Costco Wholesale (NASDAQ:COST) F2Q2013 Results Earnings Call March 12, 2013 11:00 AM ET

Executives

Richard Galanti - CFO

Analysts

John Heinbockel - Guggenheim Securities

Deborah Weinswig - Citigroup

Colin McGranahan - Sanford C. Bernstein

Chris Horvers - JPMorgan

Mark Miller - William Blair

Greg Melich - ISI Group

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Sandra Barker - Montag & Caldwell

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Operator

At this time, I would like to welcome everyone to the second quarter FY13 operating results conference call. [Operator Instructions] Thank you, Mr. Richard Galanti, CFO, you may begin your conference.

Richard Galanti

Thanks, operator. Good morning, everyone. This morning's release, of course, reviews our second quarter and fiscal first half 2013 operating results for the period that ended on February 17.

As with every call, let me start by stating that these discussions we're having will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and that 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.

So to begin with, our 12-week second quarter, we reported earnings per share of $1.24, up 38% from last year’s $0.90 reported number. As noted in this morning’s release, and as I had mentioned during our first quarter earnings call back on December 12, this quarter’s net income was positively impacted by a $62 million, or $0.14 per share, income tax benefit that was in connection with that portion of the special cash dividend paid by the company in December of 2012 to company 401k plan participants. Excluding this one-time benefit, earnings per share for the quarter would have been $1.10, or up 22% year over year.

In terms of sales for the second quarter, total sales were up 8%, and our 12-week reported comparable sales figure was up 5%. For the quarter, sales were very slightly benefitted by gasoline inflation, less than 10 basis points of impact, and were also benefited by strong foreign currency overall relative to the U.S. dollar year over year. Probably net it added about 60 basis points.

Even so, the 5% U.S. comp sales, excluding the gas inflation, remained at 5%, and while the reported 6% international comp figure, assuming flat year over year FX rates, would have been 4%. Total company comps were reported at 5%. Excluding both gas and FX, they still came out to 5% for the company overall.

And, as announced last week, for our four-week month of February, which of course includes the last two weeks of fiscal Q2, and the first two weeks of our fiscal Q3, but in terms of the four-week month of February, comps came in at 6%, both for the U.S. and the total company.

In terms of new openings, after opening nine new locations in the first quarter, which ended November 25, we opened five new locations in the second quarter, one in Washington, DC, two in Canada, one in Oshawa, which is in the Toronto market of Ontario, and one in Drummondville, which is in the Montreal market in Quebec.

We also opened in Leicester, UK, in central England, and [Gwangmyeong], which is outside of Seoul, Korea. All told, that puts our 2013 fiscal year openings through the second quarter end at 14 new locations, such that we now operate 622 locations around the world.

Between now and the end of fiscal 13, which I think ends on September 1, we expect to open an additional 14 locations, five in the current fiscal quarter and nine in the fourth quarter. Of these 14, before fiscal year end, that we haven't opened yet, four will be in the U.S., five will be in Japan, two in the U.K., and one each in Taiwan, Australia, and Mexico, such that we will most likely end the fiscal year with 28 new openings this fiscal year and be operating a total of 636 Costcos worldwide at that time. I'll also talk later in the call about ecommerce, membership trends, and [discussions], of course, about margin and SG&A.

Onto the quarter itself, again, sales were up 8%, comps were up 5%. In terms of the reported 5% comp number, that was the product of an average transaction increase of a lot of 2% for the quarter and an average frequency increase of a lot of 3%. The frequency trend for the last three calendar months reported was 5%, 3%, and 4% for December, January, and February, and year to date we are at 4%.

In terms of sales comparisons by geographic region, overall the southeast, Texas, and Midwest regions were the strongest. Internationally, in local currencies, Korea and Japan were the weakest, again mostly due to the cannibalization on a relatively small basis, of existing units, and with Canada and Mexico being the strongest internationally, in local currency.

In terms of merchandise categories for the quarter, for the second quarter, within food and sundries, overall in the mid-single digits. Frozen foods, candy, and deli were the relative standouts. In hard lines, overall in the low single digits. Departments with the strongest results were hardware, patio and garden, lawn and garden, and tires.

Consumer electronics sales were slightly negative, mostly due to the timing of the fiscal calendar, as the typically strong Black Friday sales around Thanksgiving benefited Q2 last year and benefited Q1 this year. And you take that out, and those numbers would have been a little better.

Within the higher single digit soft lines comps, small electrics, domestics, and jewelry were standouts, with media of course continuing to be the relatively weak area. And in fresh foods, comps in the mid singles, deli and produce were a little better than the two other large categories.

Moving on to the other line items, membership fees, we came in at $528 million, or 2.17% of sales. That’s up 15% in dollars, or up $69 million from the $459 million last year and up 13 basis points. In terms of membership, we continue to enjoy strong renewal rates, and I’ll go through that a little bit in a minute. Continued increasing penetration of the Executive membership, which is the roughly $110 a year fee.

And we’re still, of course, benefitting from the $5 and $10 membership fee increases that began a lot of a year ago in both the U.S. and Canada. And of the $69 million increase year over year in membership fees, right at a half of it, or about $35 million, was due to the fee increase.

Membership fee income, as I talked about in the last few quarters, based on the deferred accounting nature of those increases and recognizing the increases occurred over a 12-month period, based on when somebody originally signed up, and then the income comes in over the succeeding 12 months of that first increase. Basically, we'll continue to show year over year benefits from that fee increase throughout fiscal 13 and to a lesser extent into the first quarter of fiscal '14 this coming fall. Again, that's due to the deferred accounting treatment for membership fee income.

New membership signups in Q2 company-wide were up about 1%. There were more locations open this quarter, five versus last year's two. It's mostly reflective of the very strong signups we had internationally, most particularly in Australia and Asia. Last year, we opened two units in Japan during the quarter, and two right at the end of the quarter, in the first few days of Q3. Of the 14 units opened thus far this fiscal year, only one of them has been in Asia. And again, we have pretty much oversized signups in some of those new units.

In terms of number of members at Q2 end, Gold Star: 27.8 million from 27.3 million at Q1 end, primary business remained at 6.5 million, business add-on went from 3.6 down to 3.5. Again, that's somewhat reflective, I believe, of people as they switch into their own membership as an Executive member. All told, total members went from 37.4 million at the end of the first quarter to 37.9 million, and including extra cards, spouse cards, 68.2 million went to 69.1 million at Q2 end.

At Q2 end, paid Executives were a shade over 13 million, an increase of 181,000 over the last 12 weeks, or about 15,000 new Executive members. That's both new members and conversions from the base Gold Star membership. Executive members are approximately a third of our membership base, and a little over two-thirds of our sales.

In terms of renewal rates, they've continued to tweak up. In the U.S. and Canada, which is a little over 80% of our total company, and certainly the oldest and most mature part of our company, business renewals, which ended the fiscal year at a 93.7% rate, and at the end of the first quarter was 93.8%, are now at 93.9%. And Gold Star, which was 88.7% and remained there at the end of Q1, was 88.8. That total U.S. and Canada went from an 89.7% essentially to an 89.8% over the last quarter.

And worldwide, recognizing in newer markets you start off with lower renewal rates anyway, we went from an 86.4% at year-end, remained there at the end of the first quarter, and it tweaked up to an 86.5%. So really, over the last year, since the fee increases, we've always been asked a lot about renewal rates. Basically, each quarter have been either the same as the prior quarter or slightly up, and they've continue to tweak up almost a full percentage point in the last year and a quarter.

Going down the gross margin line, reported margins were up 6 basis points from a 10.53% to a 10.59%. Here we get to write down a few numbers. A little chart with five line items and four columns. Basically, we'll do two columns for each of Q1 and Q2, and of course those of you who have heard this before, this relates to the fact of how many basis points of margin reduction or improvement come on a year over year basis in the comparison. And once we do the chart, I'll give you a couple of comments.

In terms of core merchandising, reported in Q1 was -7 basis points year over year, and without gas inflation, it was -1. Going across that line, it was 0 and 0 Q2, reported and without gas inflation. On ancillary business, the second line item,+14 and +15 in the Q1 columns,+2 and +3 in the Q2 columns. 2% rewards, -2 and -3 in the Q1 columns, and -1 and -1 in the Q2 columns. LIFO,+1 and +1 in the Q1 columns, and +5 and +5. And lastly, total reported Q1 was a +6, which would be the sum of column one. That's what we reported in Q1 year over year margins. Without gas inflation, it adds up to a +12. And then of course, for Q2 reported, as I just mentioned, we were up 6 basis points, which would be that third column summation, and without gas inflation +7, recognizing there was very little gas inflation.

Basically, again, core margins were basically flat year over year. Those are the four core businesses, food and sundries, hard line and soft lines and fresh foods, which is a big piece of our business. Basically, not a bad showing. If you look back, of course as you know, of the four quarters of fiscal ’12, on average, compared to fiscal ’11, those numbers were minus 13 without gas inflation. And the trend in Q1 year over year was -1, and of course now it’s zero year over year.

Secondly, ancillary businesses. You’ll note that in Q1 it was 15 year over year. A big chunk of that, as I mentioned in the first quarter call, was strong gas margins year over year and some inflation. I think I said in the first quarter call about two-thirds of that, plus 15, related to that. In Q2, gas reversed, as gas prices went up, margins go down. As cost of gas goes up, we make less, and that plus three reflects strong ancillary business margins offset by probably five or six basis points of negative related to gas.

Two percent reward is simply a reflection of a little higher sales penetrations to those earning the 2% reward. And LIFO was a plus 5. Again, that’s a LIFO credit, I’ll mention in a minute, is about $9 million of a credit versus a $2.5 billion LIFO charge in the same fiscal quarter a year ago.

Mind you, when LIFO is a positive, it means the cost of the merchandise is coming down, and as you might expect, we tend to reflect that in our sales price as well, which would be on the merchandise margin line.

For the second quarter, year over year, food and sundries gross margins were flat. Hard lines and soft lines were up, and fresh foods was lower. As I mentioned on ancillary, overall, the target you saw was a +3 without gas inflation. Again, all the other ones, pharmacy, optical, hearing aids, food courts, were all up during the quarter, offset by what I just mentioned about gasoline.

The impact of the membership on executive member I already mentioned, and LIFO I mentioned as well.

Moving to reported SG&A, our SG&A percentage second quarter year over year was slightly higher or worse by 2 basis points coming in at 970 versus 968. Again, we’ll write down four columns. The same four columns, two for

Q1, reported and without gas, and then two for Q2. And the five line items would be core operations; central; RSUs, which would be stock compensation; quarterly adjustments; and total.

Going across, in Q1 the two columns were +10 basis points and +5, meaning, plus means good, lower. And in Q2, 0 and 0. Central was -7 and -8 last year and 0 and 0 in Q1 and then 0 and 0 in Q2. Stock compensation was -4 and -4, and then Q2 it was -2 and -2. Quarterly adjustment in Q1 was +8 and +8. That +8 last year was compared to the prior year, a one-time charge for an initiative in Washington State that we funded for alcohol. And then quarterly adjustment is 0 and 0 in Q2.

So, all told, reported in Q1 was a +7, meaning that SG&A was better or lower by 7 basis points in Q1 year over year, +1 total without gas inflation. And then in Q2, again it was -2 and -2, so again, higher by 2 basis points.

Within core operations, our payroll as a percent of sales improved year over year by 5 basis points. It was lower by 5 basis points. Total payroll dollars increased a little over 6% in Q2, compared to the 80% sales increase. So a good showing there. This improvement in payroll was offset by higher costs in benefits and healthcare, including healthcare and workers comp. Pretty much a wash between those things. Some of that was accrual related. Again, these are big expense numbers that we also do actuarial things for.

Our central expense, it was flat year over year in Q2. Notwithstanding ongoing IT modernization costs, I think in Q1 we said that was 6 or 7 basis points year over year increase. On an ongoing IT modernization basis, we’re not halfway through, but into the second year of a 3+ year project. It represented, on an ongoing basis, we estimated about a 3 or 4 basis point hit over the coming quarters, year over year.

Next on the income statement line is preopening. It was $6 million in both Q2 last year and this year. Now, last year we only had two openings, this year five. And really no surprises. A lot of it has to do with timing, preopening starts in some cases many months before the actual opening in terms of the costs associated with it. All told, operating income in Q2 was up $94 million, or 15%, as operating income went from $644 million the $738 million year over year.

In terms of below the operating income line, reported interest expense was lower year over year, with Q2 coming in at $25 million, $2 million lower than the $27 million last year. Basically, we had one big reduction in interest expense in the quarter, and then an increase related to the recent debt offering.

As you'll recall, last year, on March 15, we paid off $900 million of what was five-year maturity fixed rate debt. The annual pretax interest savings to Costco paying that off, I think I mentioned back then, was about $46 million pretax per year, or about $10.5 million pretax for this quarter. So that would have made it lower by $10 million. Offsetting this reduction, of course, was about $8.5 million of additional interest expense related to our recent debt offering.

As you know, on November 28, we completed a $3.5 billion debt offering in the form of senior notes, a combination of three, five, and seven year notes with a weighted average maturity of five years and an all-in annual rate of interest just under 1.25%, which again is about $44 million pretax per year currently. And so that's about a $9 million increase in interest expense for the roughly 11.5 of the 12 weeks that it was issued and outstanding during the quarter. So pretty much a wash between those things and that's why interest expense year over year was pretty much in line with last year.

Interest income and other was higher year over year by $16 million a quarter. Last year it was $10 million. This year it was $26 million. Actual interest income for the quarter came in at $11 million, the same amount year over year. The other component of interest income and other amounted to income of $15 million this year versus $1 million of negative last year or a $16 million swing.

About $13 million of the $16 million year over year change was related to forward foreign exchange contracts we used to manage the cost of U.S. dollar merchandise purchases in our international operations. These contracts are required to be mark-to-marketed each quarter end, and the change year over year was attributable to the general strengthening of the U.S. dollar as of the end of Q2 of this year versus a general weakening compared to the U.S. dollar in these various foreign currencies in Q2 of last year. Last year, again, we recognized a small loss related to it. This year we recognized a gain.

Now, mind you, and again, this doesn't show as part of our gross margin, this is where you put these FX contracts, but this is generally done by our buyers in foreign countries, where they are basically locking in typically foreign currency or U.S. dollar merchandise purchases in many cases, where they've locked that in, and so again, as it relates to the buyers, many of them consider that part of their margin, although we show it here.

Our company tax rate this quarter came in at 25.1% versus 34.2% last year in Q2. As discussed earlier on the call, the income tax line benefited primarily from a $62 million tax benefit in connection with that portion of the special cash dividend paid by the company in December of 2012 to the employee 401k plan participants. At such time, Costco shares held by employees in the plan approximated 22.6 million shares. These were held to an employee ESOP established several years ago. Dividends paid on these shares were deductible for U.S. income tax purposes, and we recognize that one-time tax benefit during the quarter.

Excluding the one-time benefit, our tax rate in Q2 came in at 33.5%, slightly lower compared to the last year's 34.2% during that. Basically, a combination of a few positive discrete items that went our way in Q2. Ongoing, we estimate our effective tax rate, barring anything unusual, for the balance of '13, to be in the range up to 35%.

Overall, net income was up 39% versus last year's second quarter, and excluding the one-time benefit the 39% increase would have been 23% on a net income basis, and as I mentioned earlier 22% on an earnings per share basis.

A quick rundown of a couple of other topics. The balance sheet will be included in the information packet that you can get online. Actually it was in the press release as well. Depreciation and amortization for the quarter was $217 million, and $430 million year to date. The other component that we're asked about is our inventories to payables ratio, since we're a high-turn business and we fund a lot of our inventories with trade payables. It improved year over year as of the second quarter end.

On a reported basis, it looks really great, 98% at the end of Q2 versus 91% AP as a percent of inventory. Given our ramp up of expansion right now, there's a lot of non-merchandise payables in there, for construction and related stuff. So it really, on a merchandise inventories to merchandise payables, it was 86% a year ago and it showed a little improvement to 87% this year. So certainly in the right direction there.

Average inventory per warehouse was up $600,000 from $11.6 million per warehouse a year ago to $12.2 million this year. So up about 5% on the 8% sales increase. A little under half of that $600,000 per warehouse increase related to higher levels of merchandise in consumer electronics and small electrics, with the balance mostly spread over mostly other non-foods departments.

Overall, our inventories are in good shape. No big markdown issues due to the recent holidays as well as our midyear fiscal inventories, which we take in January and February, halfway through our fiscal year, were our best ever.

In terms of capital expenditures, in Q1 we spent $488 million, in Q2 we spent $455 million, for a total of $943 million through the first half. I'd estimate that for the year it will be in the $2 billion range, compared to last year, for the whole year, of about $1.5 billion. And again, that certainly reflects our ramp up in openings.

In terms of Costco Online, as you know we operate both in the U.S., Canada, and the U.K. now. Both sales and profits were up again in Q2, and Q2 year to date. As you know, we replatformed the site last fall, and also have our first apps. And so far, so good.

In terms of expansion, as, again, I mentioned, we have no relos or closings this year. But in terms of units, basically for the four fiscal quarters, nine in Q1, five in Q2, five in Q3, and nine in Q4. That would put us at 28 for the year, up from 16 net new openings in fiscal ‘12, and 20 in fiscal ’11, so finally we got up a little bit there.

If you go back to fiscal ’12, the 16 units on the base of 592 was about 3% square footage growth. The 28 this year is assuming we can get them all open, on a basis of 608 that we began the year with, which would be a square footage growth in the 4.5% to 5% range.

New locations by country for the year, of the 28, would be 13 in the U.S. and three in Canada, three in the U.K., a total of 7 in Asia, one in Taiwan and one in Korea and five in Japan, and one each in Australia and Mexico. As of Q2 end, total square footage stood at 88,986,000 square feet.

In terms of stock buybacks, we did not purchase stock in Q2. As you know, we purchased quite a bit less than we had in the last couple of years in Q1. Certainly during the first several weeks of Q2, we completed a special dividend and the debt offering, and through the holidays. I don’t think there’s a whole lot to read into that at this point. Sometimes we’ll buy a little more, sometimes a little less, and as we’ve said in the past, we’ll let you know each quarter.

In terms of dividends, current quarterly dividends stand at $0.275 per share per quarter, or $1.10 a year. This currently represents annualized dividend costs for the regular dividend of $480 million. That’s of course in addition to the $7 special dividend, which totaled a lot of $3 billion paid out to shareholders in December of 2012.

As I mentioned, the supplemental information packet will be posted to the Costco investor relations site later this morning. Lastly, our third quarter scheduled earnings release date will be May 30. That's a Thursday, I believe. That will be for the 12-week third quarter which ends on May 12.

With that, operator, I'll turn it back to you for Q&A.

Question-and-Answer Session

Operator

[Operator instructions.] And your first question comes from the line of John Heinbockel with Guggenheim Securities.

John Heinbockel - Guggenheim Securities

Drilling into payroll and benefits a little bit, if you looked at total labor costs, payroll is probably, what, 80% and benefits are 20%? Or something like that?

Richard Galanti

No. Keep in mind, benefits is everything from healthcare to FICA, to vacation and sick leave. It's everything. It's not just healthcare. The big one that has the most inflation in it, of course, is healthcare costs, and to a lesser extent, but percentage-wise this quarter, workers comp. But roughly for every payroll dollar it's about 50%, another $0.50 in the U.S., and less in other countries.

John Heinbockel - Guggenheim Securities

Well, because I'm wondering, the 80-20…

Richard Galanti

Maybe 80-20 if you just did healthcare and benefits, yes. But I don't have the exact number off the top of my head.

John Heinbockel - Guggenheim Securities

You said payroll was up 6%, right?

Richard Galanti

Yeah, dollars.

John Heinbockel - Guggenheim Securities

So if you look at the other part that would have offset that, the all-in benefits was probably up, what, double digit? Or not that high?

Richard Galanti

I don't think it was up that high, no. I don't have that level of detail in front of me, but the big issue is, as I mentioned earlier, keep in mind, given we're talking about $25 billion sales numbers, every basis point is $2-2.5 million. Just accruals on a billion dollar annual U.S. healthcare cost and a $150 million annual workers comp cost, when you look at different actuarial numbers, you're always going to get plus or minus a few basis points. Sometimes plus, sometimes minus.

And it's kind of like, as I mentioned on some of the discrete income tax items, on those small little things, more went in the positive than in the negative. A couple of them were in the negative and the positive here.

So is healthcare and workers comp in the U.S. still inflationary? Yes. Healthcare, I think, is definitely in the low double digits in terms of the percentage dollar growth in Q2.

John Heinbockel - Guggenheim Securities

And you still think you need what, about a 4.5 comp to leverage expenses, or has that changed?

Richard Galanti

You know, it's somewhere in the 4-5 range. We've given up on trying to figure it out, since there's so many other moving parts now, with international and manufacturing businesses, and everything else we do in life.

John Heinbockel - Guggenheim Securities

On Kirkland, where does that stand roughly, when you think about percent of units sold and percent of dollars? And to what degree has that been growing?

Richard Galanti

Well, I don't know the units off the top of my head. I would guess, we tend to try to build bigger packs and better quality. And there are examples, as you've known in the past, from the tuna fish, where we sold our brand, which is packaged at a higher spec, higher quality than the leading national brands, at a higher price but a greater value. Let's assume on average it's a lower price point by 10% or 20% versus what we would sell the brand for.

You know, private label is in the low 20s, and continues to grow. And you know, when we talk about aspirational numbers, we'd like to see a three in front of it instead of a two. But I don't know how long that takes. Certainly we keep adding new items. In the last couple of years, we've certainly added several items in apparel and canned goods, those types of items.

I think I mentioned last quarter on the call, like the KS men's wool slacks, which is a very high quality slack, at $50 or $60, where we've gone from low six-digit units to closing in on a million units a year. So those are the kinds of things that eke out some numbers too.

John Heinbockel - Guggenheim Securities

Is it growing as a percent of SKUs inside the club? I imagine maybe a little bit.

Richard Galanti

Absolutely.

John Heinbockel - Guggenheim Securities

So that mix you're getting, it's coming out to a flat gross. The positive mix you're getting from Kirkland to some degree is getting reinvested in price somewhere. I don't know where, but somewhere, right?

Richard Galanti

Again, there's 100 moving parts. At the end of the day, I think you were one of the ones that pointed it out earliest, back in Q4 of '11, as we were "investing in price" and seeing some of the numbers come down, overall gross margins. Certainly, as I mentioned, the core is where a lot of it is. We saw that year over year trend flatten out in the last two quarters relative to being down 10 to 15 basis points on a year over year basis each quarter last year.

John Heinbockel - Guggenheim Securities

And then just one last thing. And I don't know if you have anything to say about this, but what are you seeing in Texas with Sam's membership being increased? Anything different competitively than what you're seeing from them elsewhere, since they have that fee to play with?

Richard Galanti

We really don't see a lot of difference elsewhere. We generally try to be fiercely competitive everywhere. First of all, I think it would be too early to tell. I haven't looked that closely, but nobody has also mentioned in the last few budget meetings anything regionally big in terms of margin change. I'm not suggesting it's not a little lower. It may very well be. I just don't know off the top of my head.

Operator

And your next question comes from the line of Deborah Weinswig from Citigroup.

Deborah Weinswig - Citigroup

Can you talk about your ecommerce strategy as you move outside of Canada, U.S., and U.K.? How should we think about it on a market by market basis? And then just from a SKU perspective, how should we think about your overlap between kind of online and offline?

Richard Galanti

Well, just like we've done with our bricks and mortar warehouses, when we go into a new country we do it slowly, and we see how it goes. So don't expect to see us in five more countries in the next 12 months. We certainly want to expand it, and we'll do so over the next few years in a methodical way. So our strategy is the same, do it as we normally do stuff.

I think we've expanded some of the product categories to test some apparel items, and there's a little bit of overlap there, but it's still small. Historically, over the last few years, the view was this was an extension of our product line, not the same product line that we have in the warehouse. Typically, I used to hear numbers in the 80-90% range was not overlapping with the warehouse. And maybe it's a little lower percent today, but by no means going dramatically in that other direction.

We still don't put our stuff online of what's in every warehouse, and what the sales prices are in the warehouse and the bricks and mortar. One of the challenges in a fast-turning business like ours is we can sell that stuff pretty quickly. We'd hate for a member to look at something and it says we have units in locations they're going to go shop at or something, and it not be there.

So at this point, we'll continue to do what we do, and we're pleased with what we've seen so far with the replatforming and all the little growth pains that you have when you redo stuff. As you might expect, it was more of a hassle for the buyers as they're learning how to use the new system and putting stuff on. But we're doing fine.

Deborah Weinswig - Citigroup

And then what do you attribute your renewal rates tweaking up to?

Richard Galanti

I'd like to think we're wonderful. It's everything we do. You know, the mantra around here is, as you've known for a long time, is constantly driving quality up and prices down, and never being static, and constantly pushing ourselves and improving. I think Executive member certainly helps. Gas and food I'm convinced, over the last four and a half years of a bad economy, has certainly driven more frequency. That helps. And more food. So any time we get another reason why you want to come shop at Costco, it's another reason why you're going to renew every year. And you know, we try not to disappoint.

And then to a lesser extent it's, you know, on Amex, there's autorenewal, of course. You can opt out of it. A cardholder can opt out of it. But certainly that's, in my view, less of an issue right now because the rate of increase is not as big as it used to be.

Deborah Weinswig - Citigroup

And then last question, if I go back and look over our model for a long period of time, it does seem, from an SG&A perspective, on the operations line, that there is a more consistent pattern in terms of leveraging the operations. Can you just discuss if there is anything that's significantly changed in terms of how you approach the operations, or any kind of philosophical changes, I guess?

Richard Galanti

Nothing philosophical. A couple of things I mentioned on prior calls in the last several fiscal quarters are things like increased penetration in non-U.S.

and Canada markets, where certainly in non-U.S. markets they related to healthcare costs, lower wage relative to price points in those markets. So you have a little lower payrolls, you certainly have lower healthcare costs. Those types of things help that. Increasing penetration.

I know I've mentioned over the last few years, a couple of times, on a qualitative basis, the word focus. And as wonderful, again, as we think we are, in being efficient, when the economy got bad, everybody looks to see what can you do better? And what should you stop doing that you used to do but you don't need to do? And it's those little things.

I think, in the past year, I mentioned the example of overtime hours. We are probably pretty good at managing and minimizing overtime hours, but once we started getting all the 12 or 15 or so senior VPs of operations around the U.S. and the world every month at the budget meeting to report on it, guess what? When total hours were going up 3-plus percent year over year, or 3.5% to 4%, or whatever it was, overtime hours were going down 20-plus percent. Again, that's a year or two [spend] benefit, but those are the kinds of things that we've gotten better at.

I think getting back to John Heinbockel's question earlier, about what do you need in comp sales, one of my canned answers in the last few years has been who knows what exactly the expense leverage is. I can only tell you that I believe that whatever it used to be is a lower number now because we've gotten a little better in the bad economy.

Operator

Your next question comes from the line of Karen Short with BMO.

Karen Short - BMO Capital Markets

Just on merchandise margins, it sounded like, giving us what your core merchandise margins did in '11 and '12 and then kind of comparing that to what happened in the first half of this year, it sounds like you're kind of trying to signal that we should not expect the first half of the year to be the trend for the remainder of the year. Did I read that right?

Richard Galanti

Well, we try not to signal other than to say… I know last year, as each quarter we showed that the core year over year [unintelligible] compared to the prior respective quarters of the prior year, when they were down 10 and 15 basis points year over year, that people would say, well, once you anniversary that for four quarters, does that mean you're investing in prices and getting more? And of course I would say, there's no telling what it will be. We'll continue to do what we do for a living.

Certainly we are confident that we want to try to increase earnings and sales, but we're going to try to do it by driving sales and lowering expenses first. But you know, so far so good. There's two quarters behind us this year that have shown, certainly, a better relative trend than the four fiscal quarters last year. But you know, I can't really tell you what the next quarter or next year's going to be.

Karen Short - BMO Capital Markets

And then one of your competitors had also kind of signaled that they had accelerated their price initiatives. Are you seeing anything on that front? Are you changing anything in terms of your pricing in response?

Richard Galanti

I don't want to sound arrogant, but we do what we do every day, and we haven't seen any big changes out there in general. And again, we and our competitors, and probably the one you're talking about, are both fiercely competitive, and as I've said in the past, direct warehouse club competition, most particularly with Sam's, is going to be the most competitive that we have, and that hasn't changed over the years.

As we get questions about what happens when the supermarkets are doing something or other forms of retail food and sundries, as an example, that's less of a direct impact, with the exception of a few areas like fresh foods and fresh meats and everything, and some cuts of beef. But other than that, we haven't seen any dramatic deltas.

Karen Short - BMO Capital Markets

And then last question, you've been kind of giving this cannibalization impact on your total comp of about 50 basis points. Is it fair to say that that's kind of steady state for a while? I know you gave the cadence and the locations of new store openings in the back half of the year.

Richard Galanti

Years ago, it used to be bigger, because we had a smaller base of units, even in the U.S., and we're opening, you know, a half a dozen units in L.A. or something like that. And we've always just given it out. And then it got down so it was maybe a quarter of a percent cannibalization. And now it's back up to 50 or 60 in the last year. And yeah, it's not going to change dramatically from that. Certainly as we continue to ramp up expansion it stays in that range. I don't ever see it going to, you know, 1.5% or 2%. I don't know if it gets up from 50 or 60 to 80, but it probably stays up there as we continue to open, particularly in some of these new international markets, where we have very high volume units that we've got to cannibalize them and get more locations open.

Operator

Your next question comes from the line of Colin McGranahan from Bernstein.

Colin McGranahan - Sanford C. Bernstein

First question on expansion, it looks like you're now targeting 28 units this year. I think last quarter the budget was 30, although you've always said units can slip. It looks like it lost to Korea and the U.S. Anything of note there? And anything to read into that?

Richard Galanti

No, I think the U.S. one is one that's just delayed for six or nine months, and I'm not sure about the other one. No, nothing unusual.

Colin McGranahan - Sanford C. Bernstein

And then just sticking with expansion, there have been a few press reports of some interest in Europe and France and maybe you can update us on your thinking of continental Europe as a longer-term future opportunity.

Richard Galanti

Well, I think we've spoken generally, and there have been articles in the local and national press in those countries, like France and Spain, and I would say over the next couple of years, we hope to be open, but it's a long process in some of these countries as it relates to the zoning and the permitting and the approval and the appeals of residential and other businesses. So there's a lot of things going on. But we have people landed in a few different countries, including those two. And those are the most likely, but again, once we know more, we'll let you know.

Colin McGranahan - Sanford C. Bernstein

And then just on the LIFO, obviously you had a little bit of a benefit. How are you thinking about that through the year in terms of inflation, deflation? What are the merchants saying about what's coming down the pike?

Richard Galanti

The only area I'm hearing a little more inflation still is in protein, beef and poultry and pork. And that relates both to international demand for some of those items as well as the costs associated with the drought last year and grain prices, and corn and wheat and things like that. As freight costs have gone up a little, I don't think they went all the way down when freight costs peaked a few years ago, and then came back down, so I'm not hearing a lot of inflationary talk out there. On balance, there's not a lot going either way with the exception of protein. That's really all I've heard from our buyers.

Colin McGranahan - Sanford C. Bernstein

Final question, just on MFI. Fees came a little above our estimate, but it looks like we were fairly good at figuring out the dollar value of the membership fee increase. So two questions there. Was there anything else? Or is it just you had 1% growth in new members and high renewal rates that drove the little bit of upside to MFI? That's the first question. And then just kind of out of curiosity, is there any lumpiness through the year in terms of when renewals happen?

Richard Galanti

On the first question, your thoughts are generally correct. On the second question, I probably need to go look at it again, but historically, since we generally try to get openings done - I'm thinking of the U.S. holiday and seasonal calendar here, but you can take it to each country and do that as well.

But generally speaking, we'd love to get every location opened as soon as possible, and every location opened the week before back to school and Labor Day to enjoy, again, Labor Day, back to school, Halloween, Thanksgiving, Christmas, seasonal, you name it, New Years. And that's why there's typically more done… And then of course if you're trying to push those to get open, you probably slow down a little bit in January and February.

So I think if you look back at the calendar, probably there is a little lumpiness of openings, probably not as much as there used to be. But then because of deferred accounting, and such a big piece is the total now, it's not as lumpy. It tempers some of that lumpiness even more.

Colin McGranahan - Sanford C. Bernstein

You know, U.S. comps have been really, really consistent. It looks like your business has been incredibly resilient and impervious to some of the pressures out there, like the payroll tax hike, the delay in tax rebates that the other retailers have pointed out. Have you guys done any work on how that might be impacting your business and any offsets to that?

Richard Galanti

No. We kind of joke about that we don't spend a lot of time trying to analyze, other than driving the quality and lowering the prices and everything else will take care of itself. But I know back when the payroll tax holiday occurred, and some of those same companies were talking about how it did help them a little bit, and when asked, we basically indicated and looked at it, and indicated that we didn't really see much benefit from it. So I think the same thing is happening on the tail end the other way. It can't help, but it doesn't really seem to be impacting our numbers.

Operator

Your next question comes from the line of Chris Horvers from JPMorgan.

Chris Horvers - JPMorgan

Executive membership, 15,000 per week, it's slowed down here in the second quarter. Does that have to do with the timing of the opens in Japan? Do you generally over index the Executive in those countries versus domestic? And do you sit there and say, hey, do we need to step up Executive membership to a higher percentage of sales? As you think about what trap it could be in the future, is it something that you're watching and maybe saying, you know what, if Executive membership grows at a slower rate, then maybe our traffic could fall below that recent very consistent trend?

Richard Galanti

Look, every day our people in our membership marketing department are coming up with ways to drive both new members and converting members to the Executive member, and then a higher percentage of new members are signing up as Executive members. I think we've done a good job over the last few years of doing that.

I remember a few years back for every 100 members that signed up in the U.S., 10 or 12 were Executive members, and then a few years later it was in the low to mid-20s. Why? Because we started focusing on it a little bit in the warehouse. Not doing a whole lot of fancy stuff, but just doing the 80-20 rule that we're pretty good at. You know, what are the simple things we can do to drive this.

Certainly, trying to get people to also do the triple value play that we jokingly call it, is to also sign up for the Amex co-brand card. So all those things drive frequency, drive loyalty, drive sales. And so we're constantly looking at ways to do that. I think ultimately it's got to slow down a little bit.

We've now had it in the U.S. for 13 or 14 years, and Canada for 7 or 9 years I think, and a few other countries for less time than that. Those other countries, though, are much smaller pieces of the total company pie.

So I think I would expect it to continue to come down a little bit, and I actually think 15 a week is still pretty good.

Chris Horvers - JPMorgan

Absolutely. You said one-third of your members are Executive, and two-thirds of the sales. Can you talk about the deviation around that? Is there a wide deviation around that among your stores, and maybe where some of your better and best stores are as an indicator of where potentially that could go?

Richard Galanti

Well, I think it has less to do, if I think about it - I'll take the United States - with the typically geographic areas other than the operators in those areas push it a little harder. And we try to learn from them. And one of the benefits, I think, of our '13 four-week meetings, every four weeks, so 13 times a year, 13 fiscal period meetings out here for two and a half days, is each of those 15 or so senior VPs of operations, and in this example in the U.S. , the eight senior VPs of operations, gets up and one of the things they talk about is what's going on in these areas. And what are the new things they've done to drive whatever? I think some do focus more than others. And we try to learn from that.

Chris Horvers - JPMorgan

I guess you have some stores where it's 40-50% of your membership base?

Richard Galanti

Absolutely. Okay, I see what you're saying. I don't have that number in front of me, but if it's roughly a third or a little over a third overall, it's probably, in the U.S., in the mid to high 30s. Let's just make up a number here, 36. If it's 36, I would bet you, across the 430-plus locations, it would range anywhere from the high 20s to the low 50s. But I'm shooting from the hip with that answer.

Chris Horvers - JPMorgan

And just from an accounting perspective, can you talk about how the calendar shift might impact total sales versus comp in the next two quarters?

Richard Galanti

I don't think it's a big deal in the next two quarters. There's no Easter shift. It's in the same quarter. I don't think there's a whole big deal there. Now, of course, in Q4 last year, it was a 17-week quarter, and I haven't looked that far out in terms of when Labor Day falls and that stuff. If Sunday, September 1 is fiscal year end, so I guess Labor Day is the second. So that might affect it a little bit too, but I haven't thought through that yet.

Chris Horvers - JPMorgan

And last question. Online, you accept credit card purchases. So how does that change the profitability of an online versus an in-store transaction?

Richard Galanti

Well, one of the cost components, of course, online, and in store as well, is what we call bank charges, which is credit, debit, and other fees related to vault and cash and currency and check cashing. And online, we, of course, have the ability to, since you can't pay by cash or check online, we also accept other national forms of credit cards. Of course, in store, exclusively American Express in terms of branded national cards. And it's higher merchants fee elsewhere, so we have a higher bank charge line. Although we have, overall, a much lower SG&A number online, because 75%-plus of the goods are shipped factory direct. So there's a lot less handling. As a percent of sales, online is a more profitable business than bricks and mortar, but we do both.

Operator

Your next question comes from the line of Mark Miller with William Blair.

Mark Miller - William Blair

It's encouraging to see the step up in club openings, particularly more coming in the first half of the year. And I wanted to get your view on, I know there's an objective to possibly accelerate the club growth further. I think it had been potentially as high as 6% you'd hope, over the long run. But is that upper end of the objective becoming more credible in your view? Maybe you can just talk about that pipeline of club openings, as you look at that pool going out, say, three years. Is that group of opportunity stores growing at that type of rate?

Richard Galanti

Probably six is a little high, but given that we were at three, and now we're getting towards five, that's a good sign. I think there's certainly a lot more in the pipeline now to give me a little more credibility with you in terms of what we talked about at the beginning of the year. And there's always going to be a couple that fall out, because we try to be optimistic that everything we've got going on is going to work and get done on time, and maybe push the envelope at the end of any fiscal year to [unintelligible] still open.

Two years ago I was feeling that let's try to get into the low 20s at least, and we did 20 in 16. We thought we'd be in this fiscal year and be talking about 30, and I think we have a good chance of actually hitting the 28. I think that going forward Craig would like to see it have a three in front of it, but probably a very low three in front of it. So, you know, if I was a betting person, over the next three years, fiscal '14, '15, and '16, 27 to 33 or 34, which would give you a 30 estimate. But I could off a few. I think we've got enough in the pipeline to be able to do that. And we'll go from there.

Mark Miller - William Blair

And then on preopening, you indicated that it was nothing particularly unusual there, but the preopening costs first half were up about a third, but the number of openings was more than double first half. Is that because you've got the openings coming late in the year with the nine club openings in fourth quarter, or is the preopening cost coming down a little bit for you?

Richard Galanti

I would be willing to bet it's the former reason, not the latter. A lot of it just has to do with timing. And keep in mind, with reopenings, let's say that we're doing a lease, not an own, and you get the property four or five months in advance of opening. And we might have a few hundred thousand dollar charge per period for rent expense, which is preopening prior to the opening day. That alone might be a little over a million dollars on a location. Now, that's the exception, not the rule, since we own a lot of the units.

And certainly when we're building a multistory unit with parking and two stories of retail on a two-acre site in Japan or Korea, it takes a lot longer to do, so you might have even more preopening. And some of those are leased. So those are the kinds of things that will bump that number up the other way.

So overall, again, like everything around here, each location has a preapproved by Jeff and Craig, and the heads of the respective operations heads in those areas, of what preopening is going to be, and we hit it and miss it. But overall, we have a pretty good handle on what it is. The thing we don't have a good handle on sometimes when there's, again, a two or three month delay because of soils issues or rain or freezing ground, couldn't get the foundation laid before the ground froze. That could be $200,000 to $800,000 on a location of preopening during those several months.

Operator

Your next question comes from the line of Greg Melich from ISI Group.

Greg Melich - ISI Group

I'll just follow up on the LIFO gain. Which area was actually deflating? Or which categories? And did any of that actually [unintelligible] from retail deflation?

Richard Galanti

On the deflation, if I look at the [unintelligible], what we call foods and sundries, foods was down a little, about half a percent. Sundries was up less than 20 basis points. Apparel was down a little bit. Electronics and appliances were down a little bit more than that, but still less than 2 percentage points.

A [unintelligible], which is a mixture of things, including gas and sporting goods and office and auto, is down a shade, and then alcohol and tobacco, beer, and wine is up a shade. But overall, it’s down a little over a half a percent from the beginning of the year. And again, certainly the bigger deflationary items are still electronics.

And sometimes there’s deflationary items like… I’m looking at the top 20 deflationary components. You know, there’s, aside from a small amount from gas, and the biggest chunk is electronics, pecans, they’re down 20%. Well, that’s because they were probably double last year, or whatever it was. So sometimes you have these giant commodity price increases a year ago, particularly in the nuts category or something, grains, and then it comes down the other way.

Greg Melich - ISI Group

And the $600,000 increase in inventory per warehouse, could you help us sort of break that down and figure out where it’s going into, that investment?

Richard Galanti

I think right at $200,000 of it was electronics. And another $75,000-plus of it was small electrics. And then we definitely expanded apparel. I gave the example of the wool pants. We’ve got a much better, I think, commitment to apparel. And then there’s a lot of little stuff everywhere else. But the single biggest component is consumer electronics. And you know, you go into the warehouse, you see a lot of 60-inch and 80-inch TVs now. And tablets.

Greg Melich - ISI Group

Just to maybe understand a little bit better, as you grow the online business, how should we think about the inventory for warehouse vis-à-vis the online growth. Is it the same SKU assortment? Is it an extended assortment?

Richard Galanti

Right now, it’s an expanded assortment. It’s not the same. Certainly you’re going to see some overlap on electronics or a few apparel items, but you’re going to see more SKU selection online. Whatever changes you’re going to see there are going to be very slow in terms of percentages, because the brick and mortar is so big.

Greg Melich - ISI Group

And then lastly, you mentioned on the accruals, and we know that just $2 million or $2.5 million is one basis point, but the ones that you cited in this quarter, was that sort of a one-off catch up accruals, or do you think now there’s a different sort of accrual run rate for those things you cited?

Richard Galanti

No, I don’t have the exact basis points in front of me, but like workers comp, I think there was a couple of basis points there. And my guess is there’s a little catch up in that number. Again, I get back to the income tax. We benefited by several million dollars - I’m not talking about the big, $62 million number, but there are discrete items. Usually, when you’ve got to squeeze anything, there’s two or three pluses and two or three minuses, and it balances out to be very little, a basis point or two. My guess is there were three or four here. So it’s not a whole lot. I wouldn’t read a whole lot into that.

Greg Melich - ISI Group

And then lastly, on the club openings, as we do more outside of North America, how should we think about capex in terms of how many of those might actually be leased? I know you’re 90%-plus here, but as we go international, are most of those units in Asia and elsewhere going to be leased?

Richard Galanti

Probably a little more of them are leased or at least ground leased. And with long term ground leases. We still try to buy where we can, and I think we're getting a little more aggressive on that, but it's hard to predict. I think overall, we're in the low 80s in terms of how many we own. But I know even in the U.S., when interest rates plummeted four years ago, a lot of times, when you have an individual landowner, they don't want the cash. And so we've done a few more leases in the U.S. as well in the last several years. But certainly there's probably a higher proportion of those done in areas like Asia. I think we own more in Japan. Like, Korea, I think we lease more. But every country's a little different. And the three Asia countries, I think, overall, there's more leases there, of course, than in the U.S.

Greg Melich - ISI Group

So maybe asked a different way, if there's 27 or 28 openings, is it fair to say that maybe this year, given where they are, that half are leased and half are owned? Or would that be too extreme?

Richard Galanti

No, we'll still own more.

Operator

Your next question comes from the line of Dan Binder from Jefferies.

Dan Binder - Jefferies & Company

First, on IT modernization costs, I didn't hear you call it out this quarter. I know it's been adding some pressure. Are we now kind of through the worst on that?

Richard Galanti

No, I think on an ongoing basis, looking over the next few quarters, and this is a guess, it's somewhere in the three to four basis point year over year. I think it was higher in Q1, it was closer to flat in Q2. But some of that is just, again, timing of things. You also capitalize some of those costs. Again, overall, my guess, over a two or three year period, it's going to add sometimes three, sometimes five.

Dan Binder - Jefferies & Company

I remember last year you guys were very focused on some of the operational opportunities to improve your cost structure. You called out some of that today. Overtime reduction was one of them, which you mentioned earlier. I'm just curious, as you look at the organization today, are there any big buckets where you can still pull costs out?

Richard Galanti

I don't think there have been any big buckets, even, by the way, I did mention the overtime. 20%-plus reduction in overtime hours. That was several million dollars a year, maybe a basis point or two over a couple of years. But nothing like everybody thought that RFID would free up the front end and reduce our biggest labor cost area. That ain't happening. But we have done a better job [unintelligible] and tackling the little things. And there's still the focus out there, but other than driving sales, again little things here, but we've streamlined and tested and now rolling out how we return merchandise. In some cases, not doing it at the warehouse but bringing it into some of the depots. And if that can continue to work, do we save a few million here, $5 million there? Yes. But there's no giant thing out there.

Dan Binder - Jefferies & Company

I'm sorry if I missed it, but did you comment on the dotcom sales growth, and the contribution to comps this quarter?

Richard Galanti

No. I think it was in the low teens in terms of sales growth.

Dan Binder - Jefferies & Company

And what does that look like in terms of contribution to comp?

Richard Galanti

I don't know. We're going to do in the high twos for the year on whatever your budget is for total sales for the company, so it's 2.5% of sales, and up in the low teens.

Dan Binder - Jefferies & Company

And then on consumer electronics sales, I know that you called out the calendar issue that affected the quarterly number, but generally your monthly sales updates have been showing some pretty good strength in that category. I was just wondering if you could speak to some of the bigger trends that you're seeing take place in the club there.

Richard Galanti

Well, I think with electronics, the biggest takeaway is our TV sales in general. TV sales are the biggest piece of electronics. While that was down slightly in February, over the last several months it's been up in the mid to very high single digits. And a lot of that, I've been told in the budget meetings, relates to the fact that we've done very well with 60-80 inch TVs. As you know, we stopped selling some of the Apple products, the ones that we were allowed to sell, maybe two years ago, so on that low base, we are starting to sell some of the other tablets and the like. The cellphone business is pretty good. But again, it's all dwarfed by TVs.

Operator

And your next question comes from the line of Sandra Barker with Montag & Caldwell

Sandra Barker - Montag & Caldwell

I just had a clarification on the website. What impact have you seen from making it searchable and adding the mobile apps? Has it been anything notable now that you're sort of more visible?

Richard Galanti

Well, I think sales are up a little better than they have been, but the first thing is I know for the months leading up to it, everybody was warning us, from our own dotcom people to the IT people, that the day you flip the switch is not the day you start to see immediate benefit, because it takes time to build the clicks and all that stuff. But again, kind of like the other things we do, we're methodical and slow about it, and it's showing some improvement. But off the top of my head, I can't give you any specifics.

Sandra Barker - Montag & Caldwell

And I can't remember, is Jim still in the building a little longer? What's he focused on?

Richard Galanti

Jim is on vacation this week, but yes, he's still here a lot. Somebody asked me the other day, you go to Craig to ask questions, to get permission to do stuff. And Jim's still traveling, and he's still on the board, of course, and I see him quite a bit. But to his credit, and I think to the company's success, it's been a very good a little over three-year transition with he and Craig, and he's still traveling a lot to openings and with the merchants and with Craig, and spends a lot of time with Craig and Jeff still. But he's doing a good job of staying away a little more. If you asked me six months ago, I would have said he's in the office 80% of the time. Now it's still well above 50%. But we'll see. He's still doing well.

Operator

And your final question comes from the line of Bob Drbul from Barclays.

Bob Drbul - Barclays

I just had two questions for you. The first one is I think you said new member signups in the metrics in international markets versus the U.S. and Canadian markets, the number is higher abroad. Can you tell us how much higher it is? And the second question is, you talked about the buyback a little bit, but on the buyback going forward, is there any reason why you wouldn't be active at these levels where the stock is?

Richard Galanti

I'll take the last question first. No, we look at it, and we'll keep looking at it. I think generally speaking, as I've mentioned in the past, we issue our issues that add 3-3.5 million shares a year. It would be nice to cover that, but we don't feel pressure on a given day or week to do something. Generally speaking, we still feel good about the company long term, and again, I think at this point, we'll wait for 12 weeks and see what we're doing.

On the other question, what was it?

Bob Drbul - Barclays

How much higher are the new member signups in international markets versus the U.S. and Canada?

Richard Galanti

I'll give you some general numbers. Keep in mind, when we talk about opening day signups, it's for the generally 8-12 weeks leading up to the opening day, when the parking lot's partly done and you can get in and out of the parking lot, and people come in and sign up in advance of opening. There's the little flags outside and the whole bit with the table and activities. And you know, in the U.S., when we've opened a new unit, even in a very strong existing market, you might have a few thousand signups, because you've already got a lot of people in that market, and it's not like this giant thing for a new market.

I was at an opening back in the Carolinas four or five months ago. And it's a relatively medium-sized town, less than a million people, and a brand new market, and through opening day signups for those several weeks, and they're all booked, if you will, starting on opening day, was in the 6,000 or 7,000, which was better than we would have thought. We have some openings that we've done over in Asia and Australia, where through opening day we've had anywhere from 20,000-60,000 members signed up.

Now, mind you, you're going to have a much lower renewal rate on those a year later, but our membership numbers, and we've been in Japan for a while now, and we also have some new units there, the number of members per unit over there is a little over double what the company is running. So it's a little different metric in some of those markets. Quite a bit. So when you open four or five of those, that's going to jump your membership increase, the number of members, recognizing we don't use deferred accounting for counting members, but for their dollars we do.

Okay, well thank you. Bob and Jeff and I are around. Appreciate your time today.