

Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Christopher Horvers, Analyst
- Christopher Mandeville, Analyst
- Chuck Grom, Analyst
- Greg Melich, Analyst
- John Heinbockel, Analyst
- Karen Short, Analyst
- Kate McShane, Analyst
- Kelly Bania, Analyst
- Michael Kessler, Analyst
- Michael Lasser, Analyst
- Oliver Chen, Analyst
- Scot Ciccarelli, Analyst
- Scott Mushkin, Analyst
- Spencer Christian Hanus, Analyst

Presentation

Operator

Ladies and gentlemen, 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) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Mr. Richard Galanti, CFO. Please go ahead, sir.

Richard A. Galanti {BIO 1423613 <GO>}

Thank you, Laurie, 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/or performance to differ materially from those indicated by such statements.

The risks and uncertainties include but are not limited to those outlined in today's call, as well as other risks identified from time-to-time in the company's public statements and reports filed with the SEC. Forward-looking statements speak only as of the date they are made and the company does not undertake to update these statements except as required by law.

In today's press release, we reported operating results for the first quarter of fiscal 2020, the 12 weeks ended November 24th. Reported net income for the quarter came in at \$844 million or \$1.90 per share, compared to \$767 million or \$1.73 a share last year in the first quarter. This year's first quarter results included a \$77 million or \$0.17 per share income tax benefit related to stock-based compensation. Last year's first quarter results included a \$59 million or \$0.13 per share income tax benefit related to stock-based compensation.

Net sales for the quarter came in at \$36.24 billion, a 5.6% increase over the \$34.31 billion sold during first quarter of last year. Comparable sales for the first quarter of fiscal 2020 in the US on a reported basis was 4.7%, ex-gas deflation it was 5.0%; Canada reported a 2.9%, ex-gas deflation and FX plus 5.1%; other International reported 3.2%, ex-gas deflation and FX plus point -- 4.5%. So total company was a 4.3% reported and ex-gas deflation and FX of 5.0%. E-commerce, on a reported basis was a 5.5% and a 5.7% on a reported basis.

Total comparable sale -- total and comparable company sales for the quarter were negatively impacted by approximately 0.5% due to Thanksgiving occurring a week later this year. E-commerce sales in the quarter were negatively impacted by an estimated 12 percentage points. So again, the 5.5% and the 5.7% were impacted to the negative by 12 percentage points.

In terms of Q1 comp sales metrics, first quarter traffic or shopping frequency increased 3.4% worldwide and 3.1% in the US. This again includes the impact of the Thanksgiving holiday shift. Weakening foreign currencies relative to the US dollar negatively impacted sales by approximately 30 basis points and gasoline price deflation negatively impacted sales by approximately 40 basis points. Our average transaction or ticket was up nine-tenths of 1% during the quarter, including the negative impacts of gas deflation, FX and the holiday shift.

Next on the income statement, membership fee income. Reported membership fee income came in at \$804 million, up 6.1% or \$46 million from last year's \$758 million. Deflation -- foreign -- FX currencies would have impacted that by \$1 million to the negative, so it would have been about \$1 million higher ex-FX.

In terms of renewal rates, at Q1 end, our US and Canada renewal rates was -- came in at 90.9% and worldwide rate was 88.4%. Both of these figures remaining at the same renewal rate levels that were achieved at the 12 weeks ago at the fiscal year-end.

In terms of number of members at Q1 end, member households and total cardholders at Q4 end back, I think, on September 1st, we had 53.9 million member households at Q1 and 12 weeks later was 54.7 million and total cardholders increased from fiscal year end of 98.5 million to 99.9 million at Q1 end.

During the quarter, we had three new openings, all in the US, Business Center in Dallas, Texas and two additional Costco warehouses in Connecticut and Minnesota. We also relocated one of our units in Canada.

At Q1 end, paid Executive Memberships were totaled at 21.4 million, an increase of 579,000 or 48,000 per week since Q4 end. This included the recent launch of offering Executive Membership to our (Technical Difficulty) the first time as of the beginning of the fiscal year, even taking those out, the average weekly increase would have been ex the new Japan unit -- executive members would have been 41,000 a week.

Going down to gross margin line. To the gross margin line, our reported gross margin in the fourth quarter was higher year-over-year by 30 basis points coming in at 11.05%, as compared to a year ago 10.75%, and on a -- again on a reported basis 30% ex-gas deflation would have been plus 26%.

Doing a little chart that we do each quarter, two columns reported ex-gas deflation, first line item would be core merchandise year-over-year in Q1 of '20 compared to a year earlier quarter minus 3 basis points on a reported basis and minus 6 on a ex-gas deflation basis; ancillary businesses plus 20% and plus 19%, no change to the 2% reward and other was plus 13% and plus 13%. So a total of plus 30 basis points on a reported basis and plus 26% ex-deflation.

Now the core merchandise component of gross margin again lowered by three year-over-year reported minus 6 ex-gas deflation. Looking at the core merchandise categories in relation to their own sales core-on-core, if you will, margins year-over-year were higher by 4 basis points. Subcategories within the core margins year-over-year in Q1 showed increases in hardlines, softlines and food and sundries, and a decrease in fresh foods, nearly all of that decrease in fresh foods was the result of the initial operating losses from our new poultry complex. That will be a small headwind throughout the year. Recall that we commenced operations at the Nebraska chicken plant on September 10th, with a -- roughly a 45-week plan to get to full production and processing capacity. We're currently on track to do so.

Ancillary and other business gross margin higher by 20% reported and 19% ex-gas deflation. The highlights being -- year-over-year being gas, optical, tire shop and hearing aids. The other -- the plus 13% compared to a year ago. This relates to what we mentioned last year in the quarter. To adjusting our estimate of breakage on rewards for the Citi Visa co-branded card program last year and that was again a comparison of the hit last year versus zero this year.

Moving to SG&A. Our reported SG&A percentage in Q1 over Q1 year-over-year was higher by 17 basis points coming in at 10.30%, up from 10.13% last year. Ex-gas deflation

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SG&A was higher or worse by 13 basis points. Again a little metrics that we do both reported and without gas deflation, operations minus 9 basis points, meaning, higher by 9 basis points versus minus 5 basis points in ex-deflation; central minus 4 and minus 4; stock compensation minus 4 and minus 4, for a total again at minus 17 and minus 13.

The figure -- these figures include -- in terms of the core being minus 5 on a ex-gas deflation basis. This figure includes the impact from the wage increases that we've talked about in the last couple of quarters that occurred -- this impact relates to the wage increases that occurred in March of 2019, which hit the year-over-year comparison by 3 basis points to 4 basis points in the quarter. As mentioned previously, we would expect a similar impact that will occur in Q2 before we anniversary that wage increase midway through Q3.

Central was higher again by 4 basis points year-over-year, IT was the biggest driver of the increase as we continued not only to maintain and upgrade but expand our capabilities and activities, and certainly, we have a lot going on there. And stock comp again minus 4 basis points a hit there, that hit usually is in Q1 year-over-year based on the fact that we grant our issues in that quarter and how we do things for employees 25 years, 30 years and 35 years out.

On the income statement. Next one, it is the pre-opening expense, it's lower by \$8 million. It came in at \$14 million this year in the first quarter versus \$22 million. This year in the quarter, we had four total openings, three plus the relocation, last year, we had eight total openings, six plus two relocations.

All told, operating income in Q1 increased by 11.8% coming in at \$1.61 billion this year, compared to \$949 million last year. Below the operating income line, interest expense was \$2 million higher year-over-year, \$38 million this year in Q1, compared to \$36 million last year. Interest income and other for the quarter was higher or better by \$13 million. Interest income was actually higher by \$11 million and others a plus \$2 million variance was primarily favorable FX year-over-year. Overall, pre-tax income in the first quarter of 2020 was up 13%, coming in at \$1.58 billion compared to last year's \$935 million.

In terms of income taxes, our reported tax rate in Q1 2020 was 19.1%, compared to 16.9% in Q1 of last year. Both of these first quarter tax rates this year and last year benefited from the tax treatment of stock-based compensation, as mentioned earlier. Last year's rate also benefited from an additional discrete items, which we had mentioned in the quarter last year.

A few other items of note, in terms of warehouse expansion, we expect to open net new units of somewhere around 20 plus or minus, with a lot of it planned to open -- new openings, much of it back-loaded towards the end of the fiscal year. As of Q1 end, we had total warehouse square footage of 114 million square feet.

Regarding capital expenditures, in Q1, our total spend was approximately \$700 million and our estimate of CapEx for all of fiscal '20 remains right around the \$3 billion amount.

In terms of e-commerce, our overall e-commerce sales on a reported basis in the quarter was a 5.5%, as I mentioned earlier, and again, ex-FX of 5.7%. Again, those numbers you could add 12 -- roughly 12 percentage points to each of those to account for our estimate of the impact of the holiday shift. A few of the stronger departments, home furnishings, domestics, tires and pharmacy, majors electronics were not among those departments as we feel it was -- we believe it was the month most impacted by the holiday shift.

Total online grocery continues to grow at a faster rate than the core e-commerce comps, although again it's a still relatively small piece of the business. New online during the quarter expanded tickets offerings including airline gift cards, Lyft and Uber cards and Super Bowl packages. We also during the quarter launched as a test in a few locations, same day prescription Rx delivery with Instacart and we launched in the quarter same-day alcohol delivery also through Instacart in California, such that as of today it's being offered in 12 states.

And lastly, this week -- earlier this week, we launched our Japan e-commerce site with our Australia site planned to open in the first half of 2020 -- calendar 2020. In terms of tariffs, there continues to be a lot of moving parts and changes up to and including an hour ago. Currently, there -- again there are 3.5 lists, if you will, Lists 1, 2, 3 and 4A, totaling about \$360 billion worth of imports. There were possibilities that there would be 4B list would go into place December 15th, although the current news out today is that China and the US are close to a deal on the -- on finalizing a Phase 1 part of the trade deal and so we'll have to wait and see.

In terms of EU, currently, again there's \$7.5 billion of US imports that are subject to a current 25% tariff, mostly food items like olive oil, cheese, wine, whiskey, butter, cookies, et cetera. Again, last week -- this last Monday, the White House announced that a proposed 100% tariff -- increase to 100% tariff on \$24 billion in imports, which would include those among other items. We'll just have to wait and see where that is, I believe comments aren't even anticipated to be complete until early to mid-January.

That's pretty much it on our part. Lastly, in terms of upcoming releases, we will announce our December sales results for the five-weeks ending Sunday, January 5th, on Wednesday, January 8th after market close.

And with that, I'll open it up to Q&A and turn it back to Laurie. Thank you.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Christopher Horvers from JPMorgan. Please ask your question.

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks. Good evening. So I just want to step back and get your thoughts in terms of how you plan the holiday season this year, given that there are six fewer days, it seems like a lot of retailers are expecting a big surge at the end, bigger than normal into Christmas, given the shortened season. Is that something -- I'm not asking about December, just how you planned it, is it something you saw in 2013? Is it something you're planning for in 2019 and maybe any comment through what you've reported so far?

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

Well, I think, we planned it and with some historical knowledge of what's happened in the past when you've got the shortest period of time between Thanksgiving and Christmas. And we plan, assuming that we're going to continue to have the types of levels of comps that we have in general recognizing sometimes there's a switch between months, as example, being the switching -- Thanksgiving being in November versus -- Q1 rather versus Q2 for us in our example. But so, yes, we do expect to ramp up on a per day basis, we'll have to wait and see where it goes. But --

Q - Christopher Horvers {BIO 7499419 <GO>}

Understood.

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

-- we went into the planning, I think, with the confidence that we've had good shopping frequency increases and good renewal rates and pretty good comps.

Q - Christopher Horvers {BIO 7499419 <GO>}

Understood. And then on the pricing environment, it seems like Sam's has been taking some bigger hits to the gross margin line and it seems to be benefiting comps. So are you seeing a step-up in terms of in that core club channel? Are you seeing a step-up in price investment from your peers?

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

In a word, no.

Q - Christopher Horvers {BIO 7499419 <GO>}

Got it. Fair enough. And then my last question is, in 2Q you're going to lap, I think, a pretty big benefit on -- in the ancillary line last year, I think, it was up 33 basis points, big part of that being gas, so you're going to have gas prices -- do we have to give that all back. I mean gas prices look like they will be up year-over-year at this point, but still going to be down a bit sequentially and I know there is an interplay between those two dynamics. So any thoughts and you could give us around lapping that 33 basis points given those dynamics would be super helpful?

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

Well, I think, profitably for gas for us and as we've read from other retailers, big retailers that have gas stations as part of their retail concept. It's the -- the new normal over the last

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few years is, it's been a more profitable business. We, I think, benefit from the fact that we've seen our gallon increases on a comp basis in the very high-single digits compare -- so we know we're taking market share. Despite increased profitability in that business, our savings, in our view, when we can do price shops of competitors gas has never been as strong. So we feel very good about where we are with that.

Now, sequentially, part of the increase, when you look at it on a year-over-year basis, last year's plus 30 or whatever, I don't have it in front of me, but whatever it was had as much to do is what it was the year before. I think when you -- again when you read what others have said and what we've said in the last couple of quarters, it's been pretty good for all of us. So it may be -- you're not going to see that kind of delta on top of the big delta last year, but it's still -- nor are you going to see the big negative from that negative from it coming back to two years ago, but we'll have to wait and see.

The thing we learned about gas profitability is, it could be very fleeting. Right now, it's been good as it was last quarter and as it was over the last couple of years in general, but you never know how to predict it from sometimes week-to-week.

Q - Christopher Horvers {BIO 7499419 <GO>}

Awesome guys. Have a great holiday. Thanks so much.

Operator

Your next question comes from the line of Michael Lasser from UBS. Your line is now open.

Q - Michael Lasser {BIO 7266130 <GO>}

Good evening. Thanks a lot for taking my question. Richard, you touched on this briefly, but how have tariffs impacted Costco's profitability and if some of the tariffs are rolled back, how is Costco going to handle this? Should we be modeling margin benefit over the next couple of quarters from this dynamic?

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

Look, I think, generally, we've said on a qualitative basis that, overall, I think, companies of scale and certainly we are one of those and the fact that we feel that we've had a relatively good mitigation plan, if you will, easier on a 10% tariff than a 25%. I think one thing again on top of this, our scale in general, our ability to move in and out of items, if all of your items are 25% tariff, because you're a furniture retailer or whatever retailer, that's different than a company that has a small percentage of our business in that area.

Like others, we've moved a few things where we can and sourced it out to other countries. I think our total China imports into the US is about just a few percentage points lower than a year ago. So nobody can do a lot of that nor can we. But, generally speaking, I don't think it's hard enough for us to budget into our numbers. What we look at is, is the fact that in some cases where the price has gone up and we've passed on all or some of it. We haven't seen an impact to the unit sales and others we have, and we never know until

what happens which ones are more elastic than others, if you will. But at the end of the day, we think that we've done as good as anybody in terms of being able to mitigate the impact.

And so, again, I think, the fact that our margins are -- our core-on-core margins generally speaking, even in the departments like hardline and softlines have been slightly up year-over-year. And certainly, we haven't done that without first and foremost being the most competitive out there, that makes us feel that it's -- now, we don't want it to continue and we don't want List 4B to come on or anything else to go higher. But I think we've done okay by it.

Q - Michael Lasser {BIO 7266130 <GO>}

So in cases where you have taken price or re-engineered a product to make it cheaper, how do you handle that?

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

Well, first of all, I don't think ever we try to reengineer our product. We're going to try to figure out how to get the price down a little bit with the help of our suppliers, sometimes our own money or whatever else we can or moving a few items to another country. And sometimes eliminating an item and putting something else in its place here.

So I remember, I think, one anecdotal story would be in late calendar '08 when the economic downturn hit hard and what hit hard in our case was a lot of -- as good as our values are on \$1,000 and \$1,500 patio furniture, we had a lot of markdowns to take care to get through that in January, February and March when that stuff hits the floors.

I can remember vividly from June, following that, when we were still in a bad economic downturn and our Head of Merchandising and our CEO, reminding everybody at the budget meeting. I don't want to see us bring down the quality and stuff to hit a price point. I don't want -- we've taken 20 years, 30 years to get our members comfortable with the types of values we can bring particularly on better end goods. And so might we buy a few less units or something? Yes. Might we augment it a little bit with some offerings? Yes. But we try not to.

Q - Michael Lasser {BIO 7266130 <GO>}

That's helpful. My follow-up question is given the well publicized website outage over the holiday weekend, should we read that as Costco need to make a more meaningful investment in its technology infrastructure to keep up with the growing size of that business?

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

Well, first of all, we live it every day here and certainly and we are, it was unfortunate, despite all the efforts to have plenty of capacity -- processing capacity, if you will, there was something that incurred. When we look at the five days between Thanksgiving and Monday -- Cyber Monday, those five days on a year-over-year basis. I mean we still were

up in the very high teens as a percentage on e-commerce. So consistent what we've showed you -- what we have currently been running, what tells us, we could have done better than that. So we did leave something on the table there. And again, we were able to correct it, it took several hours that day, unfortunately, but rest assured, we're spending a lot of money on things like that.

Q - Michael Lasser {BIO 7266130 <GO>}

Understood. Have a great holiday.

Operator

Your next question comes from the line of Chuck Grom from Gordon Haskett. Please ask your question.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey. Good afternoon, Richard. First question on MFI now that we're past the fee increase and FX is normalizing. Just wondering if you see any material reason why the 6% growth you reported in the quarter wouldn't be a good proxy in the coming quarters?

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

Well, who knows as certainly -- one of the reasons why it's growing a little faster than the total sales line, a little of it's -- a couple of recent openings like the China opening that's a little of it. I think more importantly, it's some of the things that we have done a much better job of getting new members to sign up as an executive member, you saw the -- in terms of the number of new member which is a combination of new membership signing up as executive member, as well as conversions to these executive member. We're doing a better job of that as well. And of course, that aside from improving membership fees, they are more loyal members that shop more frequently and renew more at a high -- slightly higher rate.

And so I think a lot of it is some of the things that we're doing getting those that use the growing number of members in the -- I mean using USA example here with the Citi Visa card signing up for that and having auto-renewals, as well as opting into auto renewal on other Visa cards that somebody may choose to use at Costco. And so those are the things that help as well. I'd like to think it's all related to just great value and that's more things that we offer the member which is certainly part of it, too.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. Understood. So just switch over to the balance sheet a little bit, inventory levels were a little bit heavier, I presume that's just the timing of Thanksgiving anyway to normalize for that maybe inventory per club or some other metric. Just to get a sense for what sort of apples-to-apples would look like?

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

Yeah. Well, I think, it's mostly the shift of holiday. Some of it is a buildup with e-commerce and those holidays as well. It was more in the system. We're doing more fulfillment on that side. It's, again, in the few days since then it's come down as we've expected. So I don't think there is a whole lot to read into it.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. Great. And then just last one on the core-on-core up 4, maybe quantify for us the drag that you're going to continue to see that. And then what you saw here in the current quarter from the chicken plant, just to get a sense for how much that was to the quarter?

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

Well, if you think about it, if we opened the chicken plant. The first chicken, if you will, went through on January -- on September 10th, hopefully 45 weeks later, there'll be roughly 2.2 million chickens a week going through there. The first three months, if you will, which is Q1 here, September, October and part of most of November, you were at the lowest end of that, I don't want to straight line that completely, but it's close enough for this discussion going from one chicken to 2.2 million chickens, if you will. There is a lot of operating cost of running the plant. And while we don't have both production lines running yet. We now -- there's just a lot of cost associated with that. It will be a -- It should be a diminishing drag in Q2 and then Q3 and then Q4 and then not be an issue.

Q - Chuck Grom {BIO 3937478 <GO>}

Makes sense. Thanks a lot.

Operator

And we have Chris Mandeville from Jefferies. Please ask your question. Your line is now open.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Hey, Richard. So just a quick question on Central SG&A, similar to Michael. I'm just curious with respect to the IT investment, if we should be assuming that pressure that was realized in the quarter actually progressively gets a little bit more prominent on a go-forward basis. I don't know if that's what you were trying to reference or allude too, with respect to expanding your capabilities and activities or if we should be thinking about something similar on a go-forward basis?

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

If I look over the last several years with that word we've stopped using completely called modernization and now it's some modernization, but other things as well. We talked about in the last -- I talked about in the last several quarters, things like e-comm fulfillment, spending a lot of money on that, a lot of that hits SG&A in terms of all that technology.

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The chicken plant, to some extent, there is -- we've also over the last couple of years done a reset of certain departments within IT based on salary comp -- wage competition in this part of the words up here in the northwest. So I mean there's a lot of things that go into it and we've got a lot going on, whether it's e-comm, continued increases in infrastructure and vertical integration, as well as our depot operations and modernization.

So I don't know, I think, there -- when we first started talking about modernization years ago, it was just that as best we could we estimated originally over a few years, it would be incremental 10 basis points to the company. And then quickly, we felt it could be 13 and ultimately it was 18 or 19 and then, a couple of years what on a quarter-over-quarter basis, some quarters it was 6, in some quarters, it was zero or 2 or zero.

So I think a couple of quarters ago, maybe three quarters I -- it was flat year-over-year that that impact, and I remind to people don't -- that don't read anything into that like which is an inflection point. We have a lot going on about related to modernization stuff, as well as expanding, as well as vertical integration. So my guess is it will still be a negative year-over-year, there's a negative -- when those negatives anniversary a year hence, will we have incremental negative? I can't say. At some point, it's supposed to slow down.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Okay. And then just my follow up would be with respect to the Instacart pilot and delivering Rx to your members. I guess just what exactly you're attempting to accomplish there? Is the structure of delivering pharmacy any different in terms of how you're approaching things from a grocery perspective?

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

Yeah. Well, no, I think, look, it's convenience, like, anything in life out there we're -- as you might expect, we're always asked when are you going to start to do our online and pickup up in store, when are you going to do this, when you're going to have something else, and we kind of do things our own way. We looked at -- we look at all these things, and this is one area that with the Instacart relationship where we have them already coming into our locations, let's give this a shot.

We already have a good and growing mail-order business. We have 500 and whatever 40-ish pharmacies around the country. But this is not another opportunity. Pharmacies are sometimes, somebody does want to come out, if they're not feeling well. And so it was an opportunity given and as density increases that should help, but you've already got these drivers delivering groceries to others, hopefully, we can do this. And it is something to add to the competitive belt here.

Q - Christopher Mandeville {BIO 19724977 <GO>}

Then notable impact to one's kind of Rx margin profile, I guess, I'm just curious about that the economics there?

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

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No. First of all, it's brand new. And it's just a few locations going out to few more shortly. So it will see where it goes.

Q - Christopher Mandeville {BIO 19724977 <GO>}

All right. Thanks.

Operator

Your next question is from Simeon Gutman from Morgan Stanley. Please ask your question.

Q - Michael Kessler {BIO 20335943 <GO>}

Hi, there. This is Michael Kessler on for Simeon. So question on the competitive environment, we've seen Sam's Club undergoing kind of an unexpected round of investments recently, and I guess, is there anything notable that you would feel the need to respond to as far as what they're doing or anything that changes on your end from some of their investments?

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

Not really. I mean, look, our warehouse managers are in their locations, every week. We hear about it and I hear about hear every month by location or by region rather, and look, there are good operator and a good competitor and we feel -- we do a lot of things very well too. And, but there is nothing that I could point out. A year or so ago, we had pointed out that they had gotten a little more aggressive on fresh and some of these things ebb and flow, but at the end of the day, we feel very good about our competitive position.

Q - Michael Kessler {BIO 20335943 <GO>}

Got it. Okay. Great. And just one follow-up on China, the new store that you opened there a little further away from the opening. Is there anything notable that you've learned over the last couple of months? And any changes to your plans as far as the rollout, which I know is a little more on the slower side. But any updates on that front would be great. Thanks.

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

Well, first of all, on the rollout side that we have one other one plan which was planned previously, that's probably about a year and a quarter -- year and a half away. And we'll continue to look to see what we want to do next, but not a lot of change there. There is -- overall, it's the location has exceeded our expectations.

We've brought in additional help from neighboring places to help, but the sales continue to grow, the sign ups continue to do very well there and we'll see. So we've had a great reception. We feel good about from a merchandising standpoint and maintaining a supply chain, very good. And we're getting, I think good reviews over there.

We've also identified a few items one in particular is again just anecdotal, we've done a very good job over there with sea cucumbers, which I still have never tried, but we have found is that particularly on the West Coast in several cities where you got customers that value that as a great item. We have done very well. So just like anything in life, we have found items that makes sense in other parts of our operation throughout the world . It's fun to see out there and it's a high value, high price item at a great value at Costco.

Q - Michael Kessler {BIO 20335943 <GO>}

All right. Very interesting. Thank you.

Operator

And we have a question from the line of Greg Badishkanian from Citi. Your line is now open.

Q - Spencer Christian Hanus {BIO 21658453 <GO>}

Hi. This is actually Spencer Hanus on for Greg. You guys called out some sales headwinds related to website issue, do you think those sales have been lost or do you think they were just pushed out?

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

I think some was pushed out, some went to the warehouse and some was lost. In the scope of things, given our whole company recognizing that e-commerce while growing faster than the rest of in-line is still 5%, little over 5% of our company. So it's not -- I don't want to be cavalier about it. We didn't excite the members that were delayed and but we feel we got -- so we extended the values that hit the 30 plus million emails that we sent out it in the early hours of Thursday. We extended those deals for an extra two days. And so we think we got some of it back and again for that five-day period, we did just fine. Frankly, we feel we did lose something though we could have done better than we had anticipated.

Q - Spencer Christian Hanus {BIO 21658453 <GO>}

Yeah. And then any comment on big ticket sales trends that you're seeing. And then how does the consumer feel heading into the holiday season this year?

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

Yeah. Big ticket items are strong, particularly electronics items, the fact that back in March or April this past year, we were able now to offer a full line of Apple products, including the MAX and the watches and alike. And we've done very well with those and online we've done even better with those. And it's not just the Apple products. It's other big-ticket high-end game computers and game consoles. Big screen TVs are huge, recognizing the price and value of those things for consumers keep coming down, which is great. Those are the things that have done very well for us.

Q - Spencer Christian Hanus {BIO 21658453 <GO>}

Perfect. Thank you.

Operator

Your next question comes from the line of Karen Short from Barclays. Please ask your question.

Q - Karen Short {BIO 20587902 <GO>}

Hey. Thanks very much. Just a couple of questions. I guess, starting with the core-on-core. So you've obviously had pretty meaningful stability I guess on the core-on-core and you alluded to this a couple of quarters ago in terms of your scale and your buying power, but I'm wondering if you could just frame a little bit on how we should think about core-on-core going forward, because it does seem like we're kind of in a new norm of that being stable to up generally?

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

Well, I think, the fact is that, you are right, all the things that we do to drive value or to get better pricing or based on our volume or perfume signature whatever, just when you think it's safe to go out, we're going to use it to drive business, which we've done. We talked in the past about the monies from increasing the membership fee, the monies from the change in credit cards, the income tax reform, recognizing about a little over a third of the income tax reform went to improve hourly wages.

But at the end of the day, those have given us additional monies to continue to drive value. And there are times when we see something a particular department or something where the margin might be very strong year-over-year. That's the first thing we look at, even if we're giving a greater savings to the customer, is it too much. And so, again, we are a for-profit business, we want to grow our top-line first and that'll help the other things, but we don't manage it completely to the basis point. That we'd like to see it --

Q - Karen Short {BIO 20587902 <GO>}

Okay.

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

-- year-over-year even or go up a little bit, but we have avenues to do that.

Q - Karen Short {BIO 20587902 <GO>}

Okay. And then on tariffs just specifically to the tariffs for this Sunday if they were or not to go into effect, so I am just -- can you just clarify, I mean the rest of the lists like 1 through 4A, I guess, obviously, it's kind of already embedded. But is there anything to think about it in terms of 4B does not go into effect with respect to your positioning or the model or anything?

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

We don't know, I mean, to the extent that we bought in advance certain merchandise to the extent we could, anticipating that that was going to go into place and so let's get it in before the tariff, we did. But -- what?

A - Unidentified Speaker

It wouldn't change anything [ph].

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

It wouldn't change it -- so, as you're saying, it wouldn't change things immediately there. So if any -- I mean, if anything, we've had a little extra inventory in advance of it.

Q - Karen Short {BIO 20587902 <GO>}

Okay. And then last few from me is just housekeeping on inflation and food and also in non-food. And then, thoughts on cash on the balance sheet as it continues to build? Thanks.

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

Inflation is almost a non-issue. It's not either inflation or deflation, generally speaking. I mean, gas, we mentioned is slightly deflationary year-over-year. Tariffs is slightly inflationary of course on those limited items. Yeah, proteins are up a little. My understanding that has to do partly with China and with Swine Flu, as well as more demand for beef. Other than that, not a lot to talk about there. What was the other part of the question?

Q - Karen Short {BIO 20587902 <GO>}

It's cash on the balance sheet building?

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

Yes. Yeah. Well, we have two debt repayments coming due this week or next Monday.

A - Unidentified Speaker

Next week.

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

Next week and in February -- mid February totaling \$1.7 billion from prior debt offerings. Beyond that, of course, cash at the end of Q1 generally is the highest level, because you've started to sell more, but you haven't paying for everything yet for relative to seasonal stuff or Thanksgiving and Christmas. So there -- like our AP ratio was always the strongest then on a quarterly basis. Beyond that stay tuned.

Q - Karen Short {BIO 20587902 <GO>}

Okay. Great. Thanks. Have a great holiday.

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

Thank you.

Operator

And we have a question from John Heinbockel from Guggenheim Securities. Your line is now open.

Q - John Heinbockel {BIO 1508150 <GO>}

So, Richard, where do you stand now with self-checkout. I know you've been expanding that. How many clubs is that in, what are your learnings right in terms of consumer -- member satisfaction, speed of checkout? And then what do you think the rate of expansion of that is going to be?

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

Well, we currently have it in the US and Canada in about 135 locations. It's going well. We have another 92 planned for rollout in early calendar 2020. So up above the -- in the low 200s. And the senior operators continue to discuss it, additionally rollouts with Craig based on the performance. But overall it's a positive and so we'll continue to do it is my expectation.

Q - John Heinbockel {BIO 1508150 <GO>}

I mean, roughly speaking, when you think about savings, right? I don't know how material that is. But is there an idea that you reinvest that -- can it be enough to reinvest back into the business in something like expanded BOPUS or I know you've been sort of reticent about BOPUS because of the cost. Is that something you can now begin to get your arms around or no?

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

Well, first of all, I think, thoughts on either of those are mutually exclusive of one another.

Q - John Heinbockel {BIO 1508150 <GO>}

Okay.

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

When I look at the millions or billions of front-end seconds we save in labor, we know full well that some of it is -- you don't get it all back, but even if you take a conservative amount, there is money to be saved there. More importantly, the members like it. The only thing the member doesn't like is when there is a number of front of them that is going through with their full basket and it is taking longer.

But generally speaking, even in the high volume -- the few high volume units that I've actually gone to of late, like, the ones in Seattle and I use them when I'm in -- now they're

fast, they work well and fast. So there is a savings. But I think as well it improves that customer experience.

As it relates to buy online and pickup in store, we continue to look at what others do and continue to scratch our head, and recognizing the average Costco even compared to our two direct competitors is 2 times and almost 3 times the volume per location, almost 2 times and almost 3 times the volume per location. So we'll have to wait and see. We're still not in a point -- we look at it, but we're not at a point that we're planning to do anything with it.

Q - John Heinbockel {BIO 1508150 <GO>}

Okay. Thank you.

Operator

Your next question is from Kate McShane from Goldman Sachs. Your line is now open.

Q - Kate McShane {BIO 7542899 <GO>}

Hi. Good afternoon. Thanks for taking my question. We wanted to ask about apparel. I know that this is a category where you've been a little bit more focused. I wondered if you could give some color about the performance of apparel during the quarter, what you see the opportunity to be and how Costco can kind of position itself to capture some share going into the next year?

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

Yeah. I think it's part of the same story that we've talked, fortunately, for the last few years. Apparel is a combination of both expanded Kirkland Signature, as well as a few additional brands willing to sell us or expanding what they're selling us as well and great value. And it's a category in the several billions of dollars that continues to grow in the roughly high-single digits compared to retail apparel overall that's a lot less than that. So -- and I think, I'm always amazed at our monthly budget meetings when, in this case, buyers are bringing in and showing what's coming in for the new season whether it's outerwear, a few months ago outerwear for the fall or both men's, women's and children's stuff.

Q - Kate McShane {BIO 7542899 <GO>}

Thank you.

Operator

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

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Good evening, guys. Richard, I had a follow-up question on the Shanghai location. Can you just provide any context on the sign-up activity of that location relative to a more

traditional facility?

A - Unidentified Speaker

(inaudible)

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

Yes. What?

A - Unidentified Speaker

(inaudible)

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

Neither. It's beyond good. I'm sitting here with my colleagues, what I'm not allowed to say. The average Costco in the world has somewhere in the mid to high thousands of member households. We've had locations in other countries in Asia where we might be at 100,000 to 120,000 after a few years, maybe even after one year or two years. This one is more than twice that.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

So, I guess --

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

Recognizing it's got a lot of press in a city that is populated with 25 plus million people.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Yeah. I understand. So just given the fact that in the past you kind of talked about how long it takes locations to hit a breakeven point. I guess, given the early sales and membership trajectory of that location. Does that help change how you're kind of thinking about the breakeven point for that warehouse and hence the China opportunity? Or do you need more distribution scale to really get the profitability to where you want it?

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

Well, getting to seven or eight or 10 locations in a country where a bunch of stuff is American supplied or in barged shipped not air flown, you become more efficient as you go from one to three maybe using some third-party consolidation or storage to do high value bulk items because you don't want to run out of water or toilet paper as you may, the no brainer items. And over time -- by the time we get up to eight or 10, we want to have a bigger cross-dock that then can would enough land to continue to expand it over time.

Cross-docks in the US and Canada serve 40 to 60 locations each and 40 to 60 relatively high volume locations. So we have one in Australia that serves 11 locations, that will continue to be a little bit as economic approval to that country as it serves 15 and 20

locations. We've opened two in Japan essentially south to north for all of 26 or 27 locations, we plan to have a lot more there over time.

So certainly, in addition, we have a lot of extra help there. We're doing big volume and we brought over additional people from Taiwan that speak the local language and that understand our concept and it's been great -- it's been -- we've been fortunate to have that additional history and expertise when we've gone there. But also with cost more.

So I think you've got to -- what is the normal once it's doing whatever volume it's doing and it's efficiently run at the warehouse, maybe you don't have all the efficiencies from cross-dock that will take several years. But the most efficiencies are what's in the building and how many people you need to help that process and we become more efficient. So I think it takes a couple years to do that. And that's one of the reasons why we generally go slow in new countries because we want to get it right from a customer experience and an operational side.

Q - Scot Ciccarelli {BIO 1495823 <GO>}

Got it. Very helpful. Thank you.

Operator

Your next question is from Oliver Chen from Cowen and Company. Your line is now open.

Q - Oliver Chen {BIO 15320650 <GO>}

Hi. Thank you, Richard. On your digital innovation road map, what are your thoughts about fulfillment from in-store and micro fulfillment centers and also thinking about the robotic capabilities across inventory management or supply chain from in-store. Would love your thoughts?

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

Well, we have -- just because of what we do -- we did currently a couple of years ago, we have our business centers that act as a focal point as you know for two-day. We have our depot operations. We've moved some of that fulfillment to in excess off some of our depots as well, where we put in to our biggest depot some automation fulfillment, which I talked about over the last few quarters or last six months and we continue to roll some of that out.

One of the things we've done is particularly things like how do we improve the time, particularly if items that might be presented in store but are only sold online like white goods or what I'll call big and bulky and those that require not only installation but sometimes take away the old one. While many third parties do that, we do a little of it, we've also figured out what are some of these items based on our volumes that can be staged efficiently and it doesn't making the number up, but it doesn't geographic locations across Canada and United States to take the shipping times down dramatically. And we've done some of that stuff and that's evolved over the last couple of years and we'll do more.

You've got a business just white goods and that's certainly not the only big and bulky there is furniture, there's patio stuff, there is exercise equipment, but just on light goods, we've gone from essentially sub \$50 million a year four years ago to over \$650 million and growing, and that's -- part of that is not just selling the stuff at great prices, it's getting it delivered to in fewer days.

Q - Oliver Chen {BIO 15320650 <GO>}

Okay. And Richard on vertical integration opportunities ahead, what are you thinking could there should be possible and what's your framework for evaluating what makes sense for you in terms of owning more parts of the supply chain across different categories?

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

Well, what started 25 years ago was a ground beef plant to save \$0.04 to \$0.06 a pound we thought a ground beef is now -- are now two major meat plants, one in Tracy California where we started and one in Illinois, which is still growing into itself over the last year and a half, two years since it opened. I think the one in California does well over 4 million pounds a week of just a handful of items that we -- that are ours, that gave us confidence to do the hot dog plant. We did almost partly by necessity a bakery commissary in Canada which we're finding conserved not only Canada but the US on making more consistent and more efficiently frosted items like cookie dough and croissants.

So we learn each time we do something. I think there has been some press out there about testing a greenhouses for produce. We've got one up and running just the last few months in California that I think some of the product is just starting to hit our shelves. But we think there is some great opportunities on the produce side for hot houses and greenhouses, if you will, particularly in where transportation costs and time is a necessity on stuff that it spoils quickly and easily.

Right now, much of the produce that we ship to our Hawaii locations is air shipped, if you can do some more of that over there, that's a no-brainer. And given our volume and limited SKUs, we think that we -- it's an efficient model to help, but that's not just us, others are trying that, again we think that the structure of our business allows us to take more advantage of that but it's new.

I don't know if there's anything big, there is nothing as big as the chicken complex on the drawing boards. But I think we'll continue to do things, but we're catching our breath a little bit right now. We've made some major investments for the second meat plant in the bakery commissary, just recently in the chicken complex and even more recently, the first few green -- hot houses. So we've got a lot going on. And the answer is, it works, so far so good.

Q - Oliver Chen {BIO 15320650 <GO>}

And my last question. Richard, Kirkland is a nice competitive advantage. What are your thoughts on how that percentage of mix may increase and categories that it may be suitable for that you're not in yet. And also you cited new services that you've added to

your product assortment. How will services evolve as a percentage of total? Just would love the magnitude of what may happen there over time?

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

Well, further on the Kirkland signature side, there aren't a lot of \$0.5 billion and \$1 billion items like water and various paper goods and things like that. And there are many, but not a lot of many new few hundred million dollar items. But at the end of day there's lots of \$20 million and \$50 million items that are items that can go to \$50 million and \$100 million and certainly I think on high end packaged food items, on everything from not only organic but antibiotic-free, and I don't have all the adjectives in front of me, but there's lots of things that we can do that are high end, that our members want and frankly has added benefits of seemingly gets into millennials on some of those stuff.

So but I think we've expanded into some sporting goods. So there is lots of little things that led to it, but if the number -- and I don't have it exactly in front of me, but ex-gas if the number is 24%, 25%. Does it go to 30% over the next 10 years or 15 years? Maybe. We think this is going to go up? Yes, likely a little bit because we found ourselves and our ability -- and our suppliers, some of our private label suppliers are very good at what they do. But we also are still a branded retailer. We have very good savings as you know on branded items.

On the service side, we don't talk about a lot because they're small relative to the size of our company, but it's other things that make the membership sticky and are very profitable, whether it's the auto -- Costco auto program or our travel business which continues to grow. We now a year or so that we added the hotel only booking engine and more recently the airline reservation only -- not just packaged items, package trips and everything. And so I think we'll keep adding things. I can't tell you what yet, but we keep looking at things.

Q - Oliver Chen {BIO 15320650 <GO>}

Great. Happy holidays. Thank you.

Operator

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

Q - Greg Melich {BIO 1507344 <GO>}

Hi. Thanks, Richard. I wanted to -- I'll get an update on how the private label card, now that you've had a few years for it to properly season and scale, anything you could say on the penetration or how the sales are doing outside the club and maybe link that to what the auto renewal rates are now as part of the renewal rates?

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

Yeah. I don't know, if I made what auto rates increasing. The big issue is what we converted prior to conversion when it was the other provider -- there was both the co-

branded card plus other branded cards of that provider like Delta Sky Miles or something. And all those are -- all those non co-brand ones, all those auto-renewals went away, went to zero. So that had to be picked up over time and we saw that impact our overall renewal rate a little bit.

The other thing is as we continue to add new increasing number of members that have this the co-brand card and the value keeps getting better and bigger. And so we think that will continue to be additive. That's helped. I think overall, we've also done a better job even when somebody walks in to sign up not only to upgrade but when they like to auto renew. And so all those things help, certainly the Citi Visa is probably one of the biggest movers of that because of just the sheer size of it and in fact that we're still adding new cardholders to that list.

Q - Greg Melich {BIO 1507344 <GO>}

Is Citi Visa doing multiples of sales outside of the club that is doing in the club at this point?

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

There is more -- there's certainly more sales being done outside. As there were over the 16 years of the previous relationship that evolved over time. As we would have expected, this would be even greater than that outside versus inside spend and that's where we have revenue share which is good for us and them presumably.

From the standpoint that the Visa card is offered at more smaller businesses, which tend to have higher merchant fees in general anyway. So it's a whole new additional market potential of revenue share to those people using that card. If my top -- if my card is top of wallet there are certain places previously that I couldn't use it like the local dry cleaner and restaurant now I can.

Q - Greg Melich {BIO 1507344 <GO>}

Got it. And then you mentioned Japan and I think it was Australia coming for e-commerce if you look around the world. Any early learnings out of the launch in Japan?

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

Other than it what -- well, it's been two days. So I'm happy to report I have -- I know nothing.

Q - Greg Melich {BIO 1507344 <GO>}

That's good to hear. Have a great holiday, Richard.

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

Thank you. Laurie, we'll take two more questions.

Operator

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

Q - Scott Mushkin {BIO 7138867 <GO>}

Hey, Richard. Thanks for taking my question. So I wanted to talk a little bit about maybe growth that's being left, I mean, obviously, you left on the table. Obviously, your performance is incredible, but the number of club openings come down a little bit, you might say new omnichannel. So I was just -- as you take a step back, we look at our research, we look like you're kind of almost underserving certain markets in the US. How do you think about growth? Is it time to speed things up a little bit get back up to the 30 clubs maybe put a little bit more money behind omnichannel, kind of what's the company's thought process here?

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

I think, I don't disagree with you. I mean, we want to open more than 20-ish this year. Part of that was I think some delays and how long it took overseas. We've got the pipeline filling a little bit better. And five years ago, I would have said our hope and plan is to do more than we were doing. Today, I'd say the same thing.

We do have -- I think we'll increase a little bit, but I can't exactly say how -- by how many and when. We are a very hands on company and we have a lot of other things going on. And certainly, there's a lot of emphasis on the e-commerce side, not only getting into few remaining countries, but building, not because we're supposed to but it's working.

We think that in some cases it's either sales that we would have lost anyway like big white goods, you just don't sell those at store anymore. And but we're getting people in the building still and using these things. So I think -- don't expect some giant change from 20 to 30 in a couple of years. But our goal is to work harder to over a few more of those, while we're doing all these other things as well.

Q - Scott Mushkin {BIO 7138867 <GO>}

All right. Thanks very much.

Operator

And your question is from Kelly Bania from BMO Capital. Your line is now open.

Q - Kelly Bania {BIO 16685675 <GO>}

Hi, Richard. Thanks for fitting me in here. Just wanted to ask about executive penetration, you called out Japan and the impact there a little bit, but just I'm curious how much in the US you're seeing executive penetration move higher. We've asked this over the years but just -- and where you think that could kind of level out at some point?

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

When I look by country, in the US and Canada where it's been the long as we've got the most units and the most services as part of the Executive Membership offering. It's in the mid 70s, in other countries, where it's been, like, Mexico, it's in the 50s and growing. But I think it'll start off lower. I don't know if the marketing department has a plan for where it could go. It's more of what we do to get people to convert and sign up originally.

And so I think there is, if I was shooting from the hip totally, at some point there's going to be some members that don't want an Executive Membership period and even if it rises them some savings. And there's some people that want it that sometimes it's not as were savings as they thought, but at the end and they revert back. But at the end of the day, I'd be thrilled to think that that if you go to 81 day, but I have no idea where and how long it'll take to get there. We know that executive members are more loyal in terms of their renewal rates. They shop more frequently and they spend more each year.

Q - Kelly Bania {BIO 16685675 <GO>}

Got it. And maybe just one more on gross margin, obviously, mix impacts some other retailers more than it really impacts you. But I guess over the years, we've talked about things like private label, organics or international or even e-commerce in terms of mix shift and just curious as you kind of look at that core-on-core up 4 which clearly very stable. Just what kind of mix shift is kind of underlying that?

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

Well, I think, it's more than mix shift. I mean, certainly, gas has the biggest impact. Gas is more than 10% of our business. It could be a gross margin line. First of all, as you enter deflation and so you could have the gross margin contribution plus or minus by number of basis points. You have all the services while they're small work on higher gross margins than normal because they cover the pharmacy, the pharmacists and pharmacy tax and optical, the optometrists, things like that. And those are all growing businesses, generally growing a little faster, some of them than the company. Travel as an example would be. In travel, some of the things are gross sales and some of them are brokerage fees. So a very high margin, there is really very low cost of sales commission.

But getting back to the core merchandise, private label generally is a slight positive. Although, again, the percentage of stuff that's private label versus branded, while growing is growing at a slower rate it has in the past. So I think -- and there's that magic word competition. Our view is as we look -- how do we drive the top line, how do we -- how can we be the most competitive and we're fortunate that we have different buckets to do that with. So it's hard for us to know where the margins are going each month and each quarter other than we wanted to be flat or up a little bit and we want to grow the top-line which will solve a lot of things.

Q - Kelly Bania {BIO 16685675 <GO>}

Understood. Thank you.

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

Okay. Well, thank you, everyone. And thank you, Laurie.

Operator

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

FINAL

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