Q4 2021 Earnings Call

Company Participants

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

Other Participants

- Brandon Cheatham
- Christopher Horvers
- Chuck Grom
- John Heinbockel
- Karen Short
- Kelly Bania
- Michael Lasser
- Mike Baker
- Rupesh Parikh
- Simeon Gutman

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Fourth Quarter Earnings Call. At this time, all participants are in a listen-only mode. Please be advised to today's conference is being recorded. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) I would now like to have the conference over to your first speaker for today, Mr.Richard Galanti, CFO. Thank you, please. Go ahead.

Richard A. Galanti {BIO 1423613 <GO>}

Thank you, Ann, 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, and these statements involve risks and uncertainties, that may cause actual events, results and-or performance to differ materially from those indicated by such statements. The risks and uncertainties include, but are not limited to those outlined in today's call, as well as other risks identified from time to time in the company's public statements, and reports filed with the SEC.

Forward-looking statements speak, only as of the date they are made. And the company does not undertake to update these statements except as required by law. In today's press release, we reported operating results for the fourth quarter of fiscal 2021, to 16 weeks ended August 29.

Reported net income for the quarter came in at $1.67 billion or $3.76 per share. Last year's fourth quarter net income came in at $1.389 billion or $3.13 per diluted share. This year's fourth quarter included an $84 million pre-tax or $0.14 a share charge for the write-off of certain IT assets. Last year's fourth quarter included $281 million pre-tax charge or $0.47 a share of COVID-related costs, as well as included a $36 million or $0.06 a share pre-tax charge related to the prepayment of $1.5 billion of debt, partially offset by an $84 million or $0.15 per share benefit -- per share benefit for the partial reversal of a reserve-related to a product -- tax assessment taken in the fiscal year 2019.

Net sales for the quarter increased 17.5% to $61.44 billion, up from $52.28 billion a year, earlier in the fourth quarter. Comparable sales for the fourth quarter, as reported an hour ago, for the 16 weeks on a reported basis. The U.S. was 14.9%, excluding gas inflation and FX, the 14.9% would be 10.3% positive. Canada reported 19.5% plus ex-gas inflation and FX 6.7%, other international reported 15% without gas inflation and FX 7.3 %, total company 15.5 % reported, 9.4% ex-inflation and FX.

E-Commerce, by the way, reported was 11.2% positive, ex-gas inflation and FX -- or FX 8.9%. In terms of Q4 comp sales metrics, traffic or shopping frequency increased 9.2% worldwide and 8.8% in the U.S. our average transaction or basket was up 5.8% worldwide and 5.6 % in the U.S. during the fourth quarter. Those numbers, including the positive impact from gas inflation and FX. Foreign currencies relative to the U.S. dollar, positively impacted sales by approximately 230 basis points, whereas gasoline price inflation positively impacted sales by approximately 385 basis points.

Moving down to the income statement to the membership line. Membership fee income for the fourth quarter came in at $1.234 billion in the fourth quarter of 2021, that's up $128 million from the prior year's fourth quarter membership fee income of $1.106 billion, the $128 million represents an 11.7% increase year-over-year. Excluding the benefit from positive FX, the $128 million positive number would have been a $107 million positive or a 9.7% effectively -- effective increase.

In terms of renewal rates, at the fourth quarter end, our U.S. and Canada renewal rate was 91.3%, up three-tenths of a percentage point from 16 week earlier number of Q3 end, and worldwide rate came in, renewal rate came in at 88.7%. Also up three-tenths of a percentage point from Q3 end, 16 weeks earlier. The renewal rates are benefiting, we believe for more members auto renewing, as well as increased penetration of executive members, who on average renew at a higher rate than non-executive members.

Our first year rule rates have also improved as well during this time. In terms of number of members at Q4 end, member households and total card holders, at Q4 the fiscal year end a few weeks ago. Total paid households were 61.7 million, that's up 1.1 million from the 60.6 million for year, we shared with you 16 weeks earlier.

Total cardholders came in at 111.6 million or 1.8 million higher than the 109.8 million we had as of Q3 end. At Q4 end, paid executive members came in at 25.6 million, an increase of a little over a million new executive members, and that's during the 16 week period as well.

Moving down to the gross margin line, our reported gross margin in the fourth quarter was lower year-over-year by 32 basis points and actually excluding gas deflation, it was higher by 5 basis points. As I usually do --as you dropped down, two columns of numbers, little gross margin matrix, if you will, the line items will be core merchandise. Ancillary -- second line item would be ancillary and other businesses. Third line item would be 2% reward. Fourth line item would be LIFO. And last line item would be other. And then finally, the last line item would be total.

Two columns, the first one being reported year over year in the fourth quarter and the second column excluding gas inflation. So core merchandise on reported basis was lower year-over-year by 90 basis points, ex-gas inflation. It was lower at minus 57 basis points. Ancillary and other businesses, plus 44 on a reported basis and plus 53 ex-gas inflation. 2% reward, plus 1 basis point and minus 3, year-over-year on a report -- on an ex-gas inflation - LIFO minus 5 and minus 5 basis points, and other plus 18 and plus 17. If you add up to two columns, you get the total for reported 32 basis points that I just mentioned. And again ex-gas inflation plus 5 basis points.

Now, the core merchandise component you see here are lower by 90 year-over-year, and lower by 57 ex-gas inflation. Similar to last quarter, this is primarily a function of sales shifting from core to ancillary versus the last year, as we begin to revert back to more historical sales penetrations. Recall last year, we saw a significant shift of sales out of ancillary and other businesses and into the quarter.

In terms of the core margin on their own sales, in the fourth quarter, the core on core margins were lower by 40 basis points. With non-food slightly up, food and sundries were slightly lower, year-over-year. Fresh foods was down and was the fundamental driver of the core on core being lower in the quarter.

Now, fresh foods is lapping exceptional labor productivity and low product spoilage that occurred from the outside sales a year ago in Q4. We retained some of that productivity gains -- from those productivity gains as volumes have remained high. However, we've also elected to hold, delay and or mitigate some of the price increases in this increasingly inflationary environment over the last few months.

Ancillary and other business gross margin, as you see in the chart, and the metrics was higher by 44 basis points and higher by 53 ex-gas inflation in the quarter. Gasoline had a good quarter as we are lapping year-over-year, a softer quarter due to the pandemic. We also showed improvement in food court, optical travel, all of which were benefited by easy compares versus last year to the -- also due to the impacts of COVID on those businesses. Now LIFO, this is a gross margin charge that we haven't seen in this matrix for about 7 years. LIFO was lower by 5 basis points, both with and without gas inflation. We had a $30 million LIFO charge in the quarter. The first that's charged since 2014. This is a result of the continued inflationary cost pressures, which I'll discuss more in a few minutes.

2% reward higher by one basis point on reported basis, but more importantly lower by three basis points ex-gas to inflation. Again, implying slightly higher penetration of sales going to the executive member and the associated rewards that come with it. And other is up 18 basis points, and then up 17 ex-gas inflation. This is primarily related to COVID-related costs from a year ago.

Moving to SG&A, our reported SG&A in the fourth quarter was lower or better year-over-year by 45 basis points and lower or better by 13 basis points, excluding gas inflation. Second matrix of the day, the two columns reported and ex-gas inflation and five line items operations, second line item central, third line item stock compensation, fourth line item other and then total.

And on reported basis, core operations was lower or better by plus 19 basis points and ex-gas inflation higher by 8 basis points or minus 8 basis point. Central, plus 12 and plus 8, stock compensation, plus 2 and plus 2, and other plus 12 and plus 11. Adding up two columns again, SG&A on reported basis was better or lower by 45 basis points, and lower ex-gas inflation by 13.

As you can see in the matrix, the core operations component again was better by 19 and low -- and higher -- lower by 19 and then high -- or higher by 8, excluding the impacts of gas inflation. Keep in mind, these results includes the permanent $1 an hour wage increase that we implemented in March of this year. This higher by 8 basis point year-over-year expense result includes the 14 basis point cost of the dollar an hour of wage increase. Central, again improved by 8 basis point ex-gas inflation, and stock compensation also with strong sales helped by 2 basis points.

Now, the other of plus 12 or plus 11 without gas inflation, so lower -- that was amount of basis points, including another last year was the COVID expense of $217 million or 42 basis points, and the reversal of a product tax assessment reserve of $84 million or 16 basis points. This year includes the write-off of the IT assets, totaling $84 million or 14 basis points. So. you add all those up, that's where you get the 11.

Next, on the income statement is pre-opening, pre-opening this year was $35 million dollars, last year $26 million. So higher by 9. Pre-opening is up year-over-year in part due to the timing of openings and given different amount of pre-opening on a given location, both of them in quarter and in the following quarter.

All told, reported operating income in the fourth quarter increased by 18%, coming in at $2.275 billion this year, compared to $1.929 billion a year earlier. Below the operating income line, interest expense was $52 million this year, essentially the same at $51 million a year ago. Interest income and other for the quarter was higher by $77 million year-over-year, roughly half of that is due to favorable FX and the other half is related to the last year's fourth quarter charge for the make whole debt prepayment.

Overall reported pre-tax earnings in the fourth quarter of 2021 came in up 23%, coming in at $2.291 billion compared to last year's $1.869 billion. Our tax rate in the fourth quarter was 26.1%, higher than last year's fourth quarter rate of 24.9%. For fiscal '22, based on our current estimates, which of course, can always change, we anticipate that our effective, normalized, total company tax rate to be similar to fiscal '21, somewhere in the 26% to 27% range. Unless, of course, there are changes to the U.S. corporate tax rates we'll have to see -- wait and see. A few other items of note. Warehouse expansion for the fiscal '21, which just ended? We opened net openings of 20. We actually had 22 openings including two relocations, but a total increase of 20 net units.

This year, we're looking to open at least 25 net new units, including second warehouses in each of China and France and our first location in New Zealand, as well we plan to relocate five locations. Regarding capital expenditures, our fourth quarter 2021 spend -- capital expenditure was approximately $1.09 billion. Our full year CapEx spend was $3.59 billion. As I mentioned in the last quarter's call, this included a relatively recent $340 million purchase of a distribution facility on the West Coast to support our big and bulky delivery activities.

For e-commerce. E-commerce sales in the fourth quarter ex-FX increased by 8.9% year-over-year. That's on top of last year's Q4 e-commerce sales increase of 91%. Stronger departments, jewelry, we actually sold a couple of rings in the $100,000 range. Home furnishings was strong, Pharmacy was strong and Sporting goods was strong. A couple of other large departments like majors, electronics, while very good sales, we had really outside sales a year ago in the fourth quarter during COVID.

Update on Costco Logistics. Logistics continues to drive big and bulky sales for the quarter, Costco logistics sales within our delivery was up 130% and in the quarter represented 24% of all sales on our U.S. e-commerce site, that compares to that 24%, compares to 11% of e-commerce sales last year.

Mind you, much of that relates to moving things from other third parties, to our own internal logistics department. Currently, approximately 7,000 to 10,000 daily deliveries via Costco Logistics are occurring and continuing to grow. In terms of our E-com app, we have over 10 million downloads, it's continually improving with additional features coming soon. Digital payment using the Costco credit card, it's in pilot, in several locations with full roll-out by the middle of next month.

The ability to view warehouse receipts online, also next month, more detail on online purchase as well and by October end, and improve mobile site, improved look and feel, a new landing page and expanded information, both for dot.com news and for enhanced warehouse information.

From a supply chain perspective, I want to go back to two things, supply chain and inflation. From a supply chain perspective, the factors pressuring supply chains and inflation include port delays, container shortages, COVID disruptions, shortages on various components, raw materials and ingredients, labor cost pressures and trucker and driver shortages -- trucks and drivers shortages.

Domestically, anecdotally rather -- from even on a domestic side, various major brands are requesting longer lead times. Some cases difficulty in finding drivers and trucks on short notice, lead times on ingredients and packaging have been extended in some cases. So, planning is crucial, which I feel our people have done a great job with that over the last several months.

Also, we're putting some limitations on key items like bath tissues, roll towels, Kirkland Signature Water, high demand cleaning related SKUs, related to the uptick in adult-related demand. Furniture delays in some shortages across traditional roll-out times, go from 8 to 12 weeks -- from 8 to 12 weeks, up to 16 to 18 weeks. In some ways, we think that's an advantage we're selling out the generally merchandise once it's received within two weeks on most items and we've ordered more earlier. Same thing with toys and seasonal, we're bringing in some of the items early.

Chip shortages impacting many items as I mentioned, in the last call, examples of impacted items, computers, tablets, video games, major appliances, feeling is from the buyers is this will likely extend into 2022. Again, we're ordering as much as we can and getting it in earlier and I think as evidenced by most recent sales results, we're doing okay with this.

Despite these issues, oh sorry -- in terms of transportation costs, they are increasing. We're reading about it every day. Containers, trucks and drivers all are impacting the timing of deliveries and higher freight costs. Despite all these issues, we continue to work to mitigate cost increases in a variety of different ways and hold down and-or mitigate our price increases, passed onto the members. We've also chartered three ocean vessels for the next year to transport containers, between Asia and the U.S. and Canada. And we've leased several thousand containers for use on these ships, every ship can carry 800 to a 1000 containers at a time and we'll make approximately 10 deliveries during the course of the next year.

Moving to inflation, again there have been many -- there have been and are a variety of inflationary pressures that we and others are seeing and more of it. As I discussed on last quarter's call, inflationary factors abound, higher labor costs, higher freight costs, higher transportation demand, along with container shortages and port delays, increased demand in certain product categories, various shortages of everything from computer chips to oils and chemicals, higher commodities prices. It's a lot of fun right now.

Some inflationary sound bites if you will. Price increases on item shipped across the oceans, some suppliers are paying two to six times for containers and shipping. Price increases of pulp and paper goods, some items up 4% to 8%. Again, we're trying to mitigate those where we can and we think we've done a decent job of mitigating some of it.

Plastics, resin increases on things like trash bags, and flux cues, pet products including resin or (inaudible) pet products, plastic cups, plates, plastic wrap, many items up in the 5% to 11% range. Metals, again, aluminum foil, mid-single digit cost increases, as well as cans for sodas and other beverages.

I mentioned commodities earlier, oil, coffee, nuts, they remain generally according to our buyers at five-year highs and so on. Higher import prices on things from Europe like cheeses, with the combination of freight and FX. 3% to 10% increases on certain, but not all apparel items. And fresh -- fresh foods inflation is up in the mid to high single-digits with meat leading the way up high single to low double-digits due to feed, labor and transportation costs.

Now, I was asked back in March in our second quarter earnings call at what level we found inflation was running overall on the sell price side. I stated and our best guess at the time was somewhere between 1% and 1.5%. I updated at 60 weeks earlier, 16 weeks ago on our May 26 third quarter call, and we upped it estimate to be in the 2.5% to 3.5% range. As of today, and talking with our senior merchants, we would estimate overall price inflation of the products we're selling to be in the 3.5% to 4.5% range.

As I discussed earlier, this inflation was the driver of the $30 million LIFO charge, that we took in the quarter. But all of this said, I feel very good with the job that our merchants, our traffic department and our operators have all been doing and able to -- in order to get the products that we need, pivot when and where necessary, and keep our warehouses full while keeping prices as low as we can for our members and continue to show incredible value versus our competitors.

I think this is reflected in our strong reported sales and profits that we've achieved, despite challenges and our typical aggressive pricing. Finally, in terms of upcoming releases, we will announce our September sales results for the five weeks ending Sunday, October 3; on Wednesday, October 6 after the market closed. And with that, I will open it up for questions with Ann.

Ann, thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We have our first question from the line of Simeon Gutman from Morgan Stanley. Your line is now open.

Q - Simeon Gutman {BIO 7528320 <GO>}

Hey, Richard. My first question is on next fiscal year. I know you don't give a lot in terms of guidance, but wanted to ask if you think or how should we think about EBIT, whether it grows or not next year? And if you don't answer that, I was going to ask, if comps grow in fiscal '22 should EBIT grow?

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

Well, on the first question, of course, I can't say, we don't provide guidance, but we've always talked about being a top line company and that helps a lot of things. So depending on what level of sales, we'll have to wait and see, we do have the dollar increase that started in March that -- anniversary next February, so at the end of Q2 next year. But again, we've shown that either with what we view as holding the line as much as we can on pricing and being pretty aggressive there and taking that into account. We've shown that with strong sales, we can certainly improve the bottom line, as well. So fingers crossed.

Q - Simeon Gutman {BIO 7528320 <GO>}

So my follow-up, maybe in two parts, and one of them is on sales and then you mentioned the wage increase. So on the sales side, is there anything that you're looking at or approaching different? I know extreme value is one angle, but timing of mailers, inventory availability looking better, is it ancillary that hasn't recovered, what can you do on the top-line given how big of a lap? And then you mentioned the wage increases and I know you'll lap those in March, but you've seen, I think Amazon and Walmart have moved up. And so, I'm curious if -- how do you think about or should we expect another increase in terms of wages?

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

Sure. Well, first of all, as it relates to all the anecdotal comments I made about supply chain and inflation. I think, overall, we feel that we're doing a heck of a job in that stuff. And I think some of the advantage we have is that, we certainly have the financial ability to bring in things early or order early and to mitigate whatever delay may have occurred. We certainly have the space to keep some of this stuff, most particularly because of our cost to logistics acquisition a year ago, to additional storage space if you will. Not that we're having an issue with that, because it's turning pretty fast. And the fact that we're able to pivot, we're bringing in new items. We're bringing in items off season for Christmas. Pre-COVID it was not -- it was toys and trimmer home and electronics.

Today, it's all those things, plus things for the house from barbeque grills to even summer items. But anything you get your hands on. And again, I think we've done a very good job of adding suppliers where we can, and also making sure we're coming up with new items and being creative and innovative even on the food and sundry side.

So I think from that standpoint, despite sometimes looking at each other, the merchants and the traffic people everybody is just saying, boy this -- when is this going to end? The fact is, I think we're doing a very good job of that. From an inventory standpoint, I think for those of you -- several of you do go and visit our locations on a random basis, they are full. They look good compared to some of the pictures we see from other sometimes. And so I feel from that standpoint, we have a good issue.

With inflation to the extent that there's permanent inflationary items like freight costs or even somewhat permanent for the next year. We can't hold onto all those, some of that has to be passed on and it is being passed on. We're pragmatic about it, but we recognize that since things have been so successful and our sales have been strong, we can hold the line on some of those things and do a little better job, hopefully do a better job than some of our competitors have, and be even that more extreme in the value. So I think all those things so far at least, despite the challenges have worked in our favor a little bit.

Q - Simeon Gutman {BIO 7528320 <GO>}

Okay. Thanks, Richard.

Operator

Thank you. Our 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. In the past what you've said is that, Costco's profitability tend to draft off the profitability of the overall retail sector. In the last year and a half, the profitability of the overall retail sector has moved nicely higher, also Costco's profitability, its margins have moved nicely higher. Do you view this as sustainable?

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

Well, first of all, let me finish. Simeon, had one other question on wages and let me just respond to that. Look, we're known for always being one to have the best wage package and benefits package and take care of our employees package out there, and big retail, and big boxes, and all forms of big retail. And even if the -- and we raised our lowest -- our starting wage to that $16 and $16.50 of late. Mind you, our average hourly wage is, I think slight -- in the U.S. is slightly north of $24 with very healthy employee benefit plan. We'll do whatever it takes to continue to that model. And who knows when and where, but we feel pretty good about where we are and -- but as many of you on the call know, irrespective of what's going on with our company in terms of strong sales or weak sales, we're going to do what's right by our employees. And Michael, I'm sorry, now go back to your question.

Q - Michael Lasser {BIO 7266130 <GO>}

Yeah, the question was, we've seen an improvement in profitability across retail that tends to influence the profitability of the profit margins of Costco. Do you view this improvement to your profit margin as sustainable from here?

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

Okay. Well, look, I think the anomaly over the last year-and-a-half has been that, when a lot of big boxes or big retailers were enjoying comps pre-COVID in -- I'll call it the 2% to 4% range or the 2% to 5% range, and we were enjoying 5%, 6% and 7%. Now, we've been enjoying mid-teens or effectively low to mid-teens over -- and we've taken some market share from others. We think that some of that will stick, and we hope it will stick.

And we feel pretty good right now about what we've done and what we've accomplished, to the extent that we can generate greater than industry average comps, I think -- and that they're -- they don't have to be in the low to mid-teens, they could still be in the mid to high single, that we should continue to improve, but again I get back to the comment that has been reinforced internally from the beginning of time. We are a top-line company and everything else will take care of itself.

Q - Michael Lasser {BIO 7266130 <GO>}

Got it. My second question is on your gross margin. There's a lot of moving pieces as there are a lot of moving pieces with everything that's happening with Costco right now. But specifically, you're giving back some of the core on core gross margin gains that you experienced from really strong fresh sales last year. But on the other hand, your ancillary businesses are doing really well. So, is that dynamic where you're making up for the pressure on the fresh with strong ancillary, is that sustainable? And as part of that, the perception is that Costco tends to raise prices at a slower rate than others in the retail landscape, which tends to pressure its margins as inflation is heating up. What would be different this time to make that not happen? Thank you.

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

Well, I think your first part of your question, I think tells part of the tale, is there's so many moving parts. If you lose gasoline, which is 10 plus percent of our sales. It's a huge business which can have huge variations of gross margin. Knock on wood, always profitable, but it's still quite a range of gross margin and that's more reflective of what's going on with competition in the retail gasoline market. We feel that sometimes other large retailers of gasoline are looking to make a little more, which gives us the ability to be quite profitable, but still show even bigger savings. So there's lots of puts and takes.

Certainly from last year, you had -- I mean, I think there was a 16-week -- roughly a 16-week period, where our optical and our hearing aid centers were outright closed. Travel went to literally having negative revenue, because it was not having new business and it was refunding previously booked business, at the trough of COVID. And so there's those kind of anomalies.

Again I get back to thinking that due to the unfortunate thing called COVID, some businesses have benefited in the sense that we were essential, in the sense that our cavernous places, we feel that people felt comfortable coming in, to the extent that we are able merchandise wide to have pivoted and maintain notwithstanding supply chain issues, maintain exciting for warehouses of merchandise. So I think those are the things that help us.

Q - Michael Lasser {BIO 7266130 <GO>}

Okay. Thank you very much, Richard.

Operator

Thank you. Our next question comes from the line of Chuck Grom from Gordon Haskett. Your line is now open.

Q - Chuck Grom {BIO 3937478 <GO>}

Hey, thanks. Richard if inflation stays up in that 2.5% -- sorry, 3.5% to 4.5% range over the next couple of quarters. Would you expect that LIFO charge to be about $30 million per quarter? Or should we -- could be adjust it per week? Years ago, you said that charge every quarter or sometimes a credit, just wondering how we handle that from here?

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

Yeah. It's hard to say. I wouldn't just say it's that much based on that, it really depends. And mind you, when you had -- again, we've enjoyed a number of years effectively very little if any or no LIFO or eating into a previous LIFO credit five and six years ago. So -- but what -- if there's consistent inflation going forward for the next two, three, four quarters, you can also see some price increases to this customers and when I say some, there's been some already. But in our view, there's less than we could have done and that will continue. And I think the more consistent inflation, if inflation raise stayed this level, we don't know that. But if it did stay at this level, even with a LIFO charge in some ways, it will be offset by price increases.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. Great. Thanks. And then on -- I've got a follow-up and then on the labor front, curious if you guys have observed an increase in applications in roughly 20 states that ended unemployment benefits on September 1. A number of companies have spoken to a big increase in job applications recently.

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

I don't know the -- I haven't asked and I don't know the answer to that, it makes sense.

Q - Chuck Grom {BIO 3937478 <GO>}

Okay. Alright. Good luck. Thanks.

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

Thanks.

Operator

Thank you. Next question comes from the line of Karen Short from Barclays. Your line is now open.

Q - Karen Short {BIO 7215781 <GO>}

Hi, thanks very much. I just want to clarify one thing on that last line of questioning. In terms of the LIFO charge, was this $30 million a catch-up for the whole year or was that something that was reflective of the quarter itself? Because that then speaks to the run rate.

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

It resists the quarter. It's basically, if you take your cost silos of inventory and what was it at Q3 end and what is it now at Q4 end.

Q - Karen Short {BIO 7215781 <GO>}

Okay. So, I guess obviously, as you listed all these different pressure points on pricing. I guess my bigger picture question is, is how do you think about the membership fee structure in general. All these pressures on I guess your business, but also on the consumer from an inflationary standpoint make you more likely, less likely or how does it impact your membership fee increase decision?

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

Yeah. What we've said over the years is that certainly we look at our gross profit as a combination of gross margin plus a membership fee, but we really don't look at it together in that way that, hey, if we do something with the membership fee, we could be more aggressive on pricing.

I remember years ago, somebody had asked when the economy had softened and our comps had weakened a little bit and we're coming up on kind of that 5th anniversary-ish of pending increase and somebody said, given the economy is weak are you -- or -- and your sales have weakened a little bit, still positive number but weakened a little bit. Would you still do it?

And the response at the time was more likely will you do it? Because that's what we do. We could drive lower prices with it and drive more business. And so we really do -- we look at the loyalty and certainly the loyalty in renewal rates have been up. Yeah. And honestly, we're still away from anniversary in the last -- the fifth year or so -- fifth plus year anniversary in the last increase. So we're a little ways from thinking about it.

Q - Karen Short {BIO 7215781 <GO>}

Okay. And then just, we had a conference today with some large cap names, that kind of indicated that there are new view on what their actual cash balance should be going forward, relative to pre-pandemic could actually increase. So wondering, if you could just talk about your perspective on what you think the right, like, sustainable cash balance could be, because obviously, you're still sitting on a pretty hefty excess cash balance now.

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

I think if -- we've always been considered to have more cash and have a more conservative balance sheet. I think if the world is saying that they think that it should be going up more, I don't think we thought about it going up more. In fact, when we did the capital raise in April of '20, it related specifically to what was the worst case of COVID? Once six months later we saw that we didn't need it, we promptly gave it back to our shareholders, and then a little. So I think we're -- the other anomalies has been, is as we've been blessed with a very good fiscal year. The last year and a half in terms of net income and operating cash flow, relative to our CapEx, our regular dividend and the special, let's say that, kind of offset the -- that capital -- the debt that we did. And so at the end of the day, I don't see us changing our MO in that at this point.

Q - Karen Short {BIO 7215781 <GO>}

Great. Thanks very much.

Operator

Thank you. Next question comes from the line of Chris Horvers from JP Morgan. Your line is now open.

Q - Christopher Horvers {BIO 7499419 <GO>}

Thanks. I'll stick by the price (inaudible). I guess, if I'm interpreting what you're saying is it basically, because these pressure seem more structural in nature and because the demand environment is so good, you feel less compelled to be more aggressive on price. And if the environment slows than that could change your calculus?

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

It's really all about the value proposition. If anything, I think from the outside people would look at us relative to other retailers in saying, we've been more aggressive on holding prices than others. At least, that's how we feel. The way we have to be pragmatic is these things are permanent and consistent, you got to raise the price. We can't be completely noble here. But we feel that if anything that moat has probably widened a little bit for us and that's great. We like wider moats.

Q - Christopher Horvers {BIO 7499419 <GO>}

So, the third variable being others are raising prices faster than you. So the price gaps have widened.

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

That's our view, that's our buyers view. But we're looking at really at us, given -- frankly, given how strong it's been and we -- in our DNA, we hate raising prices. We want to be the last to raise it and the first to lower it. In our DNA, it's not even putting on shades on the side and not even looking at others. We're looking at how do we drive our own business.

And we know that being the most, the best value out there and having great merchandise and all that other wonderful stuff is how you do it. And as we've seen such strength in our numbers, and then as we've encountered, rising levels in inflation, where can we hold the price on some things? And that's we do. It's an art form, more than a science, but it seems to work for us.

Q - Christopher Horvers {BIO 7499419 <GO>}

For sure. So my second question is on the membership fee, MFI growth x to FX benefit that you've seen, that number is accelerated in the past two quarters. So is it -- given that the accounting of this is over a 12-month basis, you sort of -- you have a view of some inkling on, what that growth could be as you look forward? Higher renewal rates, obviously taking a tonne of share, should all else equal that level again, MFI growth X, FX continue to accelerate?

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

Well, I -- the big answer is we hope so. The fact that we're opening more units in '21 than we did in '20 is a positive, the fact that there are several international units which tend to have higher growth rates, the fact that auto-renew is kind of a freebie in the sense that more people getting -- signing up, and putting your credit card on their application -- in their application, or signing up for the most -- more importantly signing up for the Citi Visa card, that helps you a little bit, driving executive -- getting more people today -- for every hundred people signing up today, I think a little over half, I don't have the exact number, sign-up as an executive member. I remember six, seven years ago or eight years ago, it was half that percentage and these are rough numbers. So don't hold me to him. But at the end of the day, executive members by its definition have higher renewal rates, they shot more frequently, they buy more stuff. So all that stuff is -- those are all good factors for us.

Q - Christopher Horvers {BIO 7499419 <GO>}

And just one quick last one. Have you shared how -- the percentage of your membership that have in the U.S. that have the Citibank private label card?

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

I don't think we have.

Q - Christopher Horvers {BIO 7499419 <GO>}

Okay. Thanks. Best of luck.

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

By the way before the next question, somebody checked on -- number -- we have seen a recent increase in applications in the last couple of weeks. I think Chuck asked that. Okay.

Operator

Thank you. Our next question comes from the line of Paul Lejuez from Citi. Your line is now open.

Q - Brandon Cheatham

Hey, everyone. This is Brandon Cheatham for Paul. I'm going to take a stab at the membership question as well. You have some great membership statistics. It sounds like you're offering great value in the club. I was wondering, are you thinking about not investing as much in the new member promotions, anything that you could talk on there? Has that looked similar to last year? Has that increased?

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

No, I think when you see member promotions, what do you mean?

Q - Brandon Cheatham

I think right now you're offering $40 Costco cash card if you sign up?

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

Oh marketing, okay. Yeah, we do a variety of things, not a huge basis, but we try some things. In the last few years, we've done some things with Groupon and with Living Social. We've done some things like you've mentioned, but those are not on -- I'd say, they're on a regular, irregular basis and we tried different things all the time. But I know, I think that's really frankly independent of looking at the membership fee itself. It's really about how do we drive memberships? And what is the incremental cost? What is the true cost of acquiring a new member, other than waiting for them to go online or walk into the warehouse to sign up themselves? And so we're on -- we're always trying some new things.

Q - Brandon Cheatham

Got it. And you mentioned your own shortage [ph] of chips. I was just wondering, what percentage of your shipping would that represent next year?

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

Less than 20%.

Q - Brandon Cheatham

Less than 20%?

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

Yeah. Less than 20% of our Asia shipping.

Q - Brandon Cheatham

Got it. Okay and last one from me. On the e-comm side, I was just wondering, your customer that shops there. Do they visit the store as frequently as a member that doesn't shop online?

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

I don't know that off the top of my head. What I -- and I don't have all the specific statistics in front of us. All the charts that we look at keep going in the right direction. Number of people that have bought online, percentage of members, the hit rate when we do something on an e-mail of, to get people to do something online. (multiple speakers)

A - Bob Nelson {BIO 19296866 <GO>}

I think what we do know is, when we shop in online and in warehouse, you typically shop maybe at (inaudible) time in warehouse, but you overall spend less.

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

Okay. What Bob has mentioned -- thank you, Bob, is that when you're -- if you take a regular loyal member and when they do start shopping online, they may shop a few times less in store, but the aggregate of the two is greater than their historical, which makes (Technical Difficulty).

And by the way, the other thing there is, is that online, while we've constantly putting on what I'll call greater frequency -- traffic building items or velocity items, like apparel and health and beauty aids, and things like that. The fact of the matter is, more and more big and bulky items are bought online. Years ago, if you wanted to buy a mattress or a refrigerator, you had to go, buy it and pick it up and take it home. We didn't deliver, we didn't install. That's of course, changed in the last many years and we have an appliance business in the U.S. that's well over a $1 billion and growing fast, continue to grow fast, helped by the Costco logistics. So, that changes the metric a little bit too.

Q - Brandon Cheatham

Great. Thanks for the additional color.

Operator

Thank you. Our next question comes from the line of Mike Baker from Davidson. Your line is now open.

Q - Mike Baker {BIO 4323774 <GO>}

Hi. Thanks. Two questions from me. One, you did allude to the Delta variant and having to limit some product in the areas where we've seen higher cases. So could you just sort of talk about overall different trends that you might be seeing in areas that are seeing bigger spikes in the new COVID variant versus others?

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

I don't know. I don't have in front of me any detail by region, in that regard. What I do know is, like everything right now it's all over the board. We're talking -- I forget what cleaning supply was, whether it was Clorox or Lysol or some type of antibacterial wipe or whatever it was. But there had been a -- year ago, there was a shortage of merchandise. Now they've got plenty of merchandise, but there's two or three week delays on getting it delivered, because there's a limit on short-term changes to drugging and delivery needs, the suppliers. So, it really is all over the board.

Q - Mike Baker {BIO 4323774 <GO>}

And maybe as part of that, any -- seeing anything in terms of the travel trends, which I know are coming back really strong as in last quarter, but has Delta reverted that at all?

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

Yes. Yeah, if you look to the chart which went down and so, last summer or last spring, it was negative. More refunds than new things being booked. It really got back to almost normal, I'm talking about bookings of resort vacations -- and like to Hawaii and to Mexico and things like that. And just a month ago, month-and-a-half, two months ago, at the monthly budget meeting, the charge we're showing was almost back to where it was pre-COVID, and then it felt like a rock, not as bad as it was at its trough last spring, but has certainly come down. Car is not hit as bad. But that's -- that will fluctuate, based on again what's going on out there.

Q - Mike Baker {BIO 4323774 <GO>}

Yeah, that all make sense. One more quick one, that was one question in two parts. Can you update us on the curbside pickup test, that you were running in New Mexico? I think as of last time we spoke it was in three stores.

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

Right. We're currently not doing it. We just continued it for now. We'll try some new things somewhere, sometime, but at this point, we got a lot of good things going on and we were, we really didn't see a lot of traction in it.

Q - Mike Baker {BIO 4323774 <GO>}

Interesting. Thanks for the color. Appreciate the time.

Operator

Thank you. Our next question comes from the line of Rupesh Parikh from Oppenheimer. Your line is now open.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Good afternoon. Thanks for taking my questions. So I guess, just going back to the core margin. So it sounded like at least this past quarter on the far side you guys delayed passing through some of the price increases. So if you look at non-food versus your food categories, is it generally easier to pass-through on the non-food side versus the food side?

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

I wouldn't say that. I think food, fresh turned so fast. It turns more than 50 times a year -- 50 times a year or whatever. And when you've got a hot price on strip steaks or keeping the rotisserie chicken at $4.99, that's going to impact you a little fast. Yeah, but the comment here is that, we're not going to change the price of muffins every week. So we'll take a little less margin on some items. I think it's all over the board. But at end of the day, there is -- it's an art form, not a science or not a straight across we're going to do this much on every item.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Okay, great. Then second question, just as you look at your service business optical food courts, et cetera. Where are we versus where you were pre-pandemic? Have those full -- have those businesses fully recovered at this point?

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

Mostly. Yeah, pharmacy and optical have, food courts have come back. Hearing aid is not quite yet, but much better than it was, at its trough. And travels, lots of fund based on what's going on with COVID.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Okay, great. And one final question. I may have missed this in your prepared comments. Did you guys give a forecast for CapEx for the upcoming fiscal year?

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

No. It'll have a three in front of it.

Q - Rupesh Parikh {BIO 15915617 <GO>}

Okay. Good. Thank you. Best of luck for the balance of the year.

Operator

Thank you. Our next question comes from the line of John Heinbockel from Guggenheim. Your line is now open.

Q - John Heinbockel {BIO 1508150 <GO>}

So, Richard. You said it's an art not a science. I'm curious, where you guys sit on data science and analytics around price elasticity? One and two, personalization of the monthly mailer or monthly emails. Where are we on that journey?

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

First of all, as it relates to pricing and elasticity, I think if we were considered the best company in the world with data analytics, we would still not use it for price elasticity. We're going to do what we do as merchants and look at competitive prices and see how low we can mark something up. And the old saying from years ago, we want to improve margins by lowering and lower prices at the same time by buying better and doing those things. So, I don't see that happening at all.

As it relates to the other aspect of that, that's coming. We made a big investment in what I'll call data analytics for us, because we went from darn near zero to something, but brought on a VP of Data Analytics year ago, March, there's been a lot of progress. A lot of focus to-date has been on the merchandising side, providing better tools to buy and to project and things like that. I think you'll see more of that over the next year, but again, we're getting there.

I always look at it as some of the things that others are doing that will help. It's low-hanging fruit for us, because we haven't done it yet. But we'll keep going. But that's where a lot of the data analytic function to-date in this past year, as we built a department around it, has been just that.

Q - John Heinbockel {BIO 1508150 <GO>}

And secondly, one of the things you guys have been known for, right, is seasonally getting in and out before everybody else. So can you lean into that in environment, right, where it's hard to chase product, get it in early, people buy it and they're done for the season. Do you lean into that more in term -- where you can more inventory, get it in the club or is there a limitation, right because you got to transition from one season to the next?

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

I think there's a little bit of both. There's a little bit of taking it where you can get it right now and certainly, we're consciously bringing in. I think, I mentioned on even what was it furniture where the cycle has gone from 12 and 14 weeks to 16 and 18. We're bringing in early and certainly on seasonal things, we'll do that on some items and -- but it's a mixed bag, just because we're pivoting and blocking and tackling in 12 different directions like everybody.

Q - John Heinbockel {BIO 1508150 <GO>}

Okay. Thank you.

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

Yeah. We have time for one last question.

Operator

Thank you. Our last question comes from the line of Kelly Bania from BMO Capital. Your line is now open.

Q - Kelly Bania {BIO 16685675 <GO>}

Hi, thanks for fitting me in, Richard. Just wanted to ask one more on the inflation. You mentioned at the 3.5% to 4.5% range. Just want to clarify that is retail inflation, just curious what your cost inflation is and just trying to get a sense of how much you're absorbing? And maybe if you can just provide some examples of how Costco and the merchants are mitigating some of the pressures?

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

Yeah, it's both. I'm sorry what. Yeah, margins have generally stayed the same. I mean, we gave you some examples on the fresh food side, where it's changed in a way. But generally speaking, I think there's again a lot of moving parts and we continue to figure out how to balance it.

Q - Kelly Bania {BIO 16685675 <GO>}

Any examples you want to provide about how you're mitigating some of the pressures?

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

Well, I mean, not on a specific product example, but the fact is, is one, we've got strong relationships and good buying power with our vendors. When we're eating a little bit into something, we're asking in some cases for them to get a little bit into it.

During these times, we're constantly figuring out how to be -- were there any cost savings to offset some of the cost increases, whether it's packaging or whatever it might be. And so, I think, one of the things that helps us is, is that we're worrying about managing 3,800 items, not a 100,000 items or 50,000 items and that's helped us.

Yeah, there are times when we'll be pivoting in and out of items for that reason, also. Sorry to be vague, but it really is, there's just so many different things out there.

Q - Kelly Bania {BIO 16685675 <GO>}

Alright. Thank you.

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

Well, thank you, everyone. We'll be around for any additional questions and have a good week and talk to you next time.

Operator

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