Costco Wholesale Corporation (NASDAQ:COST) Q4 2015 Earnings Conference Call September 30, 2015 11:00 AM ET

Executives

Richard Galanti – EVP and Chief Financial Officer

Analysts

Charles Grom - Sterne, Agee & Leach

Simeon Gutman - Morgan Stanley

Paul Trussell - Deutsche Bank Research

Oliver Chen - Cowen and Company

Daniel Binder - Jefferies & Co.

John Heinbockel - Guggenheim Securities

Bob Drbul - Nomura Securities

Meredith Adler - Barclays Capital

Michael Lasser - UBS

Peter Benedict - Robert W. Baird & Co.

Scott Mushkin - Wolfe Research

Greg Melich - Evercore ISI

Matthew Fassler - Goldman Sachs & Co.

Operator

Good morning. My name is Kayla, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q4 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]

I will now hand today's call over to Richard Galanti. Please go ahead, sir.

Richard Galanti

Thank you, Kayla. Good morning to everyone. Last night we reported operating results for the 16-week fourth quarter and 52-week fiscal year that ended August 30. These results are compared to the similar 16 and 52-week periods of fiscal 2014, which ended last year on August 31.

Please note that these discussions will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements address risks and uncertainties that may cause actual events, results, and/or performance to differ materially from those indicated by such statements.

These 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 we do not undertake to update these statements except as required by law.

To begin with our fourth quarter fiscal 2015 operating results, net sales for the fourth quarter came in at $35 billion, up 1% overall a year ago. Comp sales were down 1% on a reported basis, but were up 6% including the negative gas and FX impacts. Gas prices for the quarter were down 21% year-over-year, negatively impacting U.S. comp figures by little more than 3 percentage points, so a plus 6 U.S. comp, excluding gas price deflation.

Foreign currencies overall were weaker relative to the dollar year-over-year in the fourth quarter, such that our reported international comps on a reported basis of minus 10% in Canada and a minus 7% international – in other international. Assuming flat year-over-year FX rates and excluding gas price deflation would have been plus 7% in Canada and plus 6% elsewhere internationally. For the quarter, earnings per share came in at $1.73, up $0.15, or 10% from last year's $1.58 figure.

In terms of a year-over-year comparison – the EPS comparison, a few items of note, and the biggest item of note, FX. In Q4 year-over-year, the foreign currencies where we operate were weaker versus the U.S. dollar, resulting in our reported foreign earnings this year in Q4, being lower by about $53 million after-tax, or $0.12 a share than these earnings would have been had FX exchange rates have been flat year-over-year.

Number two, income taxes. Our income taxes this year in Q4 included several discrete items that, in the aggregate, decreased our income tax line by $23 million, or about $0.05 a share. The largest component of the $23 million figure was a $17 million, or almost $0.04 a share income tax benefit that resulted from our decision to repatriate in the near future from Canada back to the U.S. $750 million Canadian, or about $560 million U.S. of cash balances.

Third item of note, IT monetization. As discussed in the past several quarters, our major IT monetization efforts are ongoing and will continue to negatively impact our SG&A expense percentages through the next fiscal year and possibly beyond, especially as new major systems are placed into service and depreciation begins. In the fourth quarter on an incremental year-over-year basis, these costs have impacted SG&A by an estimated $22 million, or 6 basis points – 4 basis points without deflation in FX or about $0.03 a share.

And lastly, LIFO. Last year in the fourth quarter we recorded a pre-tax LIFO charge of $11 million pre-tax, or $0.02 a share. This year, we actually had a LIFO credit or a bring back of $14 million pre-tax, or $0.02 a share, lot of that had to do with gas deflation. In terms of new openings, for all of fiscal 2015, we opened 25 new locations, which included two relos, so a net of 23. 12 new in the U.S., three each in Mexico and Japan, and one each in Canada, UK, Taiwan, Korea, and Australia, which therefore ended fiscal 2015 a few weeks back with 23 net new warehouses and a total of 686 locations operating worldwide.

For the current fiscal year 2016, our plans are to add up to 32 net new warehouses, including a few business centers in the U.S. 18 to 20 of the planned new locations will be in the United States with the remaining in international markets, including our second opening in Spain and our first opening planned for France. During the first fourth months of 2016 through calendar year end, we plan to open 13 of those up to 32 warehouses, including two relos of net of 11 and nine in the U.S., one each in Canada, Australia, Japan, and Spain, and then the two U.S. relos are in that 11 figure – in the 9 figure, sorry. Also, this morning I'll review with you our membership trends and related activities, our e-commerce activities, plenty of discussion on margins and SG&A and recent stock repurchase activities.

Okay. So for first – fourth quarter results, sales, again, for the fourth quarter and the 16 weeks ended August 30, were $35 billion, up 1% from last year's $34.8 billion. On a reported basis, again, comps were down minus 1%. For the quarter just minus 1% reported comp figure was a combination of an average transaction decrease of about 4.5% for the quarter. And again, this included the detriment from FX of a little over 4%, and gasoline price deflation of a little over 2.5% impact. So as you can see, excluding the – these negative factors, comps overall were up 6%, and the transaction actually on an ex-gas and FX would have been slightly positive. And an average frequency increase of just under 4%, at about 3 and 3.25%.

In terms of sales by geographic region, most U.S. regions registered low single-digit comp increases, again, that – these numbers include the impact of gas deflation of little over 3% in the U.S. with the Midwest, Texas, and California being the strongest. Internationally in local currencies, the strongest results in Australia, Mexico, Taiwan, and Spain, recognizing Spain only has one new unit – one unit. In terms of comp sales by merchandise categories for the quarter, for food and sundries, comps were mostly flat for the quarter, again, all these items – all these figures include about a 4% detriment from FX.

The better-performing departments were deli, sundries and candy. Within Hardlines in the low single-digit range, better-performing departments were sporting goods, hardware, and automotive. Our consumer electronics were negative low single-digit year-over-year positive low single-digit ex-FX. For Softlines, comps were in the low single-digit range, better-performing departments included home furnishings and domestics. And within Fresh Foods, comps were in the low single-digit range as well with best results in deli, produce and meat.

Moving on down the income statement to membership fees, on a reported basis, membership fees came in at $785 million, or 2.24% of sales, that's up $17 million, or 2% in dollar and up 3 basis points. Again, FX have big impact on these dollar figures on a – assuming flat year-over-year FX, the 2% dollar increase would have been up 6%.

In terms of membership, we continue to enjoy strong renewal rates, 91% in the U.S. and Canada and 88% worldwide. And strong – also, we're enjoying strong sign-ups both new and existing warehouses and continued strength in our executive member program. In terms of members at fiscal year end, we had $34.0 million gold star members, up from the most recent quarter of $33.2 million, primary business $7.1 million, up from $7.0 million. We continue to have business add-on members of $3.5 million, so all told member households, 44.6 million at fiscal year end, which is up from 43.7 million 16 weeks earlier. Including additional cards, total cardholders out there stood at 81.3 million in fiscal year end, up from 79.6 million in fiscal quarter ago.

At fiscal year end, executive memberships were 16.1 million, which is an increase of about 400,000 members since Q3 end, so about 25,000 a week increase in the quarter. In terms of membership renewal rates, as I mentioned, they continue strong. Total came in at – rounds up to a 91, and for U.S. and Canada and total worldwide rounds up to an 88.

Getting back to the income statement, our gross margin in the fourth quarter on a reported basis was higher year-over-year by 44 basis points coming in at 11.14% this year versus the year ago fourth quarter at 10.70%. Without the impact of gas price deflation, that increase would be up 15 basis points.

Now I ask you to jot down just two columns of numbers looking just at the fourth quarter here, both, the column one would be reported basis and column two would be without gas deflation. First line item would be core merchandise. On a reported basis, year-over-year up 17 basis points, ex-gas deflation down 8 basis points. Ancillary businesses reported plus 25 without gas plus 18, the 2% reward increasing sales penetration related to executive member sales and the 2% reward minus 5 reported and minus 2 ex-gas.

LIFO, plus 7 and plus 7 and total the reported basis as I mentioned plus 44 basis points in ex-gas plus 15. Now reviewing these figures again the core merchandise component was up 17, but minus 8 without gas primarily a function of improved year-over-year gross margins within our gasoline and several other ancillary and warehouse businesses.

The core merchandize gross margin, which I define as the main four departments, merchandise departments, food and sundries, hardlines, softlines and fresh foods as a percentage of their own sales were actually up 13 basis points year-over-year; food and sundries, hardlines, softlines were up year-over-year and, while fresh foods was a little lower.

Ancillary and other business gross margins were up as I mentioned in a chart there up 25 basis points plus 80 without gas. We enjoyed broad based strength across most of our ancillary businesses with year-over-year gross margin improvements in gas optical hearing aids as well as operating results and ecommerce business centers, travel and executive member services.

And LIFO in the fourth quarter as I mentioned it year-over-year was a 4 basis point benefit or $40 million, compared to a 3 basis point detriment a year ago of $11 million.

Our year-end inventory shrink results were in line with our all time best results and our inventory positions were at great shape. All in all gross margin of inventory is in good shape. Moving onto the SG&A.

Our SG&A percentages year-over-year in the fourth quarter were higher or worse by 27 basis points coming in at right at 10.00% of sales this year, compared to 9.73% last year. Again taking out gas deflation essentially flat year-over-year higher or worse by 1 basis point.

Again I'll ask you to jot down the two columns Q4 reported and Q4 ex-gas deflation in terms of operations reported minus 15 or higher by 15 basis points, without gas deflation plus 8 basis points or lower or better by 8.

Central the minus 7 and minus 5, stock compensation at minus 5 and a minus 4. All told we came in on a reported basis higher by 27 basis points in SG&A and again ex-gas deflation minus 1 basis point.

And looking at these figures of the operations component of the SG&A was higher again or worse by 15 and again excluding gas lower or better by 8, within operations ex-gas deflation core warehouse payroll and other operating expenses were better by 10 basis points and half of which was improvement in payroll percent.

Central expense was higher or worse by 7 basis points year-over-year, 5 without gas with nearly all of that variance could be from an IT monetization efforts 6 and 5 basis points respectively without gas deflation.

Lastly stock compensation expense represented again a minus 5 and minus 4 without gas, just we have over 4,000 people on our plan and that's done well as a compensation tool. Next on the income statement is pre-opening higher by $12 million coming in at $27 million this year versus $15 million a year ago.

Last year in fourth quarter we had 10 openings, this year we had 13. Of the $12 million year-over-year incremental expense, which is about $0.02 a share little under half of it is due to incremental units 13 versus 10, the rest about $7 million of variance is simply increasing pre-opening expense associated with upcoming openings in the first several months of our new fiscal year versus the similar period of a year earlier.

All told reported operating income in the quarter increased $65 million or 6% year-over-year to $1.156 billion this year. Below the operating income line reported interest expense was higher year-over-year coming in at $40 million this year from third - up from $35 million a year ago.

This is mostly due to the interest expense on the billion dollar debt offering that was completed earlier this calendar year to fund a portion of the special dividend. Interest income and other was higher or better year-over-year by $10 million coming in at $40 million this year the fourth quarter versus $30 a year ago. Actual interest income for the quarter came in at $12 million, compared to $17 million a year ago so actually lower by 5.

The other component of interest income and other was higher or better by $15 million primarily related to various FX related items [indiscernible] with the foreign countries when they're locking in some of their FX needs.

Overall pretax income was up 6%, or $70 million this year versus last year. In terms of our tax rate, our company tax rate for the quarter came in lower than last year 32.7% this year versus 35.1% last year in the quarter. Again, we benefited from several discrete items in Q4 as I explained – discussed earlier in the call. Such that, overall net income was up 10%, or $70 million, coming in at $767 million this year in the fourth quarter versus last year fourth quarter net earnings of $697 million.

For a quick rundown of other items, while the balance sheet is included in this morning's press release, a couple of quick balance sheet info items. Depreciation and amortization for the fourth quarter came in at $351 million and for the year $1.127 billion. Our accounts payable as a percent of inventories on a reported basis was essentially a 100%, 101% both last year and in this year fiscal year end.

Ex non-merchandise payables mostly construction related would be that, both the last year in fourth quarter and in this year fourth quarter came in at 89%. In terms of inventory for warehouse, average inventory for warehouse was up 200,000, or 2% to $13 million in Q4 in this year, up from $12.8 million. That's – the actual number, again, excluding, assuming FX was flat year-over-year would have been 535,000, or up about 4.2%. The increase pretty much spread across many departments, and no real surprises there. Overall, our inventory is in good shape as I mentioned earlier.

In terms of CapEx, in the fourth quarter, we spent $805 million and for all of 2015, the capital expenditures totaled $2.4 billion. Our estimate for fiscal 2016, CapEx is an increase from that $2.4 billion level somewhere in the high 2s, somewhere between $2.8 billion, $3 billion. This year-over-year increase in CapEx represents our plans for more openings this year versus last year. The increase spending for remodeling, expanding ancillary business operations, planned expansion of our cross-dock and distribution operations, and expenditures related to our ongoing IT spending for monetization efforts. In terms of Costco online, we're still operating Costco online in four countries; U.S., Canada, UK and Mexico.

For the fiscal year, total e-commerce sales came in just under $3.5 billion, up a little over 20% for the year. Comp sales in e-commerce, again, were also up 20% for both the fourth quarter and the fiscal year. In terms of expansion, I talked earlier about up to 32 units, net of relos, we would expect 11 in Q1, three in Q2, seven in Q3, and 11 in Q4, Q4 being a little longer fiscal period 16 weeks versus 12 weeks than the others.

In fiscal 2015, I mentioned on a net basis, we had 23 units on a base of 653, so about 3.5% square footage growth. This year assuming the 32 units on a base of 686, that would be just under 5% square footage growth. In terms of new locations by country, assuming that 30, 32 figure, about 18 in the U.S., Canada up three, two each in Japan and Australia, and one each in UK, Taiwan, Korea, Mexico, Spain and France.

As of fourth quarter end, total square footage stood at 98.7 million square feet. In terms of common stock repurchases buybacks, for the fourth quarter, we spent $260 million on 1.836 million shares, at an average price of just under $142. On an annualized basis, that would be about $850 million, as an annualized run rate during the quarter. For the year, we spent $484 million at an average price of $142.87.

In terms of dividends, our third quarterly dividend stands at $0.40 a share, or $1.60 a share annualized, that was up 12.5% from the prior quarterly rate that paid in the first two quarters of fiscal 2015. This year is $1.60 per share dividend, represents an annual cost to the company of about $700 million. And as you know, back in February, we did a special dividend of $5 per share, which was a total of $2.2 million special dividend paid out to shareholders.

Lastly, before I turn it over to Kayla for Q&A, our fiscal 2016 first quarter schedule earnings release date for the 12-week first quarter ending on November 22, would be after market close on Tuesday December 8, with the earnings call the following morning on the 9th of December.

With that, I'll open it up for questions and turn it back to Kayla.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from Charles Grom from Sterne, Agee Credit.

Charles Grom

Hey, good morning, Richard.

Richard Galanti

Hi.

Charles Grom

Just on the core margin performance in the quarter, I think you said, it was up 13 basis points. Could you delve into the performance by the four sub-categories? I know you said that food, hardlines and softlines were all up. Just curious, the – why the pressure on the fresh food side?

Richard Galanti

Well I think the pressure on the fresh food side is us. We – when you've got some inflation on some of the commodity items like eggs, you've got a – we're not changing the price of a 16 pack of muffins or a slice of pizza or hotdog.

So it has more to do with that and nothing really surprising there. If you look at each of those four categories, again overall, the gross margin as a percent of sale – their own sales year-over-year in the quarter was up 13. I think the range was in the low 20s on the high side and the mid-teens on that negative downside. So not – pretty much similar slightly above last year, no real big changes there.

Charles Grom

Okay. Good. And then when you look to next year, just kind of switching gears a little bit when you switched to Visa from AmEx, can you shape out for us how the switch is going to work and be handled, and what you're planning to do with the interchange savings that you're going to generate? And also just looking back, how you handled it in Canada and any surprises on that front?

Richard Galanti

No. I mean, things in Canada first of all went – have gone fine; a little different in Canada, because of certain Canadian issues. The portfolio was not purchased by the new issuer, so we had essentially you have people apply for it. That being said, they shop at Costco, they want that co-branded card, and it's just fine. You see a little bit of change in renewal rate when that happens, because of auto renewals. You've got to re-sign people up and everything. But from an improvement in terms of additional moneys be it for us in terms of lower merchant fees, or our members in terms of a better rewards on the co-brand that's all that is planned.

In the U.S., we're working through everything right now. The plan is for, again, the current contract ends on March – at the end of March next year, that could be in and around the month or two from there. The two parties AmEx and Citi continue to work towards that end. And we will expect to tell you more when we can.

In terms of how it's going to be split between merchant fees and rewards, I think our – I think I have stated in the past, our philosophy is to, when we save money on product purchases, we want to give most of it back to the consumer to the customer. And we're looking at all kinds of opportunities to do that, so stay tuned.

Charles Grom

Okay, fair enough. And just last question, August comps were obviously pretty good. Just wondering, with September almost closed here, any surprises on September sales for you guys?

Richard Galanti

If I could tell you, I would. We'll wait until next week.

Charles Grom

All right. Fair enough. Thanks.

Operator

Our next question comes from Simeon Gutman from Morgan Stanley.

Simeon Gutman

Thanks. Good morning, Richard. Quick question, I think you telegraphed this on the sales side, Labor Day, realizing it was in September both years. But this year, the quarter may not have caught the – I guess, the lead-up to it. I don't know if that's a big deal from a sales or earnings perspective, just quickly on that.

Richard Galanti

More of just a sales perspective, given you're talking mid single, low single-digit numbers reported normalized and reported. We basically, in August, it was a – we feel a negative impact of about 1 percentage point. And there will be a corresponding improvement in September reported for the same reason, because of the – but four weeks versus five, so it's a little less of a positive, maybe 0.7% or 0.8% if our crystal ball is correct. So yes, the August numbers were impacted negatively a little and the September number will show little positive that we'll point that out in the release.

Simeon Gutman

Okay. And then the second question, on membership fees and potential increases. Just a question on the thought process, and I think in the past largely you've done them to cover inflation. I'm sure there has been inflation over the past five years in many areas. So can you talk about considerations and how you think about it? Are you surveying? Are you probing customers ahead of time to understand what's tolerable? And then taking into account that the landscape is evolving a little, you have some nontraditional online model, membership model. So how do you think about the right range to raise that?

Richard Galanti

Well, I think we've done $6, $5 increases over roughly 30 years, generally about every five or so years. We don't do a lot of polling. We look at it internally – have we improved the value of that membership to our member.

In terms of the tolerability of it to the member, I know, our historical five in the case of the executive member last time five years ago $10 increase is a heck of a lot less than we see in other types of fees out there, be it fees for television, or your phones, or other services out there. So I firstly don’t think it’s going to ever be an issue. When is – we really haven’t talked about it a lot, it’s something that we’ll probably do at some point, but stay tuned.

Simeon Gutman

Okay. Thanks.

Operator

Our next question comes from Paul Trussell from Deutsche Bank.

Paul Trussell

Good morning, Richard. Wanted to just discuss assortment and fulfillment online, certainly across the industry, there has been a lot of competition and investments being made in fulfillment whether is Amazon or Jet.com, or some of the newer initiatives from Sam’s Club. Could you just discuss some of your recent online sales trends and any updates that you could provide for us on upcoming enhancements around assortment or fulfillment online?

Richard Galanti

I don’t think there’s, I mean, in terms of – there are a few things I mentioned over the last few quarters on a topical basis, we certainly expanded to some extent the SKU selection and added what I would call more frequent – frequently purchased items, be it food and sundries or a few office needs everything from, again, sundry items to health and beauty aids, K-cups, few apparel items. And so we’ve expanded that. We took certain key departments and brought them in line. So we are not competing with each other and providing, I think, little more excitement to that. We ship out of more than one depot. When we first started this for the first several years in the U.S., everything was shipped out of one depot in

Southern California, which meant that, it might take a little longer to get to you and it cost us a little more in terms of delivery or the member.

And as we have expanded, we've improved that quite a bit as well, quite a bit for us. And we're pleased with the fact that sales for the last, gosh, the last two, three years, at least, have been on a year-over-year comp basis around 20%. So, we're doing it methodically. We're not going to go crazy out there. I think our mobile apps have improved and will continue to improve. And we like the value proposition we have. We're recognizing that we can't be everything to everybody, that's not what we do for a living, and but we have great value. We also like the fact that some of these other services are buying from us. Some of our top customers are some of those guys. So if we can't deliver that single unit of milk or cereal to your doorstep, someone that is may want to buy from us.

Paul Trussell

Got it. That's helpful. And you spoke about the impact to margins from an IT monetization standpoint. Could you just give us a little bit more detail about what some of the latest focus points have been in terms of system upgrade? And what we should be looking forward to you all tackling over the fiscal 2016 period?

Richard Galanti

Well, going back, again, three years ago, we embarked on a pretty significant effort to really upgrade and monetize all our systems. Our systems were for the most part legacy systems, many of them written in-house. Many of them what I'll say were band-aided over the years and worked fine, but were arguably strained. Some of the systems that were included in that, that were not legacy were from outside suppliers that were not going to be supported going forward or had not been supported. And so we probably started a little later than we should have a few years ago. And we – and as I indicated over the last each quarter frankly, what we try to do is just show you really what the expense associated with those incremental efforts are. We've installed a new membership system little under a year ago, I think, we installed a new point-of-sale system which is another deliverable if you will. There is a lot of small deliverables that I won't go into. We've got several more over that are heading into the expense side and should be forthcoming over the next year to two years.

The other thing I mentioned in terms of – I talk on the SG&A, on an incremental basis over the last few years, I think we're now up to something in the low teens, 12, 13 basis points, those twos, threes and fives that have added each year. And recognizing your denominator, your sales because our sales keep increasing, we're seeing all of the costs associated with it. I think we'll start to see benefits when we look out beyond 2016. Does it mean that this SG&A will not go up fewer basis points, we'll see, but we – there is a light at the end of the tunnel, sometimes it's long, some days it's a longer tunnel than others but we are starting to see some deliverables from it.

So it's not a lot I can tell you about where the benefits are, there are clearly some benefits that we're going to see on the transportation side and some of the ancillary businesses like travel and other things. But the big switch over will be when buyers are buying on a new system a year or so down the road as well as the benefits in the transportation and other. But we don't want to put any dollars or basis points on those improvements. We had to do this if we want to double our size over a 10 or so year period starting couple of years ago with these expenses because we had a lot of systems that were really strained and this is going to set us up for the years to come.

Paul Trussell

Much appreciated. Good luck.

Operator

Our next question comes from Oliver Chen from Cowen and Company.

Oliver Chen

Hi, thanks a lot. Good morning, Richard. Regarding a bigger picture question, I was curious about your thoughts on what really sets you apart from other internet pure plays in terms of your supply chain and vertical integration and kind of this buying scale you have there? And then also international is a nice piece of the business just as we look at our models and talk to those part of the story, which countries do you have the most opportunity to increase share your store base versus maximum potential? Thank you.

Richard Galanti

Sure. In terms of e-commerce, first we definitely chose – for us, we have a lot more items. We have 8,000 or 10,000 or so instead of 3,700 in store. That's a nit compared to everybody else out there that has hundreds of thousands, if not millions of items. I think what separates us is we've got certainly we and others will have great quality merchandise. We've got the best pricing overall. We work on margins that are at/or slightly below our reported total company margins but up there high singles, very low double digits. We will compare that to anybody out there. Again, we recognize we're not going to be selling single items to govern within an hour or four hours or overnight necessarily.

But in a methodical way we think we are doing just fine and we think we have additional opportunities. And as I mentioned earlier, we are selling to a lot of these other guys that are wanting to deliver in certain unique ways. There is room for all of us. We've got to keep, it's a big play out there in terms of market share and we think that we'll be able to take our share of that. Some little departments you lose a little, others you make a little, certainly we want people to still come into our warehouses.

In terms of opportunities outside of – in terms of warehouse club growth opportunities, I think the first comment, for those of you on the call who have noticed for long time, the market potential keeps improving. I don't think we ever would have thought we had 60 or so locations in Canada, we never thought we'd have more than 80, we now have more than that and we'll certainly be over 100 at some point in the next several years. In the U.S. we are expanding if you had asked me five years ago, when we are 80% U.S., 20% international, I would say five years hence or now it's probably 50/50 and going further South in terms of the percentage of openings in the U.S. We keep finding more opportunities here, so that's good news.

In terms of our inventories, we think we've certainly got a lot of potential in these three countries in Asia we are currently at. Bigger market of course is Japan, much bigger than Korea and Taiwan but we think we can go from the low-teens in each of Taiwan and Korea, double over the next 10 years but we'll see, so one at a time. Australia, we only have seven units in a country that's two-thirds or a little more of that population of Canada which has 80 or 90 and I'm not suggesting we're going to have two-thirds of that anytime soon but we certainly can add a few there. Western Europe, we see – it's tough getting in with all the rules, regulations and permitting process but we are pretty interested to continue that process. Again, we'll open our second unit in Spain next month in Madrid and Getafe, a third unit – second in the Madrid area next calendar year and hopefully our first in France towards the end of the next fiscal year.

So we think there is plenty opportunities. I think we feel comfortable that over the next five years we will continue to open 30-ish plus units a year and that we thought we would do that this year that just ended certainly in the high 20s, a few of those got delayed and that's life but we've got a pipeline that's full. The international generally takes a lot longer for variety of reasons by country. And – but so we think that we'll continue to grow and do just fine in terms of that.

Oliver Chen

Okay. And Richard, just a quick follow-up, there has been talk in terms of competitors in relation to how competitors are dealing with vendors. Could you just update us on your thoughts on your vendor relationships and any catalyst there given your buying scale and your leverage and your heritage, I was just curious on your thoughts. Thanks.

Richard Galanti

I'd like to think that the comment that we share internally and we talk to you guys about is that we are tough but fair. We are tough. We fight for member everyday and we – I'd like to think that we do that as much if not more than anybody else. The good news about us in terms of our view of competitiveness is as we give the vast majority of any improvement back to the member and that in our view creates that moat that hopefully continues to get bigger. One of the challenges and opportunities we have is the – just the share size of our needs of various commodities, organics not long-staple cotton you name it.

So we've got a lot of efforts in that area that I think many of our competitors don't necessarily go to that level because they are dealing with vendors and lots of more items. And so I think we have some opportunities and challenges – but opportunities and challenges I think creates something special about us. I don't think anything is changed as we get bigger, we could be tougher but still fair and we work with our vendors. We think we have good relationships with them. We would assume that most of them would agree probably a few don't but we'll continue to be very transparent in how we deal with our vendors and we have very good relationships with many of them.

Oliver Chen

Best regards. Thank you.

Operator

Our next question comes from Dan Binder from Jefferies.

Daniel Binder

Hi. Good morning. It's Dan Binder. My question had to do with ancillary margins, the last five quarters you've had three quarters where ancillary margins were up about 15 basis points ex cash deflation and then two quarters where they were up substantially more than that. It happens to coincide with the declining gas prices and what I'm trying to understand is how much of that gross margin improvement in ancillary is sustainable versus just being a function of the way gas was fluctuating during the quarter.

Richard Galanti

Well, gas for I think most of the last five fiscal quarters on a year-over-year basis has helped a lot. But the other ancillary business continue to grow and whether it's optical or hearing aid or some of the other warehouse club businesses, all those things add up, travel you name it. So I think I hope it's sustainable, they are clearly gas – we have no illusion that some point in life gas prices go up and margin will be more normal relative to our history. Right now, it's good for our member in terms of low gas prices and good for us in terms of albeit a lower top line sales. It's been more profitable on a year-over-year basis.

Daniel Binder

Okay. Then the other item I wanted to talk about was other income which I realized as a function of these FX contracts you talked about earlier in the call, always a challenge to model. I'm just curious if FX rates were to stay roughly where they are today, how do you think that line item would look in Q1?

Richard Galanti

I don't know. All I can tell you is that, we look at it – we manage it in the sense that if you go to foreign country where some of their inventory purchases are paid for in dollars or euro sometimes but U.S. dollars is the bigger example, they will do – once they are comfortable with a price point that they’re going to be able to convert at that level and sell goods in their local currency in their local country, they’re going to choose to figure out how much of that they’re going to lock in. Recognizing lock in just makes the control that price. If the local currency continues to weaken, that was good. If local currency strengthens relative to the U.S. dollar, they don’t as much but we don’t try to be completely writing away.

So I think over the years in the last four or five years, that’s a number that is probably ranged from plus or minus $15 million pretax, usually a little less than the number that we had this period where it’s up about $15 million or so. But I would say it’s – we just want to point it out because it’s – that’s going to be income statement. It’s very hard to predict, I think by doing the way we do it, we’re not going to ever have any giant surprise either way because of some drastic change in FX prices.

Daniel Binder

And then the last item to share, repurchase picked up a bit this quarter, how you’re thinking about it for this coming year?

Richard Galanti

Well, we’ll tell you each quarter it’s part of our – what we do with our cash. As long as we feel good about our future, we’re not going to ever be – we’re going to buy on a regular basis, not try to take the market. I think the fact that we bought a little more this quarter as they start to come down a little bit but as I’ve said in the past we buy a little more when it goes down and but we – I certainly feel comfortable about our future prospects as a company. So don’t expect giant changes and how we’ve been in the past. Certainly we trend in each quarter this year on an annualized basis upward and we are certainly comfortable at the current level.

Daniel Binder

Great. Thanks.

Operator

Our next question comes from John Heinbockel from Guggenheim Securities.

John Heinbockel

So, Richard, if you look at the three categories, the three broad departments, we saw some margin improvement. So two things, was there any common themes there in terms of maybe COGS doing a better job on your cost or KS mix, so any commonality there? And then if we kind of reached a point here because I assume the KS mix will continue to get better and how you buy that will continue to get better where there should be an upward drift in growth just secularly because there will be the elasticity of what you would choose to invest in, those merit right putting all of that back into the market price wise.

Richard Galanti

I'd like to think that we were that smart. Overall, we try to improve margins a little by lowering prices and I mean that sincerely and we're going to give most of that back to the customer to our member. As you know, we are pretty stubborn and intent on maintaining in a rising commodity standpoint prices on certain fresh food so we've seen some impact there to the negative. I think you're right though as we continue to improve increased penetration of KS, that helps a little.

Certainly as we've had relative strength in departments over the last couple of years like Softlines and domestics and elsewhere in some of those items, we're going to improve that a little bit and that's of course outside of the ancillary and other businesses which in some cases were from higher margins as a starting point be it pharmacy or hearing aid center or optometry or whatever else. So but organics helps in a smaller way I mentioned in the past, not only organics relative to their substitute, the non-organic same products, organics sell at a higher price point but our view is that others while it may be competitive, we actually can be – we feel a more competitive framework and a little bit higher margin than on the underlying non-organic item.

So it’s really in our view a win-win for us challenge being getting more organic and that’s not a challenge, that’s challenge for us, of course, it’s a challenge for everybody out there. So all those things help. I don’t think we started the fiscal quarter and said let’s see how we get an extra 10 or 15 or 20 basis points higher in a year-over-year. But we’ll always try to improve a little as we know we have challenges elsewhere.

John Heinbockel

And do you think and at least I’ve noticed this particularly I think more in softlines, but do you think the quality of KS, it seems to continue to get better maybe at a faster pace even then it has in the recent past.

Do you think that’s fair, but the quality is getting better that’s the investment not price point so much?

Richard Galanti

Well, I think two things like on the softline side like apparel and everything we’ve over the last year as we’ve made a bigger effort in that area we took what sometimes would be a retail branded item at $200 or $300 for pair of slacks, that were $49.99, but when you go out by the same fabric and they could hopefully a very good quality item.

And commit to a half a million or million units or so I think that helps. So we’re always pushing the quality and the quantity and buying power of that and that quality value relationship continues to I think improve.

John Heinbockel

Okay and then just lastly I don’t think you guys have done a whole lot of data mining right with your membership base. Do you see that and does IT modernization allow you to do that.

And then I'm wondering when you think about sales sort of comp sales by comparable member I'm just curious when you look going forward. Do you guys see a bigger opportunity to get and I'm not saying the most loyal members maybe somebody a little bit below the top.

To come in more frequently and that's a fresh food driver or more of an opportunity to get product and more items in the basket per trip. When you think about sustainability of comps by somebody's been member for well over three, five six years when do you see the bigger opportunity?

Richard Galanti

Well, first and foremost we've learned from doing virtually nothing to be a little more over minded about it I think there's a lot of low hanging fruit that we haven't done certainly there's more efforts in these areas in our membership marketing team on dotcom a little bit.

But we don't do a lot with it, but we're doing a little more than we use to we must get I must get a call a week from some analytics company that wants to film stuff to do AB testing left or ketchup left or right of the mustard.

We done I think a better job on our multi-vendor mailer in terms of that, but we have I think we have more opportunities that we've even touched the surface on. But I'm not suggesting that's going to be tomorrow afternoon.

Marketing is definitely been told to try some new things and we haven't they generally work I do that more as something if things start to slow a little bit we have some opportunities there.

But our first and foremost focus on just constantly driving quality and value on the products and services we sell. And that's we seem to have not figured out where the bottom of that is.

John Heinbockel

Okay. Thank you.

Operator

Our next question comes from Bob Drbul from Nomura Securities.

Bob Drbul

Hi Richard good morning. I guess just have a couple of questions I think last quarter you had quantified the impact on the gas profit I think you said it benefit by a penny I was wondering if you could give us that same metric this quarter.

And the second question I have is I think was some of the remodels that are going on. Could you just talk a little bit about category focus in the remodels and your expectation on what the returns in the comp uplifts we might see?

Richard Galanti

Yep what was the first question I lost it.

Bob Drbul

Gas profit…

Richard Galanti

I think last quarter there was not a big impact it is a wash year-over-year it's more than a few cents, but not a heck of a lot we really don't talk about other than directionally, which way it helped us.

Certainly I think four at least four of the last five fiscal quarters on a year-over-year basis it's been up, and more outsized the normal up. And the second question.

Bob Drbul

Remodels, trend in remodels what would be the expectation that you see category focuses and how that might impact comp store sales as we sort of go through this?

Richard Galanti

Sure, and keep in mind remodels I think of traditional retail stores remodeled they're doing a whole new front and new flooring and, new lighting fixtures I mean a lot of our remodels or everything.

And we spend a lot of money on increasing refrigeration and frozen and in the fresh foods area that's to use as somebody mentioned earlier that's to use to be a driver of our business and certainly something we're pretty good at.

We constantly try to figure out what locations that we don't have where we can put gas stations although we've we're saturating that. There's certainly existing locations that are never going to have a gas station.

But we still have a few out there and we're of course so that it's gas stations in the few other countries beyond just the US and Canada so there's little things like that. There's typically half a dozen or so units here where we're breaking out a wall buying some extra land perhaps.

Adding 10 or 20,000 feet where it make sense and many times it make sense economically when there's some government incentives on solar that small dollar wise, but I'm just coming out with some examples.

So remodeling for us is just roughly sometimes improving and updating something, but lot of times just adding some more stuff, more feet of refrigeration is something that comes to mind in a bigger way over the last few years.

Bob Drbul

And then just one question on the ancillary businesses. Can you just talk a little bit about what's happening in the photo business and trends in the quarter and sort of what the expectations are there?

Richard Galanti

Well look you probably have our processing less photos than it use to it's actually about the businesses so profitability rises about flat year-over-year actual photos process is down.

We've and half of the business on a few other things with where everything from can this pictures to photo books to three four cartridges total cartridges and, but it's that's it's not a business that's going to come back tomorrow either.

Of all the ancillary business is that one that it's big it's profitable it's not as profitable as it used to be, but it's and we'll continue to look in that space and see what we want to do.

But we still have it and still we still try to figure out how to improve it.

Bob Drbul

Thank you Richard.

Operator

Our next question comes from Meredith Adler from Barclays.

Meredith Adler

Hey Richard this is Meredith Adler. I was wondering if you could just talk a little bit about kind of what happened with the store openings this year, which I think met -- mixed your expectations I know some slipped into next year.

But were there any common theme in that and when you look out the sort of nice number of openings from next year. Do you think that there's any risk based on what happened in fiscal 2015?

Richard Galanti

Sure, there's always be risk I think prior to the fiscal 2015 for the few years leading up to that we actually got better on track of getting close to what we think is going to actually open.

We put this is our original budget everything that if everything generally goes right. And we've already and it's been green inked if you will it's been approved internally based on whatever permits and zoning issues and whatever all the issues are out there.

We think we have it a decent chance of opening it we're going to put it in there recognizing inevitably there's always five or eight of those units that are budgeted four months 11 and 12 if not a few more that fiscal year maybe 10 units a year in that last month or two.

And inevitably few of those fall out I think that we'll get closer than we did this year relative to our budget. Generally speaking it's not because we decided not to do a unit that we were going to do it.

The only time that happens or virtually every time that happens is something, because something was became a big surprise and doing additional drilling we found something on the site that was a bigger issue.

And that's by the way is generally not a risk, because when we do a site it's for virtually all of them nearly all of them we have to feel comfortable that we will be able to do it before we commit to it.

Meredith Adler

Okay, so there wasn't any.

Richard Galanti

I think we get closer.

Meredith Adler

And there wasn't any common theme to the ones that didn't open this year or got delayed?

Richard Galanti

No it's everyone's unique story, but it's just typical delays weather, zoning, other surprises that are unrelated to competition or anything else out there.

Meredith Adler

Okay, great. Thank you.

Operator

Our next question comes from Michael Lasser from UBS.

Michael Lasser

Good morning thanks for taking my question. Can you give me more detail on the traffic trends on not only this quarter, but over the last few years. Are you seeing more of the growth comes from the middle of year of the membership base.

Presumably the most frequent members are tapped out they can no long – they cannot grow the number of times they're going to Costco. So then most are coming from the mid tier berth of the membership population or is it more like the least attached members are getting a little bit more attached?

Richard Galanti

Maybe people our membership and operations know little more than I do here I – and maybe there's some more opportunity. Overall overtime shops go up as people are making more each year as they're having family whatever those issues are.

And so certainly an older member in terms how long they've been a member and that increase several time. But it's a lot of things it's the merchandising, it’s the frequency drivers like fresh foods or gas, it’s that incremental shop, because somebody always that needs a maintenance prescription.

They got to the age where they’re going to come in a one extra time a year, because of their timing of their need for a cholesterol reducing drug or whatever. So it’s a lot of little things plus a few of those things notable things like fresh foods and gas.

It’s also executive membership, it’s also the co-branded card and rewards and it really is all of the above I don’t – there’s different reasons clearly when we have new members whether it’s was new millennial members or 20 years ago new gen whatever members.

They buy less when they start they buy more over time I can’t tell you what millennials are going to do relative to their predecessor age groups overall not just a Costco, but overall buying.

If they have smaller houses and they drive a little less and they buy fewer sofas, that is that is not good for anybody, but at the end of the day we think we’re getting our share.

Michael Lasser

Okay, and my follow-up question is how do you notice or how do you observe your membership population responded to different types of promotions. And when I say promotions I’m talking about pricing expense rewards through your card maybe the new merchandise offers.

And can you give us what’s being most say what’s been most impactful and how is how the response is into drive up back it hasn’t been to allowed you to side out more members. Thank you so much.

Richard Galanti

Well first of all we’re not going to share all the specifics, but at the end of the day it’s a little bit of all of the above. We work every day to try to improve the value proposition to the member.

We work every day to try to upsize and either where it make sense, because we do lot more things and more dollars in that basket. We maybe something like the multi-vendor mailer with the couponing that grew dramatically from what was originally a six or eight week summer item summer couponing booklet to 11 or so times a year for three plus weeks each.

And over time we and our vendors figure out what works best and what starts to slow down. So those things keep getting tweaked. So again there's we focus on trying to improve the value we if we can get if we can sell you a bigger pack size of the greater value we're going to do that I think that's a catch too.

We don't just want to increase the size of something 50% and sell off at the same price per ounce or price per number of units. We only want to raise it for the most probably we try to raise and only the quantity or the quantity when we feel lower the price per unit to the member and that's serves us well and serves them well. So it's that's our religion.

Michael Lasser

Sure I'm thinking more about the card does that have as much influence in the members purchase decision or frequency as pricing or coupons for example?

Richard Galanti

Well, I don't know one has more or the other we know that the executive members shop a lot take a through – take a group of 100,000 members out of are similar in terms of shopping patterns and age groups, and 10 year as a member. And they're both growing those both of those groups are growing roughly the same rate each year.

Get half of the convert to a executive member and you see a dramatic change in their buying habits, but that's no change that we have seen over the years that I think that surprises me personally is the continued penetration of that area.

And maybe we've got little better in store of doing that clearly loyalty programs worth whether it's our executive member program or a reward based program credit card. And one of the things that's long-term exciting for us is.

We feel that we can continue even on our co-brand card, continue to improve the value proposition to our member, which hopefully gets them in here more often. But that's what we do every day.

Michael Lasser

Sure. All right good luck with the upcoming year. Thank you so much.

Richard Galanti

Thank you.

Operator

Our next question comes from Peter Benedict from Robert Baird.

Peter Benedict

Hey Richard, thanks for taking my question. A couple here. First of all, can you talk about the new member signup trends in the fourth quarter I didn't hear if you did mention that I apologize I know they were down slightly in the third quarter?

Richard Galanti

They're actually up in the fourth quarter year-over-year a combination of decent member signups and the existing warehouses probably a few more international units in the quarter on a comparable year-over-year basis in the quarter.

I think we're up a little over 2 million members in the quarter from the area in terms of new signups.

Peter Benedict

Okay, great and then I mean you mentioned when you gave the regional color you said that Texas was good. But can you talk about maybe chance in some of the specific energy markets again like Houston maybe somewhere it's up in Alberta like and you've seen any kind of moderation in traffic or ticket or what have you?

Richard Galanti

I just don't have that amount of granularity in front of me.

Peter Benedict

Okay and then the thought process behind repatriated cash from Canada why now and then you've got $1.2 billion that comes during December any thoughts here to refinance that or payoff?

Richard Galanti

At this point we'll probably pay it off point of the repatriation is Canada is a very profitable country so it's we've built up cash balances at some point we determined on an ongoing basis we will determine whether we feel this to be permanently invested up there or not.

And at such time we'll make that decision I think we've done that twice. About a year ago we've brought back a little over billion dollars. And in this case it was favorable from us a small favorable from a tax perspective.

A year ago I think third to fourth quarter a year ago it was slightly unfavorable, but again we determined but small. We determined it was the right time to bring it back from a reinvestment standpoint.

Peter Benedict

Okay fair enough and last question just on CapEx $2.8 billion or $3 billion this year from a double you did maybe a few years ago I understand you've got some of the investment you're doing the higher store growth.

Is that a level you think is one that we should assume hold for several years assuming you can open 30 plus stores per year or are some of the investments you're doing in IT and systems and distribution to those kind of taper off a bit maybe in the years to how you're thinking about that?

Richard Galanti

I hope IT tapers of a little, but it's that's not the biggest piece of it. I think and certainly couple of those things it's going to be the $2.5 to $3 range as that $2.8 to $3.0 this year a $102 that likely to be $102 higher than the following year maybe I don't see that $2.8 to $3 going to $3.5 next year.

So yeah something of the high 2s is probably a good guess through for next years.

Peter Benedict

Yeah, okay that make sense thank you.

Richard Galanti

Thank you.

Operator

Our next question comes from Scott Mushkin from Wolfe Research.

Scott Mushkin

Hey thanks for taking the question actually had some follow-ups and some of the questions were already been asked, but I want to get some clarity. So I think the Michael Lasser, was asking about the Visa card and I guess real specifically do you anticipate that card will actually drive membership growth Richard?

Richard Galanti

Well we get there we'll let you know.

Scott Mushkin

Okay, okay and then following up a little bit on John Heinbockel and his kind of the technology. When you're looking at your executive members do you guys have clarity to the data say okay how many are these executive members using our ancillary services what are they using and kind of what the penetration rates are?

Richard Galanti

Yes absolutely, but we're not going to share with you what those are. Each ancillary business is a little different, some of them take a decade to really get some good footing. But they are all great values and yet another reason why somebody wants to be a member and we'll keep improving those values. So those are – whether it's KS, or organic, or commodities, or these items, these are all things I think that gives us a good competitive position.

Scott Mushkin

And do you think there's an opportunity to drive additional ancillary business growth with your core members?

Richard Galanti

Absolutely.

Scott Mushkin

Okay, then…

Richard Galanti

I would recommend that you try Costco Travel, you'll be amazed.

Scott Mushkin

I’m working right now at a Costco car buying program, so I hear that’s wonderful as well.

Richard Galanti

As well, I think, we’re approaching 0.5 million car – new cars a year on that. And there’s a reason, we use our buying power to get our members a great savings on cars.

Scott Mushkin

And when you think about getting a little bit more involved in technology and relationship with your customers is one area that you think could be a level that could be thrown?

Richard Galanti

I’m sorry, say that again?

Scott Mushkin

When you’re looking at data mining, knowing your customers a little bit better, marketing a little bit more aggressively, I think, you mentioned at the beginning as a scenario that would get a focus do you think?

Richard Galanti

At some point, we kind of little self deprecating when we talk about that. At the end of the day, there’s a lot of opportunities to do a lot of that stuff. We kind of look at it in the 80-20 rule, we’re doing a little of it, which you’re getting some benefits. There will be plenty of opportunities to do some of that in the future. But we – our main focus is on driving value and a lot of those other things take care of themselves. And certainly Craig Jelinek as our CEO has told people, an e-commerce people and membership marketing, try some things and they’re trying some things, and we’ll keep go in that direction.

Scott Mushkin

Perfect. And I had just one last kind of follow-up, this is when Bob was talking about the remodels, I'm trying to understand that our local Costco is under remodel in the fresh department. And as you look at 2016 and 2017, is that the focus of the remodels, are you expecting to do more of them, and it's just focused on fresh, it seem like that's where the focus. I just wanted to get clarity and is it going up kind of year-over-year?

Richard Galanti

I think as a general rule, it has been going up. But it's up, it's a big number. And I don't know if it keeps going up from there. I know the one across the street here, we again added 10,000 feet or 15,000 feet. We expanded greatly the walk-in coolers for customers and produce and dairy. When you're doing in some of these units $200 million, $250 million, $300 million, you can drive some true incremental good sales by not only expanding the – everything in terms of the traffic patterns ingress in and outside of the warehouse. But adding some of these things like refrigeration, fresh foods, and they'll still continue to be a big number.

Scott Mushkin

And so you're doing more fresh remodels, fresh drives traffic, is the focus in that fresh area on organic, or just general, or is it related towards organics?

Richard Galanti

Well, I think in terms of CapEx related, it's everything. Our organics is just a piece of that.

Scott Mushkin

All right. Perfect. Thank you so much. Really enjoyed the answers. Thanks.

Operator

Our next question comes from Greg Melich from Evercore ISI.

Greg Melich

Hi, thanks. Gone over an hour, and I still have a couple of questions. So, one of the follow-up on gas, what was the average gas price in the quarter versus last and if you could give us the gallon as well, that would be great?

Richard Galanti

The average price in Q4 was 365 a year ago and 288 this current fourth quarter, so down 21.2%.

Greg Melich

Right. And if that's the case, I guess, going back to gas profitably understanding it's been a tailwind. I guess, is that incremental drop even from last quarter that's really allowed the profitability to boost up again. Is that – are we thinking about that right?

Richard Galanti

Actually the price was – from a quarter ago, the price was up about $0.20 a gallon. But it's – I think, there's a little bit of new normal, it's not just how it is year-over-year, it's when it's low, it's better from a profitability standpoint, and it's relative to competition. I mean, gas buddy has continued to say that we're the lowest price out there nationally, and I think we're still pretty good at being very competitive that we get a lot of good kudos for that.

Greg Melich

So basically you can keep your competitive advantage, but the penny profit might be better than it used to be the way the market is?

Richard Galanti

Yes. I think in – when prices are low, we make more than we used on average per gallon or per gas station, and that's good.

Greg Melich

Right. And then the second question was going back to membership fee income, I think, you said it was 6% if we exclude FX?

Richard Galanti

Yes.

Greg Melich

I believe that's a 100 or maybe 200 bps below the trend in the last year or two. Is that just fewer openings last year, or I think last quarter you mentioned sign-ups per club was actually negative, but it was a comparison issue, just help us understand how that…?

Richard Galanti

I think, overall it's just fine. There is a little bit in Canada of the auto renewal issue when we switch over and we'll see that again a year hence over the next year, starting next year, that's a small piece of it. I don't think beyond that there's a whole lot there in that regard. There's always going to be the timing, because when membership fee dollar increases, we use deferred accounting for it. And so that makes it a little more squishy number, but overall the number was in line with what we felt was pretty good.

Greg Melich

And with the auto renewal effect, I guess, I'll sneak a third one in. If I remember correctly, AmEx is roughly 40% of the tender in the stores. So to think of the magnitude that have in Canada when you did the changeover, what was AmEx…?

Richard Galanti

Well, there's one big difference in Canada, the portfolio was not purchased. While I can't guarantee, it will be purchased, the contract states it should be, and we'll keep towards that, our Citi and AmEx are working towards that end. That's a different scenario in terms of auto renewal. Up there, you basically have to re-sign people up, they have to apply for credit. They get their – they get authorized. They have to re-sign up for auto renewal. I don't expect that to be an issue in the U.S.

Greg Melich

Got it. And the tender there is roughly the same as here at 40%?

Richard Galanti

I think it was a little less, but remind you the market share of our provider up there historically had a lower market share there relative to Canada than they do in the U.S., have a stronger market share down here.

Greg Melich

Okay, got it. Great. Thank you.

Richard Galanti

Yes. Why don't we take one more question?

Operator

Our final question comes from Matthew Fassler from Goldman Sachs.

Matthew Fassler

Thank you so much for keeping the flame burning just for another moment. First question relates to Spain and just curious on your learnings from your first Spain opening and how you expect your continental European stores to differ from your other international markets based on what you saw from that first unit?

Richard Galanti

Well, like any first unit with maybe the exception of Australia, which was off the charts high to start with, you learn a lot. You learn what sells and doesn't sell. I think, if I recall from when we first opened in Saville year-and-half, two years ago. We had a less – we had stronger non-food than we would have expected and not as strong fresh food. Usually in a few market you got stronger fresh food. This given us great success in countries like Korea and Taiwan and Japan. We have to remind ourselves that Korea and Taiwan, they were not very good for several years. You start off with slower sales in most countries other than Australia and when you first entered – when we first entered the market, and that was consistent, probably the worst economy we started was in Spain, but we're seeing some traction.

Membership sign-ups are just fine, and membership renewals have been just fine. But it's – one data point does not a story make here. Madrid is certainly is a much bigger market than Saville, and we've got again one unit coming next month and a second one in around Madrid coming, I believe next spring, certainly, sometime in the mid of the calendar year. So that will be more telling in our view than anything we've seen so far.

Matthew Fassler

Great.

Richard Galanti

We continue to be very confident that we got a good model that works, and we're patient as well.

Matthew Fassler

A quick second question. On the online and e-commerce piece, Instacart, I know, is a particularly prominent partnership among the ones that you've got, and it’s a concept that from a – in terms of the number of retailers who is doing business with and how long that’s hung in, seems to be gaining some traction. Any sense as to how that relationship has evolved, in particular, how the economics look for you relative to some of the alternatives?

Richard Galanti

Well, again, we’re not going to disclose any specifics, we have a good working relationship with Instacart with – certainly with Google Shopping Express as well, and Instacart is in more cities, and anybody you know out there that wants to buy from us, you call us.

Matthew Fassler

Fair enough. And then finally, I think Greg – one element of Greg’s questions might not have gotten answered was gallon comps. You talked a bit about the gas prices. But I remember, when gas prices first started coming under pressure, gallon comps surged into double digits, are you still seeing that with that prices down here today?

Richard Galanti

I’m not sure if it’s double-digits, but it’s certainly positive.

Matthew Fassler

Got it, okay.

Richard Galanti

And we generally have that out sometimes in a moment of weakness I share it with you guys. But the comps have continued to go in the right direction in terms of gallon.

Matthew Fassler

Thank you so much.

Richard Galanti

Okay. Thank you, everyone. Have a good day.