Costco Wholesale Corporation (NASDAQ:COST) Q3 2014 Results Earnings Conference Call May 29, 2014 11:00 AM ET

Executives

Richard Galanti - Chief Financial Officer

Analysts

Charles Grom - Sterne, Agee

John Heinbockel - Guggenheim Securities

Dan Binder - Jefferies

Meredith Adler - Barclays

Matthew Fassler - Goldman Sachs

Jason DeRise - UBS

Peter Benedict - Robert W. Baird

Scott Mushkin - Wolfe Research

Greg Melich - ISI Group

Chuck Cerankosky - Northcoast Research

Chris Horvers - J.P. Morgan

Matt Siler - Deutsche Bank

Operator

Good morning. My name is Bridget, and I will be your conference operator today. At this time, I would like to welcome everyone to the Quarter Three Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

And now, I would like to turn the call over to Richard Galanti, CFO. Mr. Galanti, you may begin your conference.

Richard Galanti

Thank you, Bridget. Good morning to everyone. This morning's press release reviews our third quarter operating results for the 12-week period ended May 11th.

The discussions we are having 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.

To begin with, our 12-week third quarter results, operating results, for the quarter reported earnings per share came in at $1.07 a share, compared to last year's third quarter earnings per share of $1.04.

As I go through the line item detail on the income statement, I will point out a few factors that impacted earnings both up a little and down a little. One item that I will point out upfront, of course, is the FX impact to the entire income statement.

The FX impact of weaker foreign exchange rates year-over-year when reporting profits from our international operations, that represented a little over $17 million pre-tax or between $0.025 or $0.03 a share impact to the P&L to the negative.

As an example, year-over-year in the third quarter the Canadian exchange rate, the Canada dollar relative to the U.S. dollar was down about 8%, Japan yen down about 6% year-over-year. Offsetting a little bit from strengthening foreign currencies for the U.K. and Korea and a couple of others but dwarfed of course by Canada.

In terms of sales in the quarter, total sales were up 7% and our 12-week reported comparable sales figure was up 4%. For the quarter sales were negatively impacted by gas price deflation which is about 25 basis point impact and by weaker foreign currencies relative to the U.S. dollar year-over-year which in the aggregate impacted sales by about 140 basis points to the negative.

Excluding gas, the reported 5% U.S. comp sales increased in Q3 would have been 6% and reported plus 3% international comp figure, excluding gas and FX would have been plus 8%, such that the total company comp, which we reported a plus 4% for the quarter, excluding gas and FX would have been plus 6% for the whole company.

In terms of new openings, after opening 60 new locations in the first half of fiscal 2014 and the closing of our Acapulco location earlier this fiscal year due to the hurricane damage. We opened four new locations in Q3, two in the U.S., one in Louisiana and one in Texas and one each in Japan and Korea.

All told that puts our 2014 fiscal year openings through the third quarter end at 20, since third quarter end on May 15th we opened our first Costco in Spain in Seville and this week we are opening our sixth location in Australia in Brisbane, our 11th Korea location and our 20th Costco in Japan, so three openings outside of the U.S. this week.

By weekend, we will be operating 657 locations worldwide and after that and through the end of the fiscal 2014 on August 31st we expect to open six more locations, four in the U.S. and one each Canada and U.K. Such that we will most likely end the fiscal year with 30 new openings less the one closing in Acapulco or 663 Costco's worldwide as of August 31st.

This morning, I will review with you our e-commerce activity, our membership trends and renewal rates, recent common stock repurchase activities and of course, discussion about the various line items of the income statement.

So on to the results, as I mentioned, total, actually, total sales in the quarter came in at $25.2 billion, up 7% from last year's $23.5 billion. On a reported comp basis, Q3 comps, again, were 4% for the quarter on a reported basis, 6% excluding gas and FX.

Now looking the 4% reported comp sales figure, it was a combination of an average transaction increased of 0.2% up, of course, that was on a reported basis, excluding gas and FX, the average transaction was up just under 2% and an average frequency increase of up 4.3%, which by the way is the same number year-to-date through the third quarter.

In terms of sales comparisons by geography, within the U.S., Southeast and Midwest were the strongest in the high single digits. Internationally in local currencies, Australia was the weakest due to cannibalization on a relatively small base of existing units with Korea, Taiwan, Mexico and Canada all coming in in local currency in the plus 8% to plus 10% range.

In terms of merchandise categories, sales results for the quarter, for the third quarter within the food and sundries, overall in the mid single digits. Frozen food, candy and meat, deli were relative standouts. Hardlines, which overall was just above flat, about a 0.5% up, departments with the strongest results were office and automotive, consumer electronics sales were down in the low to mid singles.

Within the mid to high single-digit softline comps, small electrics, domestics and apparel were standouts. In fresh foods, comp sales were up 8% with produce and meat being strongest, although, inflation on the meat side.

Moving down the income statement, membership fees came in at $561 million, up 6% or about $30 million year-over-year and down 3 basis points as a percent of sales. Again, FX that $30 billion increase would have been $38 million-ish assuming flat year-over-year currency exchange rates.

In terms of membership, we continue to enjoy strong renewal rates, continue to tick up a little bit, U.S., Canada for the, as of, for the quarter was up, the renewal rate through the quarter end was 90.6%, so first time averaging, rounding upward and 87.3% worldwide. Again, we see continued increase penetration of the executive membership and I will speak about that in a minute.

Overall, new member signups in Q3 were up about 1%, a lot of that, sometimes it's up a little, sometimes it's down a little, really has impacted by, particularly by some of the Asia opening schedules where we get outsized new member signups.

In terms of numbers at year end, at year end and I am sorry, Q3 end, at the end of the third quarter Gold Star members totaled 30.6 million, up from 30.1 million 12 weeks earlier. Primary business 6.8, up from 6.7 million 12 weeks ago and business add-on was steady at 3.5 million.

So all told, member households 40.9 million at Q3 end, up from 40.3 million at the end of second quarter. And including the add-on cards, the extra card, total cards outstanding 74.6 million at Q3 end, up from 73.4 million 12 weeks earlier.

At May 11th, Q3 end, paid executive member were shy of 14.4 million, representing an increase during the quarter of little over 300,000 new executive members or about 26,000 per week increase in the quarter. Executive members continue to be about a little over third of our member base, little over two-thirds of our sales.

As I mentioned earlier, our renewal rates have continued to tick up, business members at Q3 end were 94.4% from 94.3% renewal rate 12 weeks earlier. Gold Star 89.7% from 89.6%, so all told 90.6% versus 90.4%, and worldwide, I mentioned, the 87.3% number that was up from 86.8% 12 weeks earlier at the end of Q2.

Continuing down the income statement to gross margin, gross margin year-over-year in the third quarter came in at 10.62% of sales, down 5 basis points from last year's 10.67%.

If we jack down the following little metrics then I will explain it, I'll walk through it. There will be four columns and six line items. The line items would be core merchandizing, second line item would be ancillary businesses, third line item would be 2% reward, fourth line item LIFO, fifth line item would be other and then the total would be, the sixth line item total.

The four column would be reported in Q2 '14, the second line, this column would be without gas deflation in Q2 '14 and then columns three and four would be for Q3 '14 both columns and again, reported and without gas deflation.

So, again, going across those four line -- those four columns, core merchandizing, it was minus, it was plus 1 basis point in Q2 '14 on a reported basis year-over-year, without gas was minus 1.

For Q3 it was plus 9 and plus 7, ancillary businesses were, again reading across the four columns zero, zero, plus 1 and zero, 2% reward, minus 1 and minus 1, and then for Q3 '14 both reported and without would be zero and zero. LIFO minus 6 and minus 6, and for the Q3 '14 minus 8 and minus 8, other zero and zero, and Q3 '14 would be minus 7 and minus 7, so all told was minus 6 basis points year-over-year in Q2 '14 on a reported basis point -- on a reported basis. In Q2 '14 without gas deflation was minus 8 basis points total and then in Q3 '14 reported and without would be minus 5 and minus 8 basis points, respectively.

So as you can see the overall reported gross margin was lower year-over-year by 5 basis points, minus 8 without gas deflation. However, our core merchandize gross margin was up year-over-year both with and without gas deflation of 9 and 7 basis points, respectively.

For the third quarter on the merchandize categories on sales, food and sundries gross margin were about 20 basis points and -- were up in the 20 basis point range year-over-year, while hardlines and softlines were in the high single-digit basis point increase range year-over-year.

Fresh foods gross margins were just slightly lower year-over-year less than 5 basis points delta, which is actually an improved, relative improvement from recent quarterly performance in that area.

LIFO in the third quarter we recorded a $12 million or 5 basis point minus pre-tax charge in the quarter that compared last year in Q3 of an $8 million or plus 3 basis point pre-tax credit due to deflation a year ago. So year-over-year is a $20 million swing or about $0.03 a share.

In terms of inflation, LIFO, if I look at just the, as one represented a factor in that, data point in that, if I looked at our U.S. inventories looking at the LIFO calculations, Q2 end versus Q3 end and in the 12 weeks there was about quarter of percentage point delta in the LIFO index. With foods, not food and sundries but canned goods and alike was up little over 1% during those 12 weeks.

Lastly, other, last year in the quarter gross margin benefited from a non-recurring legal settlement received last year in Q3. This accounted for about a 7 basis point minus swing year-over-year both with and without gas. There is a little over $17 million pre-tax benefit last year in Q3, again related to this legal settlement which is about right around $0.025 a share.

Moving down to SG&A, our SG&A percentages were higher by 4 basis points year-over-year coming in at 9.86% of sales this year, compared to 9.82% a year ago. As we did with -- as I did with our gross margin, I'll ask you to do the four columns, first two columns are Q2 '14 and Q2 '14, both reported and without gas deflation, and then Q3 ’14 and Q3 ’14 reported and without gas deflation.

The five line items would be operations, then central, then RSUs or stock compensation, then quarterly adjustments and then total. Again, going across operations, the first number would be minus 12 basis points, meaning that in Q2 ‘14 year-over-year core represented a 12 basis point increase year-over-year in SG&A, then minus 9 and then in Q3 ‘14 those two columns would be plus 3 and a plus 5 or the core operations was improved by 3 and 5 basis points, respectively.

Central going across the four columns, zero and zero, and then minus 2 and minus 2, meaning a little higher year-over-year, RSUs minus 1 and minus 1, and then in Q3 minus 5 and minus 4, there were no quarterly adjustment, so in that fourth line item would be zeros across. And then the final column, the total, final row the total, minus 13 and minus 10 and in Q3 ‘14 reported SG&A again was higher year-over-year by 4 so, minus 4 there without gas minus 1.

In terms of a little editorial on these numbers, the operations component of SG&A again was up 3 basis points better year-over-year in Q3 and 5 better excluding gas deflation. Within warehouse operations, our payroll percentage of sales was lower year-over-year by or improvement by about 5 basis points. Total payroll dollars increased a little over 5% in Q3 compared to that 7% total sales increase.

Benefits of workers comp hit SG&A by about 3 basis points year-over-year, so that was a little bit of an offset to that improve. Our central expense it was higher year-over-year by -- in Q3 by 2 basis points, which is actually the same number as related to the ongoing IT modernization -- incremental modernization cost that was about 2 basis point hits the quarter. There are a couple of other things that went both ways for those of that, that would be the one thing, I would point out there.

Next on the income statement is pre-opening expense, pre-opening expense was up $6 million from $10 million last year in Q3 to $16 million this year. We actually had one -- one more opening last year, five last year versus four this year, although, that timing of that relates to both things after the quarter as well.

I might also point out, of course, with the opening of Spain, you always have a significant pre-opening expense related to the opening of the country itself in that first warehouse that was about $4 million of that $16 million number for Q3 this year.

All told operating income in Q3 '14 came in at $734 million, higher by $15 million from last year's $722 million. Below operating income, interest expense came in at $25 million both this years and last years fiscal third quarter.

Over 95% of it relates to the interest expense related to the 10-year maturing $1.1 billion debt we have that matures in 2017 and the $3.5 billion of debt that matures over the next two to six years that we did back in December of '12.

Interest income and other was lower year-over-year by $3 million, so coming in at $15 million last year relative to this year or this quarter $12 million positive. Actual interest income for the quarter was higher by $2 million.

The other component of interest income and other amounted to $1 million positive this year versus $6 million positive last year, so minus $5 swing. Majority of these negative earnings relates to the negative impact of mark-to-market adjustments on forward FX contracts used to source U.S. goods and certain foreign operations.

Swings are caused by changes in dollar, U.S. dollar relative to local currencies -- local currency in certain foreign location as compared to the prior years and this, we just pointed out as part of that impact sometimes it's little positive and sometimes it's little negative.

Overall, pre-tax income was higher year-over-year by $12 million in third quarter coming in last year at $712 million and this year up $12 million to $724 million.

In terms of income taxes, our tax rate this quarter came in a little better or lower at 33.9% versus 34.8% last year. This was primarily due to the higher year-over-year penetration of profits coming from our foreign operations which overall have lower tax rates than in the U.S.

Overall, reported net income of $459 million last year at $173 million of net income this year in third quarter.

For a quick rundown of other topics, again the balance sheet is included in this morning's press release, but I'll point out a couple of balance sheet info items. Depreciation and amortization for the quarter was $237 million and so year-to-date $708 million.

AP as a percent of inventories came down 2 to 3 percentage points, on a reported basis it showed last year 102% accounts payable as a percent of inventories, this year 99%. If you look at just merchandize -- merchandize payable not other types of payables like construction payables, last year in Q3 that 102% was 91% and this year 91% comes -- went from 99% is an 89%, so still down a couple of percentage points year-over-year.

Average inventory per warehouse was up about 7%, on a per warehouse basis coming in at $13.0 million this year up from $12.2 million last year. The increase was pretty much spread over many departments, apparel was probably the biggest delta, the men's, women's and children's apparel was up year-over-year of about little under $200,000 and foods and candy was up about $150,000. Overall, though, we feel our inventory is in good shape and not a whole lot to talk about there.

In terms of CapEx, in the first quarter we spent $574 million, in the second quarter this year we spent $447 million and in the third quarter just ended we spent $405 million, so Q3 year-to-date we are just a little over $1.4 billion. Our estimate for the year for CapEx is will come in at about $2.2 billion compared to last year's expenditures for the whole year of $2.1 billion, so up slightly from last year.

In terms of Costco Online, we continue to operate Costco Online in the four countries that I've mentioned in prior quarter, U.S., Canada, U.K. and Mexico, U.K and Mexico of course being much newer than the U.S and Canada operations.

For Q3 sales and profits are up, sales were up 15% year-over-year in the quarter, a little impact from the weak Canadian dollar, but overall 15% on a reported basis.

I've talked about the various things we have done in the last year and year and half in terms of re-platforming and adding mobile apps and combining some of the e-commerce merchandising buying efforts with some of our line efforts. We have added a few categories like apparel, some limited apparel items and some limited health and beauty items. We've started to ship out of more than one depot to improve timing of shipments, some of the bigger ticket items as well.

Outside of e-commerce, there's a couple of things that in the internet area or things that we're testing. I mentioned before the Google test, Google Shopping Express in the Bay Area more recently in last several weeks. It's been tested in Los Angeles with some retailers not just us but in Los Angeles at our Culver City location and in Manhattan at our Manhattan location. And those are -- both those two cities are just in the last four to six weeks. Also we've tested a few from a membership signups standpoint, a couple of social media area -- social media initiatives with LivingSocial and Zulily.

Next on the discussion list, in terms of expansion. Again through Q3 end, we've opened 20 units then have the current closing of the Acapulco location earlier this year because of the hurricane. Q4 in total including the few that we have already opened, we'd expect to open 10. So again 30 openings less the Acapulco location between nine net increase for the year.

So looking back over last year and half, fiscal '13 for entire year, we had 26 units on a base of 608. So about 4.5% square footage growth this year, assuming the 30 net new units to be 4.5% to 5% square footage growth. Again 30 openings this year, 17 would be in the U.S., three in Canada, one in the U.K., two in Korea and two in Japan, three in Australia and one each in Mexico and Spain. As of Q3 end, total square footage stood at 93.7 million square feet.

Next item, stock repurchases. As mentioned on the call, I guess about 12 weeks ago that we would -- that we anticipated we would begin buying back some stock. We began our recent repurchasing activities on March 7th. I think that was the day after our second quarter earnings results were released.

For those nine weeks since then through the end of the third quarter, we purchased 1.6 -- little over 1.6 million shares at an average price of $113.14. Total dollars expended during those nine weeks of $183.6 million. In terms of dividends, our quarterly dividend per share increased with a May dividend payment from $0.31 a share on a quarterly basis to $0.355, so about 14.5% increase. This $1.42 per share annualized dividend represents the total cost of the company of about $625 million a year. Lastly, our fourth quarter scheduled earnings release will be Thursday, October 9th. That will be for the 16-week fiscal fourth quarter ending on August 31st.

With that, I'll open it up for Q&A and turn it back to Bridget. Bridget?

Question-and-Answer Session

Operator

(Operator Instructions) And your first question comes from the line of Charles Grom with Sterne, Agee.

Charles Grom - Sterne, Agee

Hey, Richard. Good morning. How are you?

Richard Galanti

Good.

Charles Grom - Sterne, Agee

Just on the core, up 7 and then the fresh foods came down slightly year-over-year. Just wondering if you could remind us how that fresh food margin has trended over the past couple of quarters. And given the inflation that we're seeing today, what kind of your expectations so that over the next -- I guess, over the next 16 weeks?

Richard Galanti

Yeah, well, I can't give you a whole lot of information about the expectations. I can tell you a little bit about what's happened the quarter and year-to-date. Year-to-date those components, fresh food is year-to-date. Do I have that here? The total consolidated, fresh food year-to-date was down about 22 basis points. And that includes up the -- down the 4, 5 or sub 5 this quarter. So for the first half of the year, it would have been more than that minus 22.

Charles Grom - Sterne, Agee

Okay. So what's the change. Like what's changed us part of that? Is it a little bit of relief on the pricing front or is it something different?

Richard Galanti

I think one thing that I one pointed out last is certainly I mentioned historically that we have kept the rotisserie chicken on the same price for the last two years when cost dramatically increased. We've seen some relief there in the last quarter and so a little over that probably, that's one item and that's a huge item.

In terms of that -- this factor but beyond that, I mean it's a conscious effort to -- we want competitors but we are also trying to show a little margin improvement. So that's the only thing I could point out. In general, as it relates to inflations, we tend to be little laggard when there is some inflationary pressure.

My guess is, is that when I looked at the core components, so that the food and sundry is up. That's where there is more inflation. There is also some LIFO charge related to that. Overall, when prices are going up quickly, I also believe we have to raise them, when they were probably going to be slower than others. So again, that's on a general basis. Overall, beyond that I know here is a whole lot to talk about in terms of trend there.

Charles Grom - Sterne, Agee

Okay. I know there are price discloses in the queue but if you could just shed a little bit of light on operating margin performance internationally. And then also in the U.S., how they are compared to last year?

Richard Galanti

I think we're still cross checking those numbers and want to -- that will be out of the Q. Generally speaking, the trends that you've seen continue, I mean, FX doesn't play into those numbers from the standpoint of percentages because FX hits every line item on a Canadian P&L as an example. Canada continues to be more profitable that as a percent of sales than the U.S. and other international overall tends to be in that direction, skews a little bit on a smaller base of total units when they are open in Spain or we cannibalize some units in the country. But overall, I think that it's fair to say that your columns two and three with column one being in U.S. are more profitable as a percent of sales than the U.S.

Charles Grom - Sterne, Agee

Okay. And then last question, in April, you called out state of California is improving, the entire state. Just wondering if you could elaborate on that improvement. Do you think it’s sustainable. And I guess, what do you think was driving it?

Richard Galanti

Well, I don’t know. It’s sustainable so far. I don’t know about the future. When I called out just geographically some of the members I think, California, again the ones that were -- I called out were Southeast and Midwest. California actually was a little better than the Northeast and the Northwest, pretty close to the total for the company. So overall, I think California continues to do a little better than given its maturity and size. I can’t tell you why though.

Charles Grom - Sterne, Agee

Good. Thanks.

Operator

And your next question comes from the line of John Heinbockel with Guggenheim Securities.

John Heinbockel - Guggenheim Securities

Richard, just a quick follow-up on the inflation question. A number of companies have said in the last four to six weeks they have seen a sea change in some items, it's all perishable. Have you seen anything like that or what you are seeing is more gradual?

Richard Galanti

Well, when I look at, just again the various LIFO pools for U.S. inventories which is one indication -- LIFO pools of course are cost pools but the -- back-like items year-over-year. And again you start the New Year at a cost of 100.00 for everything. If I look at the -- well, I will call the foods pool.

This is not fresh foods that have canned goods, cereal, all types of food items I got. That's up a little over 2.5% from the beginning of the fiscal year.

In the last quarter, in the last 12 weeks of these 36 weeks, it's about 1.2%, so almost half of that delta. So yes, that's into the fee change. I haven't looked at that closely in fairness. When I look across items in terms of inflationary items, again just shooting down the list, looking at top 25, most impactful items to our LIFO calculation. There is several nuts in there, almonds, pistachios, walnuts, all the high teens to low 30s.

There are seafood items. There is -- generally speaking those are types of items. There is few produce items, that tends to be item based not produce based, based on where a drought or freeze or rain was. On the deflationary side, it's the usual suspects, the bunch of electronics. That's a lot of the items, couple of small apparel items.

John Heinbockel - Guggenheim Securities

Okay. And then again, I guess, beef in total would be a bigger -- is that a bigger sales item in total than your chicken products?

Richard Galanti

Sure. Beef overall, I think in the last -- beef prices are up 10 plus percent over the last quarter on a year-over-year basis. So yes, clearly, there is more inflation in that. I think on the poultry side, there has been some inflation. But we were successful in locking in some stuff as well.

John Heinbockel - Guggenheim Securities

Another topic on payrolls, you said up 5% dollars. What has the trendline been on that? And it actually seems like a pretty good performance for you. Are you doing anything different process-wise in the clubs to try to tweak that a little bit?

Richard Galanti

Yeah. I don’t have in front of me. I think the last few quarters when I pointed out payroll. That’s generally been a slight benefit basis point wise, which would indicate the dollars increase a shade less than sales -- total sales increase. I think first and foremost it’s sales. I mean driving a tough line is our biggest benefit.

Beyond that, there continues to be a focus of things like overtime hours, lots of little things like that. I don’t know if there is any giant process changes in the warehouse of late that I can think off.

John Heinbockel - Guggenheim Securities

Is that the total number, if you look to payroll and comp clubs would be up less than that, right?

Richard Galanti

What was that?

John Heinbockel - Guggenheim Securities

5% is a total number. If you looked at it on a comparable basis, it would be less than that. So when you think about, at least on a waiver . What comp do you need to get leverage, you can get leverage on a lesser comp than you’ve been getting, fair?

Richard Galanti

Yes, probably little higher than some other retailers but little lower than it has been historically for us. We also probably get a little benefit from increasing penetration overseas where as a percent of sales, it is a low labor percent.

John Heinbockel - Guggenheim Securities

Okay. And then just one last thing. Monthly coupon book performance, just curious; you have been doing a much better job in the clubs signing in the club what items are in that coupon book. Has that done anything to performance of the items in the book or no, not really?

Richard Galanti

Well, I like to find out how you concluded that. First that, I think -- look they keep working it. It's a challenge. We've done it for a lot of years. I think we've first of all done better that timing is such that they are easier to manage both by the buyers and having it essentially, usually like a week in between them to give the warehouse time to move out what remnants are left than the old MDM and being able to bring in new stuff. Again overall, every time you do an MDM, you have more experience about some thing that maybe has petered out a little bit because we have been running it every year, every six months and the things that did surprisingly well, perhaps on a regional basis that we want to push everywhere. So as you might expect, we work with our vendors on that, figuring out how to best spend that money to both, also we drive sales.

John Heinbockel - Guggenheim Securities

My comment was just that on the shelf itself. I'm seeing more. This item is in our coupon book this month, which I hadn't seen going back a few months.

Richard Galanti

Okay. Fair enough. And that you are right on that. Thank you. I agree.

Operator

And your next question comes from the line of Dan Binder with Jefferies.

Dan Binder - Jefferies

Hi. Good morning. I just had a few questions, please. First, on inventory, you've seen inventory tracking decent amount of sales in the last four quarter or so. The clubs look clean, at least the ones I visit. I'm just curious what the driver is, is it the new clubs, is it dot-com, maybe a little bit color on that? And then also, I know you had an amazing turnout for job applications in Spain, curious what the early days are looking like in that club. And then finally on the IT spending, I imagine you probably have a pretty good idea of what that looks like for Q4, so should we expect a similar sort of 2 basis point incremental impact there?

Richard Galanti

Okay. On inventories and a question related to where the increase is coming from, I think fairly we have -- yes, we do have more inventory in e-commerce because we are now shipping out of more than one location. But that's relatively small to the total, when I look at the total average per location. Again, the big areas were the conscious effort on our part in apparel and one of -- I think our success is that we talked about last several quarters is massing out and making bigger commitments to some items that have done, we call high fashion basics, but everything from true basics to seasonal items like shorts and bathing suits and kiosk items. We've done really well in some of those items. So we've certainly committed more inventory in that area. By the way, that area tends to be usually in the middle center area where we've shown some areas like media over the last few years. As it relates to -- what was the next question was?

Dan Binder - Jefferies

Just early days in Spain.

Richard Galanti

Well, Spain, so far so good. We only were there for two weeks. We've had good sign-ups, not like Japan and Korea but very, very good in our mind and we are pleased with the result so far in terms of sales and is growing. We have small baskets when people come in for the first time but we were pleased with the results. I really don't want to be, chew it either way. It's so far so good.

And the last question related to IT. If you had asked me before, I'd have said minus two. A couple weeks of ago, I would have said it's probably minus three just because it tends to be in that three to four range on average. It's probably in the minus two to minus three range next quarter but we will have to wait and see. Starting near the end of the quarter and into Q1 of '15, there will be a couple of other projects that go online and because you depreciate -- you capitalize those and then amortize them over, typically a five-year period, sometimes little less and sometimes a little more or up to seven and generally no less than three.

But usually I'd say five is a single point average. My guess is it will tweak up a little bit again. And as I've said, our best guesstimate over a three or so year period in terms of incremental impact to SG&A would be 10 plus basis points. And we look down, I think this is about the seventh fiscal quarter, we talked about it. And so I had an average, if you look at all of fiscal '13, those four numbers and annualized the three quarterly numbers this year, we are probably in the 6 or 7 basis point or 5 to 7 basis point range incremental then we'd probably have another three or four to go after that. So this is guess and a decent estimate but we will wait to see.

Dan Binder - Jefferies

Great. Thank you.

Operator

And your next question comes from the line of Meredith Adler with Barclays.

Meredith Adler - Barclays

Actually my questions have been asked already. Thank you.

Operator

And your next question comes from the line of Matthew Fassler with Goldman Sachs.

Matthew Fassler - Goldman Sachs

Thanks a lot and good morning. Two questions. The first, Richard, relates to online. If you could give us a sense as to what your members are asking for more obviously. It sounds like you are evolving the mix, are there areas where you would expect to grow the assortments incrementally based on member demand?

Richard Galanti

Well, I mean, I think the areas that we've grown over the last year relative to prior to that have been some limited apparel items. There is some health and beauty aid items and perhaps another replenishable office items, K-Cups, health and beauty aids, some small office needs. As you are probably aware, from the first many years, many of our items were big ticket and in many cases deliverable and in some cases white-glove installed items like big screen TVs and patio furniture and swing sets and the like and certainly some of those in furniture. Some of those are still our biggest categories for, one, they have been on for longer and two, they are bigger ticket items.

In our own way, we are looking to see how we can get items on there that are more regular and frequent to get people return to costco.com and I think we are doing better, a little better with signage even in the warehouse with that certain items. Somebody doesn't want to necessarily have to shuffle it home and install it. They want to -- they are willing to pay for that delivery and certainly, our prices are very attractive even on that basis.

Matthew Fassler - Goldman Sachs

It is just really a follow-up on that. As you think about the vintage of member that's doing business online, is there a difference between those that have been Costco members for many years and maybe those who are newer to the company?

Richard Galanti

Well, generally speaking, newer to the company means less and less purchases. Certainly, when we get a new sign-up online because they are buying online, I would say generally, they tend to be low. I don't have exact numbers there. When we've done -- when we look at the age breakdown of our members based on how long they have been numbers or throughout the United States. And we look at new member signups through a couple of these social media things that we've done in recent months, what you would expect it to be. You've got a younger member signing up through LivingSocial and Zulily so. And it's a relatively attractive cost of acquisition. So we are not going crazy here. We are taking baby steps but some of this stuff works.

Matthew Fassler - Goldman Sachs

That's very helpful. Thank you so much.

Operator

And your next question comes from the line of Jason DeRise with UBS.

Jason DeRise - UBS

Hi. It's Jason DeRise here. I wanted to ask a question on the margin decision on some of the food items that you sort of have a fixed price. I guess I just want to understand the rationale for not changing those and the comparison I want to make whether it's fair or not is that your fuel prices are not fixed price and it varies with what's happening in the markets, so why not with rotisserie chicken and hot dogs and things like that?

Richard Galanti

Yeah. Well, that's right behind the black curtain here. Look, at the end of the day -- first of all, I want to make another point of the previous question. As it relates to -- well, I will stop with that. Let's get to your question first. In terms of fixed items, I mean, in retail, there are price points that are hot, I mean, the $1.50 hotdog and soda. I think we didn't sit down when they had said, let’s decide that the rotisserie chicken should be at but its price has changed dramatically and we saw the competition raising the price. It was a hot price. Let’s take a little less margin, take a little less margin, that little or no margin. And so I think there are few examples of that extreme. Gas historically has always been an item that there are some locations where we comp shop the price three or four times a day compared to the locations nearest us. So, I mean it intends -- I think it’s just the nature of retail and the nature of what we do. We don’t sit down and kind of optimize everything. We are merchants. There are key price points and that’s how we do it.

Jason DeRise - UBS

Okay.

Richard Galanti

Gas, by the way is a lot more volatile, a lot more volatile and a $12 billion or $13 billion business for us. But it's very visual out there. I mean, people -- you go to some of these apps like Gasbuddy.com. There is a reason that we are comp shopping that item in some locations three, four times a day.

Jason DeRise - UBS

Okay. No, I know it's an unfair comparison but I thought -- I don't know, just help try to understand the thought process between things like that. I guess as the follow-up on the last question, maybe it will get you continue to follow up on the answer to the last question. But as you do these -- as you try out social media or the LivingSocial type promotions to get younger members to sign up, how do you manage with the limited number of SKUs to keep both your core boomer shopper happy and then also have enough relevant items for a millennial shopper, or do you think that doesn't matter?

Richard Galanti

Well, we'll have to wait and see. We are not going to keep our head in the sand on it but extreme value works. And again to follow-up on the previous question, what I was going to mention was the test that we are doing will roll now in three major markets into Bay area, L.A. and New York City. Arguably those -- if you look at the age breakdown of those, it's younger. That's a positive.

Now, I don't think we are ever going to get your one box of Life Cereal and one box of Fruity Pebbles and two different types of half gallons of milk deliver to your doorstep at six in the morning. But there is a lot of things that we have. I mean, we've certainly changed, frankly expanded the items out of the locations in the Bay area and you will continue to see that. So we are excited to see what the Instacarts and the boxes are doing as customer of ours. But they are small, they are new and there is going to be lot of things.

So, I think there is still a lot of reasons -- not everybody wants to just sit home and type in stuff to have it delivered in the morning, people like to go out and do stuff. We are pretty good at getting you in the warehousing. We will have to evolve over time as well. But there is certain things in our model. There is a reasonable way to sort of markup goods on average 11%, on average 11%, on arguably buying power that's at the top of the heap in terms of strength and not always good. But we are open-minded but don't expect us to deliver to everybody's doorstep. If others want to, we will be happy to accommodate and help them do that with our stuff.

I mentioned this last time and jokes aside, organic is getting bigger, not just for us but for everybody. But again just like we wow people in our produced numbers, numbers in our produced department, we have great quality on slightly oversized items for families. That whole organic thing is arguably. And again, I don't think we sat down and strategically thought about it. We look at what items work well and price of things and when it works, we really go after it. We've seen surprisingly good success on organic and produce and fresh meat, fresh ground beef. And the challenge is the supply, frankly. There is not enough supply but if we can show great value, we will figure it out.

Jason DeRise - UBS

Okay. And actually that was what I was going to finish up on as an example of something for a younger consumer base in the demographic. So you think that when you put these items on the shelf like organic compared to conventionals, you are getting enough rate of sale that all the economics from your point of view work or if it's not quite that level, you are willing to stick with it?

Richard Galanti

Well, first of all, the level of economics are still on an item basis. As we said, there is less supply. We just don't put it in normal locations and we love to have twice as much in some locations. But items live and die around here since the beginning of time -- since 30 years ago and certainly some of these organics are really starting to take off. I think so far one of the benefits that we think we had, I think I mentioned this before, not only in some cases, I think I've used like the fresh ground beef example of organic. It's a higher price point. We get a slightly better or full margin -- by our definition full margin, because it's not football everyday out there in every supermarket chain. And to our pleasant surprise, 75%, 80% of these sales in this new item was truly incremental. It was existing members that didn't buy ground beef at Costco because they did buy organic and so it was incremental. And so these are all small examples, but they are going to grow over time.

Jason DeRise - UBS

Thank you.

Operator

And your next question comes from the line of Peter Benedict with Robert W. Baird.

Peter Benedict - Robert W. Baird

Hey, Richard, a couple questions. First, can you talk about the level of new member sign-ups that you guys tend to see when you open up a club internationally versus what you see in the U.S.? I mean, how dramatic is that difference?

Richard Galanti

Well, I don't have exact numbers in front of us, but we are in a well-penetrated, very successful market, like LA or parts of Virginia, New York. You might have and what we look at is during the eight to 12 weeks prior to opening when you've got the parking lot partially done and there are some tabling activities outside where people kind of sign-up. You might have as few as 3,000 or 4,000 new sign-ups through those eight or 12 weeks. In a new small market, like somewhere in the Southeast like Louisiana, Baton Rouge or New Orleans, or Knoxville couple of years ago, you might have 8,000 to 12,000 because even though it's a much smaller market, it's new. We've had some extreme examples during those first many weeks prior to opening day of 30,000 to 40,000 members in some of the Asia countries. It's somewhere in between there, Spain and Australia, so better than the U.S., but you know again the benefit is when you open it up in LA, Huntington Beach a few years ago or something like that, you may have fewer new signups where you are getting a lot, you get existing members in your shop more frequently because they got a unit 10 or 15 minutes from their home instead of 30 minutes.

Peter Benedict - Robert W. Baird

Okay, that's helpful. And then there was no gross margin headwind from the Executive reward, 2% reward this quarter, what's happening in the spending patterns between your Executive members and your regular Gold Star members? Are the Gold Star members kind of picking up incrementally? And just remind us where you have the Executive membership being offered, what countries you don't have it, and where you don't have it what are your plans for getting it there? Thank you.

Richard Galanti

Well, theoretically, our plan is to put it wherever we can and make sense. I don’t know if I know off the top of my head where else it’s going. Currently we have US, Canada, UK, and Mexico, and I know we are looking at couple of countries, but I am not sure let’s say when I guess in the next year or two we will have at least one more country. Part of it of course based on size, number of warehouses and number of members in that country, and you would want to get a handful of offerings going to be able to go with a handful of offerings to start with.

I don’t think the delta one is as we open, there is probably a little more sales penetration in some of those new markets. There is international markets where we don’t have it, that probably impacted a little bit. I am not terribly concerned. It’s generally been in the 1 or 2 basis point delta year-over-year in terms of how that reward impacted. This time it was zero. I don’t know off the top of my head. I haven’t heard anything or sees anything at the monthly budget meetings about any concern about that. If anything, we are continuing -- my one surprise yesterday or a couple of days ago looking at these numbers was the fact that we probably -- the 25,000 or 26,000 new Executive members, new and converted Executive members per week during the quarter is a little higher, certainly a lot higher than Q2, I think a little higher on average than the last several quarters on average. So we still get lot of people to convert and that’s good.

Peter Benedict - Robert W. Baird

Yes. Now that certainly looks like that trend continues to be healthy. So it looks like the Gold Stars are definitely doing better. Last question, just early thinking on your openings for 2015. If there is not a number, maybe just kind of a geographic split, how you are thinking kind of international versus the US? Thank you.

Richard Galanti

I think it would be similar to this year, 30, maybe a little -- hopefully a little 30 plus you know. I think I mentioned this year, if we get to the 30 from the 17 in the US, it's a little more than half, I would guess half, is it 45% to 52% or something next year, not 55%, but overall we still think we've got opportunity in the U.S. and in Canada and every market that are extremely well penetrated. And we definitely have the pipeline more fill overseas now. If I have to guess, it would be a number north of 30 and south of 34.

Peter Benedict - Robert W. Baird

Okay. Thanks very much.

Richard Galanti

Yes.

Operator

And your next question comes from the line of Scott Mushkin with Wolfe Research.

Scott Mushkin - Wolfe Research

Thanks, Richard. Thanks for taking my question. It's actually more of a big picture question kind of going back to some of the e-commerce discussions and just noting that one of your biggest competitor's CEO is on record yesterday saying that, if consumers just don't want stores, maybe we won't have stores, when talking about kind of the trajectory here in the US in e-commerce and whatnot. Now maybe that's because his stores aren't performing as well as yours. So I guess one of the things I'm wondering is you could say that Costco doesn't have as well developed of an e-commerce platform. You could also say that a lot of stuff you guys carry Amazon has been pretty aggressive in, yet your stores are doing great. Why do you think that is, what is the number one reason you think you are overcoming maybe demographics, e-commerce, and really just putting up some of the best sales in retail?

Richard Galanti

Well, I think you mentioned some of the mix, it's merchandising, it's quality, it's quantity relative to price, it's extreme value. Arguably our demographics is -- I don't think you need to be an economist to understand that our demographic has probably been impacted less than the lower demographic retailers. Clearly gas brings you to the parking lot. Our fresh foods is a signature category and fresh foods is something, if jokes aside, if you like our rotisserie replacement or our whole meal replacement items or any of those great fresh food items or organic produce, that's the reason for you to come in. If you walk by the sweaters and the batteries and the patio furniture and the activewear, you are going to buy some more stuff.

So we think that again delivering small quantities of stuff to home is not free. Ultimately somebody has got to pay for it. And if we are going to lose sales over time some of that, we will figure out how to not lose as much and how to drive sales in other ways. I mean I think we have been pretty good at that. But starting with average markup of average gross margin of 11%, which is nobody comes close to that, I think we will be pretty good, but we are also open. I mean, we are not trying to put any fluff in it. We like the fact that it's being exciting to work with Google to look with opportunities to drive business that might go somewhere else. Some of these other new companies that are doing things and using us as part of their platform to pick up and deliver the numbers at a small cost, that's great. So we will keep figuring that out, hopefully there is also some items that we only have and start -- usually that starts with the name Kirkland Signature or some crazy items that we only have that somebody bragged about that, they can get at Costco, whether it's some incredible price on branded handbag or bicycle or kayak or whatever. So there is all kinds of reasons to come at Costco.

Scott Mushkin - Wolfe Research

That's a terrific answer. When you think about your own e-commerce business, how do you prevent it from basically cannibalizing the heck out of your own stores? We've used it before, but we've been using most of your e-commerce for like furniture, stuff I would never get at your warehouse. I mean, how do you guys think about it as you grow this business and how it doesn't just cannibalize yourself and take your ROICs down?

Richard Galanti

Well, I get back to the question is if somebody is going to take that business, we would rather take it. We also recognized that, I'll call the good old days when you only had one -- there was no such thing as the Internet, you only had one choice if you wanted to get that TV or that patio furniture at that price, you either find a friend with a pickup truck or go get a U-Haul and get it home. You had choices now and so we do believe that we are selling some of those items that would not have been involved in store, not everybody is going to take those items home that way. So we have to change with the times there, but we also recognized we also have to get you in on increasingly hopefully increasingly frequent basis. So you pass by all those items that you go wild, and I think so far we've done pretty well at that.

Scott Mushkin - Wolfe Research

Indeed. Thanks for taking my questions. I appreciate it.

Operator

And your next question comes from the line of Greg Melich with ISI Group.

Greg Melich - ISI Group

Hi, thanks. , I wanted to follow up on the membership fee income. If my math is right, it was up a little over 7% in local currencies and so, is that right? About 3% per club.

Richard Galanti

Yes.

Greg Melich - ISI Group

Could you help us understand what's driving that 3% per club? Is it at Executive membership shift? Is international? What's the bulk of that of 3% per club?

Richard Galanti

Executive membership is a good chunk of it. On an international basis, again I have to analyze little more. There is more sign-ups per location, although in some countries converted into dollars, it's a little less than 55. And of course, we don't have 110 in some of those countries. So I think it's probably the fact that we do get more sign-ups internationally is probably the biggest reason.

Greg Melich - ISI Group

But you think Executive is still a bigger portion of that than international if you had to then we will follow-up…

Richard Galanti

If I had to guess, I would probably say half-and-half, I just don't know.

Greg Melich - ISI Group

Fair enough, fair enough. Given the renewals internationally continue to improve, is there a threshold or how should we think about raising the fee in markets outside the U.S., given that we sort of know how it works in the U.S., the five to six-year pattern? How should we think about either a threshold or renewal rates or members per club where we start to model that in on the international side?

Richard Galanti

I don’t know. I mean, we don’t talk about it a lot. We like the fact that the new markets is recognizing. These new markets are also much smaller percentage of our total company. Thus we’re to just drive business and drive signups. And we can worry about a little of that later. And so we look at it every year or so but spend all of about 10 minutes, look you had it and we’ll see in the future. I mean, I don’t see any preferred plans and making any major changes out there.

Greg Melich - ISI Group

So fair to say the focus internationally is still getting the sign-ups rather than trying to take the fee up?

Richard Galanti

I know, yes, I think that’s not here on page 1, it looks 25 line page. I mean, the first order of business is opening units and getting into work right. And even in very successful countries and even with the support of its parents in the U.S., us, when you’re going from 9 to now 20 units in Japan over two years. And going from three to six locations in Australia and a little over a year and a half, there is challenges. Nothing major, believe me, I think we have some -- every week, there is somebody from one of my departments going over to help out on something somewhere, which is good. But the same time, you always have some growing pains with that kind of stuff.

Greg Melich - ISI Group

Great. And a little bit of a housekeeping, I think on the SG&A you mentioned workers comp hurt 3 basis points, is that?

Richard Galanti

Actually benefits the workers comp. I think workers comp was actually flatter slight, a very slight improvement year-over-year as percent. Benefit was the bigger culprit.

Greg Melich - ISI Group

Benefits was the culprit for workers' comp held. Was there anything -- so that was a net figure to 3 basis points was benefits and workers' comp?

Richard Galanti

I think its like four and one, plus four and minus one. But benefits workers comp, we can always summarize together.

Greg Melich - ISI Group

Got it. And then benefits trend looks like it sort of an ongoing thing as opposed to anything that ….

Richard Galanti

Yeah. The one thing that helps it, I mean, we read about hospital cost or becoming less inflationary in the U.S. We -- and I talked to few other different types of companies at a recent meeting outside the Costco and we're not seeing below as low numbers. I think maybe on a per charge at a given hospital or a given doctor, something's might me lower if its only through the Medicare system as example. But some of the things that have been added like up to 26 year old instead of 18 to 22 based on if your kid is in college or not, your dependants, on mental and medical health priority no limits.

There is -- all these things have added, 1 and 1.5 percentage points to already large number. The thing that's frankly can help us more than that whether inflation is 5% or 10% or 3% and certainly if it comes down in the mid-to-lower single-digits that's a positive for us. But the bigger thing is the increasing penetration outside the United States, where healthcare cost as a percent of sales, respect to sales in that countries is lot less.

Greg Melich - ISI Group

Got it. And then lastly on the gross margin, I think last quarter you've talked about some of the gross margin about half of the hurts was self-inflicted or something you decided to do. It sounds like this is a quarter where you didn't -- you felt that there was -- even we decided to do that again. Am I summarizing that correctly?

Richard Galanti

Yeah. Again, I used the extreme example of the chicken. Again, we went from two years of an item that arguably represents several hundred million in sales of having very little of any margin to indicating that as underlying costs have come down a little bit, we didn't change the price. But we improved the margin a little bit. Its one item that probably impacted us incrementally by 3 or more basis points over the last couple of years and is now hoping in this some of that's reversing, not all of it.

And we'll get a little increasing penetration overseas, helped you a little bit. I can feel that we don't try to get lower margin. We try to get lower prices but we still look to see where we get low.

Greg Melich - ISI Group

Thanks.

Operator

And your next question comes from the line of Chuck Cerankosky with Northcoast Research.

Chuck Cerankosky - Northcoast Research

Good morning, Richard. If we are looking at what proteins are doing, especially some of the strong inflation we are seeing in certain categories. How are you seeing your members switching between those and what is that doing to your gross profit margin in the edible protein category?

Richard Galanti

I think from the last budget meeting, there was some switch from beef to poultry as you would not expect with the rising prices with beef. I don't have exact number. And I look at overall fresh fruits margin. Again accounts like would be for all down but dollar is up bigger surprise. I don't know if somebody had checked that detail.

Charles Cerankosky - Northcoast Research

All right. And then just a quick follow-up with regards to Spain, anything worth pointing out there with regard to the product mix as you open up that's unique to Spain?

Richard Galanti

And the pictures that I saw, there are certainly some unique local items of Spain and Europe. But generally speaking, the many of pictures that I saw, looked a lot like Costco that you would see. As you might expect, like any opening and certainly as a new opening in a new country, there are probably a lot of hot non-fruit items where we're able to pursue merchandize and really show great value of exciting stuff. But I'm shooting from the hip with this answer.

Charles Cerankosky - Northcoast Research

Got you. We both need to get over that.

Richard Galanti

Fair enough.

Charles Cerankosky - Northcoast Research

Thank you.

Operator

And your next question comes from the line of Chris Horvers with J.P. Morgan.

Chris Horvers - J.P. Morgan

Thanks. Couple of quick model question. So by the nature of the LIFO calculation, you had a 7 basis point benefit last year in the fourth quarter, just by the fact that you have a benefit, does that end up being a negative this year in the fourth quarter?

Richard Galanti

No, that negative related to how it was versus the year before that. But we now start with that base of cost, if you will a year ago and really start with basis at the beginning of this fiscal year. And so how do prices trend? Again, using an index of 100.00 at beginning of times zero at the beginning of fiscal year and let say through the end of the third quarter I mentioned as an example like what I will call the food sundries pool, or what we call the foods pool, which is canned goods and cereals and things like that.

From the beginning of fiscal year, it was up 2.6%. If they go up or down a little in Q4 from that 102.6% number. It might be -- if we went down a tenth, it would be a LIFO credit in the quarter, even though there was a small offset to the big LIFO charge year to date for the first three quarters. So it's really, if you think about it, what’s going to happen in Q4 is what the index was for all the pools at Q3 and what it will be 16 weeks in.

Chris Horvers - J.P. Morgan

But you mentioned that it was -- I understand, so sequential. So you also mentioned that price has accelerated in the back half of the quarter, so it sounds like it's more likely to be a negative.

Richard Galanti

It could be but it probably will be but I just don’t know.

Chris Horvers - J.P. Morgan

Okay. And then on the buybacks, you bought back 1.6 million shares. The share count ticked down 0.1 sequentially. So just curious, was that more based on the timing of the buyback during the quarter or was there more of a big impact from the stock option exercising?

Richard Galanti

While, there is not a whole lot of stock option exercises. In fact, they are using the treasury stock method, that's kind of impulsive in the number anyway for options. If you have a big in-the-money option, which are remaining small amount of options that were granted in '05 I believe, so they expire in '15, '04 and '05 should expire this year and next year.

We're down to a very few left, like if you've had a, making the math simple, if you had a $40 exercise price on a $120 stock price. For every option out there, you would exercise three of them and then buy one share back, so that would be a net increase of two shares. So that kind of number is not a big number. We've bought stock during the quarter, relatively speaking, proportional during the course of the period.

So it was 1.6 million shares and my guess is that the rough subtraction to the total shares outstanding would be about a half a number of about 800,000. We said that calculation only went down 100,000. It would be some additional vesting since then on our issues. And to a very, very small extent, to the extent the stock price was a little higher versus a quarter ago and I don't know if it was or wasn't, that would maybe impacted a fair shape. But the big things would be roughly adding 800 and then subtracting -- I mean, subtracting 800 and then adding some due to just ongoing vesting of previous grants.

Chris Horvers - J.P. Morgan

I got you. And then last quarter you talked about your intent to buy back more stock, any thoughts on going forward here?

Richard Galanti

No, other than we started. Again, I don't want to be cute or coy. We continue to buy a little but we're not suggesting that. If you took the exact -- those nine weeks times, those shares, I think you get to a number in the $910 million year range. I don't know if it will be less or more and more than that next quarter on an annualized basis but it could be a little less, we'll just see. It's probably either less or little more but not a whole lot different. We will see.

Chris Horvers - J.P. Morgan

Okay. And then last one, just in terms of you had the Spain pressure and the pre-opening, as you look forward is sort of pre-open per store normalized back down to levels that we've seen historically?

Richard Galanti

Say that again? I'm sorry.

Chris Horvers - J.P. Morgan

The pre-open, if I look at pre-opening expense, it ticked up partly because of Spain. As you look going forward, does the pre-opening dollars per store go back down to more normalized levels?

Richard Galanti

Yes, generally because there was clearly skewed because of Spain. To the extent that we opened more international, they tend to be a little higher. Assuming, we open in France next year and again, we don't know when they'll happen. There will be another real tick upward in that quarter.

Chris Horvers - J.P. Morgan

Understood. Thanks very much.

Operator

And your next question comes from the line of Paul Trussell with Deutsche Bank.

Matt Siler - Deutsche Bank

Hey guys. It's actually Matt for Paul. A lot of questions have been answered but I was just curious on online with some of the newer countries you are entering, you have a different plan in terms of the rollout of your online platform relative to the stores than you've kind of done historically? Thanks.

Richard Galanti

Well, I mean, I know we're looking at another countries to open and countries where we operate. But I don't know if it's a -- we haven't stated anything about when.

Matt Siler - Deutsche Bank

Thanks.

Operator

And there are no further questions at this time.

Richard Galanti

Well, thank you everyone and thank you for joining us.

Operator

And thank you. This does conclude today's conference call. You may now disconnect your lines.