's -- it has a four in front of it. I'm just wondering, was there a change in the strategy there, and specifically on the e-comm investments, do you feel like you're playing some catch up there or laying the groundwork for growth? Just anything that you can share with that?

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

Sure, I think -- previously as it relates to this year, we talked about 3.8 to 4.2 quote unquote. Now we're saying about 4. These numbers are up from the mid-3s over the last couple of year, low to mid-3s over the last couple years. In fact, last year's 3.6 included a $340 or $345 million asset purchase I mentioned earlier in the southwest, in Southern California, which is basically 1.5 million plus square foot facility with lots of acreage, to help with our fulfillment as well as our import stuff.

And so I think there's -- what are the big things taking it from the low 3s to the low 4s over a few years period? It's more international expansions which tends to be a little more expensive per location, more expansion in fiscal 20, we were down to 13 net new units, because of some delays with COVID. I think we were 20 and 21, and we're going to be 27 net new units this fiscal year plus 5 re-lows which is -- 6 re-lows planned. We might miss that a little bit, but at the end of the day, so there's more warehouses. Clearly, more in the whole fulfillment concept, starting with the $1 billion acquisition a year ago of what's now Costco Logistics, starting with adding additional square footage to that, as well as the international things.

And even on the distribution side or what we call our crosstalk depos, spending money overseas now and some of these countries to do some of that in a better way. Actually building a mini depot in Hawaii, where we have five locations -- or seven, I'm sorry, seven locations, but huge volume locations. And with the -- so we've got into the volume and efficiency there that these are good investments. So, it's a lot of those things. Mind you, we still spend all in close to $1 billion a year in IT.

Q - Brandon Cheatham

Got it. And that's how we should kind of think about it going forward long term?

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

That's -- by the way, that's not all CapEx. That's expenses as well. Go ahead, I'm sorry.

Q - Brandon Cheatham

And the kind of $4 billion range is what we should think about FX for the long term?

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

I don't know, for the long term, I think for sounds about right for the next year or two. And if things continue to grow well -- go well and grow well, maybe, it goes up from there a little bit. But we're not looking to spend it if we don't think we have good things to spend it on just because our cash flow has been exceeding net income plus -- cash flow has been exceeding regular dividend, plus capital expenditures and alike.

Q - Brandon Cheatham

Got it. And you also mentioned that you're able to change all products when you're faced with shortages. I was wondering if you could quantify that versus kind of a normal quarter?

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And if you are switching out more than usual, what impact does that have on consumer behavior there and anything on the logistics side as well?

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

I think, it's -- I don't have the exact number, but my guess is it's a small low to mid single-digit percentage. What it means though is, is when back -- going back all the way back to Spring of 2020, and there were -- people were hoarding goods. We were going out to additional suppliers to see what we can get recognizing, from their perspective, it creates a new relationships which we'll honor going forward, not just for the three months that we heated it then.

And so I think there are opportunities to just expand product brands by necessity into some things, and with I think the -- moving into last summer and fall where that advent of all the things for the home, both Patio furniture, and lawn, garden and barbecue grills and indoor furniture and electronics and gadgets for the kitchen, we took advantage of that and brought in additional items. And so it's more of that than anything, and the treasure hunt. Yes. So, it's still a small piece, but I think it's -- when I -- sometimes, when I go into some retailers, I've not going any names, but you'll see a shelf half empty or some spaces. First of all, why don't you put something there? And but at the end of the day, I think our buyers have done a very good job of keeping the warehouses full.

Q - Brandon Cheatham

Great. Thanks and good luck for holiday.

Operator

For our next question, we have Edward Kelly from Wells Fargo. Edward, your line is open.

Q - Edward Kelly {BIO 5710674 <GO>}

Hi, good afternoon, guys. Happy holidays. Richard, I wanted to ask you gross margin (Technical Difficulty) all things considered. Any additional thoughts that you can share current quarter (Technical Difficulty) any reason we should expect some incremental pressure somewhat similar?

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

You were breaking up entirely during that call. So, I heard about every other word, if you want to repeat yourself.

Q - Edward Kelly {BIO 5710674 <GO>}

Yes, sorry. So, I wanted to ask you about the gross margin, as you said pretty good all things considered, any additional thoughts you can share on the current quarter, comparisons in the core look similar, I think. Just wondering if there's any reason we should expect any incremental pressure?

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

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From a competitive standpoint, I mean, there's lots of -- everybody is competitive. Again, I think structurally our model allows us to benefit from that. We talked about more pennies per gallon of profit that allows us to do some other things. I think we've got a -- I think we have a lot of levers to pull here, and we feel pretty good that we are able to hold the prices on key items. And to -- I don't really think that we considered the challenge of achieving a margin. We're pretty good at figuring out how to get there while still being the company we are in terms of competitiveness. So, no big changes of what we see out there. It just --

Q - Edward Kelly {BIO 5710674 <GO>}

Okay.

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

Just there's a lot of changes every month and some things go up and some things go down, but overall, we feel pretty good about it.

Q - Edward Kelly {BIO 5710674 <GO>}

All right. And then just one for you, a little more big picture just around customer data. I was hoping maybe, you could just provide an update on things like personalization, and then media is something that we hear a lot of people talk about. Maybe, just any thoughts on what you're doing with that opportunity as well?

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

I think there's still a low-hanging hanging fruit on the tree here. We've talked about it a little bit. We've done a little bit more targeting than we have ever done, but very little. There is more to come. It was just a year and a half ago that we hired someone at a relatively senior level in terms of data analytics. But that's not the only thing they're working on and they're -- the group that -- this put together. But so I think those are things that will come over time in the next few years. That's pretty much what I can tell you about that.

Q - Edward Kelly {BIO 5710674 <GO>}

Okay, thank you.

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

Okay, I'm going to take two more questions, Sadie.

Operator

Will do sir. And for the next question, we have Laura Champine from Loop Capital. Laura, your line is open.

Q - Laura Champine {BIO 4748805 <GO>}

Thanks, Richard. Mine will be quick, it's a follow-on. I mean you had mentioned that renewal rates are still headed higher in part because of because of -- likely because of the

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auto renew. What percentage of your membership is on auto renew at this point?

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

It's about 50 in the U.S. and Canada, which would imply -- and that's really where we have it -- where we have the co-brand cards. And U.S. and Canada is about 80% of our company, so that 50 becomes a 40, if you -- rough numbers.

Q - Laura Champine {BIO 4748805 <GO>}

Got it.

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

Oh, sorry. You can do it on any card, not just co-brand. But in the U.S. and Canada, it's about 50.

Q - Laura Champine {BIO 4748805 <GO>}

Understood. Thank you so much.

Operator

For our last question, we have Kelly Bania from BMO Capital. Kelly, your line is open.

Q - Kelly Bania {BIO 16685675 <GO>}

Oh. Thanks for squeezing me in here. Just wanted to talk Richard about the -- just the inflationary environment. And you've talked a little bit in the past couple of quarters about how your price gaps have widened. Do you think this kind of magnitude of inflation is just good for Costco's business? I mean, have you seen anything like this in the past where it could possibly just drive even more volume into your doors?

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

I mean, from an argument that these are more costly on the one hand, maybe, it reduces demand overall. And I sense that we're -- the extreme value proposition that helps us. So, who the heck knows? I think, I was reading this morning in the paper was this is the highest inflation in so many years. And it wasn't that long ago though, 10 plus years ago that regular inflation was 2% or 3% a year, and of it's going to be a little more -- for a year. But at the end of the day, I think it helps us a little because of the value proposition that we have.

Q - Kelly Bania {BIO 16685675 <GO>}

That makes sense. And a lot has been asked here, but just wanted to also just check on self-checkout and where you are with that. And if there's any color you can help us understand on the savings or the impact on the cost structure when you put in some self-checkout and the potential for that initiative going forward.

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

FINAL

We pretty much have it now in most locations, and speaking of the U.S. and Canada. And I know even across the street in many locations, we've expanded it from originally two lanes of three or six to three lanes of three or even four lanes of three. So, in a four-lane area, you could have 12 people checking out. And so my guess is, it's still going to grow a little as we expand existing units to offer a little bit more of it. And it's been a positive.

Q - Kelly Bania {BIO 16685675 <GO>}

Okay. Thank you.

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

Well, thank you everyone. and have a good holiday season. And we're around to answer additional questions. Have a good day.

Operator

And ladies and gentlemen, this concludes today's conference calls. Thank you all for participating. You may now disconnect.

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