Costco Wholesale (NASDAQ:COST) Q2 2011 Earnings Call March 2, 2011 11:00 AM ET

Executives

Richard Galanti - Chief Financial Officer, Executive Vice President and Director

Analysts

Gregory Melich - ISI Group Inc.

Mark Miller - William Blair & Company L.L.C.

Robert Drbul - Barclays Capital

Adrianne Shapira - Goldman Sachs Group Inc.

Mark Wiltamuth - Morgan Stanley

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Deborah Weinswig - Citigroup Inc

Neil Currie - UBS Investment Bank

Charles Cerankosky - Northcoast Research

Charles Grom - JP Morgan Chase & Co

Operator

Good morning. My name is Debbie, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Second Quarter and Year-to-Date Operating Results for Fiscal Year 2011 and February Sales Results Call. [Operator Instructions] Mr. Richard Galanti, Chief Financial Officer, please go ahead.

Richard Galanti

Thank you, Debbie. Good morning to everybody. This morning's press release reviews our second quarter of fiscal 2011 operating results for the twelve weeks ended February 13 and, of course, our four-week February sales, which ended Sunday, February 27.

As with every conference call, I'll start by stating that the 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.

To begin with, our 12-week second quarter of fiscal '11, for the quarter, our earnings per share came in at $0.79, up 18% from last year's second quarter earnings per share of $0.67. As was noted in the press release, in last year's second quarter, we had a $22 million or $0.03 a share charge that was recorded related to a change in the company's employee benefits. Excluding this charge, Q2 EPS last year would have been $0.70 and the 18% EPS increase would have been 13% on a more normalized basis. Looking at the year-over-year Q2 earnings comparison, there are just a few other items I'll quickly note here. As was in the case in Q1 year-over-year with rising gas prices, our gasoline operations were still profitable in Q2 this year but less so than in Q2 last year to the tune of about $0.02 a share. So that hurt us a little bit year-over-year.

As was previously disclosed, we're taking a 4.9% pretax accrual in the second quarter to pay pending court approvals, some attorney's fees and a derivative suit. LIFO is back after at least nine fiscal quarters, with no LIFO charges, and in fact, back in '09, all four quarters had LIFO credits. We recorded in Q2 here a $6 million pretax LIFO charge that's based on the way things are looking, we would expect more in the coming fiscal quarters.

Lastly, currencies' foreign FX. Many of the foreign currencies in the countries in which we operate have strengthened relative to the dollar year-over-year. And as compared to the U.S. dollar such that when we consolidate the profits from these foreign operations by converting such profits into U.S. dollars, this helped Q2 by approximately $0.02 a share. If you take those four items that I just mentioned, gasoline profitability, the $4.9 million accrual for legal fees, LIFO of $6 million and the FX benefit added together, these four items collectively hit this year's Q2 EPS by approximately $0.02 a share.

One other item of quick note. As I mentioned in last quarter's conference call, effective the start of this fiscal year back in September, we began consolidating the results of our Mexico operations, our Mexico joint venture. Historically, before this fiscal year, these operations were treated on the equity investment method. Thus, we only reported our 50% share of the joint venture's net income within the non-operating interest income and other line item on our income statement.

Since the beginning of this fiscal year, we now fully consolidate the Mexico venture. In effect it adds 2% to 3% to the top line sales, assets and liabilities, 100% of the venture's financial statements are included in our P&L and balance sheet and cash flow and then the 50% portion held by our joint venture partners then backed out at the bottom of our income statement to offset it, such that there is no effect to our bottom line or our earnings per share. It does, however, impact the discussion of the percentages of gross margin and SG&A alike and earnings basis points, and I'll point that out as I discuss our results in the next few minutes.

In terms of sales for the second quarter, our reported total sales were up 11.4% and our 12-week reported comparable sales figure was up 7%. For the quarter, as has been the case for several quarters now, both total sales and comp sales were impacted by gasoline price inflation and by the strengthening foreign currencies relative to the U.S. dollar year-over-year. On a comp basis, the reported 5% U.S. sales increase, if you exclude gas inflation, would have been 3%. The reported 12% international comp figure, assuming flat year-over-year, FX rates would have been plus 8% resulting in the total company comps which again we reported as plus 7% excluding gas inflation and excluding FX, would have been plus 4% for the company.

In terms of the four-week month of February, which we are also reporting this morning, it's directionally similar to the quarter, again, excluding gas inflation. The 6% reported U.S. comp would be plus 4% and the 14% reported in international comp would be plus 7% in local currency. Such that excluding both gas inflation and FX, the February's four-week reported comp number of 8% would be plus 5%. And again, for the month of February, this what I'll call the normalized plus 5% compares to a normalized plus 4% for the entire second quarter.

Other topics of interest that we'll review this morning, our open activities and plans. After opening eight new locations in Q1, we opened two new locations in Q2, one is a new location in the suburbs of Minneapolis in Burnsville, Minnesota and our second location in Vancouver, Washington, which is just north of the Oregon, Washington border, north of Portland. We also closed a unit in the quarter in San Marcos, California. This unit is being torn down and rebuilt on the same site. They will open again later this summer before the fiscal year end.

Since Q2 end on February 13, we have not opened any new locations, but we'll open a third unit in Tucson, Arizona in mid April and our plans are for additional 14 buildings to open by fiscal year end, including the reopening of the San Marcos site. All told, that would put our fiscal year 2011 opening schedule at 24 net new units. That would include 14 in the U.S., three in Canada, five in Asia, all of which are planned for our fourth quarter construction, which starts in early May and two in Australia, which would be our second and third units in Australia.

Also this morning, I'll briefly review our dot com results, our membership trends, and again, talk about margins and SG&A in the quarter. I mentioned what we bought in terms of stock repurchase and a couple of other miscellaneous items.

So on to the discussion of our quarterly results. Sales for the quarter, as I mentioned, were $20.4 billion, up 11.4% from $18.4 billion a year earlier and, again, our reported comp was 7%, which of course is benefited by the inflation and the FX. For the quarter, the 7% reported comp, resulted from a combination of an average transaction increase of plus 3% and an average frequency increase of about 3.5%. The frequency trend, by the way, during the past three calendar reporting months for December, January and February was basically 3.5%, 4.5% and 4%, a little under 4%. And for the -- we are now going under 2-plus years with the year-over-year frequency increases in the 3% to 5% range on a year-over-year monthly basis and FX, as many of you know, after years of frequency figures in the 0% to 2% range.

For the February reporting month much like the quarterly comps, our 8% reported comp figure was a combination of an average transaction increase of 4.2% and, again, that includes the FX benefits and the gas benefit, it would have been somewhere between 0.5% and 1% net of those two and an average frequency increase of 4%.

In terms of sales comparisons by geographic region for the quarter, the Midwest, the LA and the San Diego regions were the strongest followed by good showings in the Bay Area in the Southeast. The weakest U.S. region was Northeast, of course, that was impacted by the ongoing inclement weather. Internationally, in local currencies, U.K. has been the weakest as of this continue to be about flat with Canada and Taiwan in the mid singles and all the countries in the double-digit comp range in local currency.

For February, we continue again to experience weather in different parts of the country. During February, there were impacts in Midwest Texas, Northwest in Canada. We estimate that detriments to what we would have in terms of loss sales somewhere in the 0.5% to 1% range. On a regional and country basis for the month of February, U.S. regions with strong results with Midwest and all three California regions, Bay Area, Los Angeles and San Diego. You might recall that San Diego region also includes not just the San Diego market but Colorado and Arizona. The weakest U.S. regions were the Northeast and the Northwest, again, both impacted by strange weather. Internationally, in local currencies, we're doing fine. Canada up high single-digits and Korea and Japan in the teens.

One quick comment on weather and its impacts on our sales. I recently read an Internet article about our comments on weather, while negative impact to our year-over-year sales increases, it's not really an issue because we had similar reasons a year earlier in discussing sales. We understand that. We're just trying to share with you what our operators look at in terms of what we fully lost. Whenever you have the kind of weather we've had in some of those sales were non-recoverable and we give our best guess and our operators give us their best guess of what they lost, which then Jim discounts a little bit and that's what we give you.

Inflation in Fresh Foods continues in the low- to mid-single digits range and in Food and Sundries in the low-single digit range similar to January. Looking ahead to March, March is a five-week sales reporting month. We'll have a full 35 selling days this year compared to 34 days last year. That too is the timing of Easter, which is three weeks later on the calendar this year versus last year. Last year, Easter fell on April 4. This year, it falls on the 24th. The March reporting period will end Sunday April 3 and we'll report on the 7th of April.

In terms of merchandise categories by quarter, in terms of sales for February within Food and Sundries, all subcategories were positive ranging from plus 3% to plus 12% for the month with essentially a flat Hardlines comp sales increase, the strongest subcategories within Hardlines for the month of February were automotive, sporting goods and office. Majors, which is electronics, overall, were negative. That's the offset to the other areas. The big dollar negatives were in computers and other miscellaneous electronics like audio and what have you, which overall were weaker in terms of average selling price and units.

The one positive note within that negative majors is TVs. While the average sales price per television is down, the TV unit sales in February were up 9%, which resulted in about flat dollar sales in TV. So you can figure out what the average sales price decline was. But nonetheless, good unit sales increase in TVs. Within the high-single digit comps of Softlines, housewares, home furnishings, small appliances and jewelry showed the strongest results. And within Fresh Foods, all right around 10% plus or minus a couple of percentage points. All four sub Fresh Foods categories, meat, bakery, deli and produce in the high-single to low-double digit range in each of the subcategories

Moving on to the line items and the income statement. We'll start with membership fees. We reported $426 million or 2.08% in Q2 of '11. That's up 10 percentage points in dollars or up about $40 million from last year, about two basis points less. Again, I can go through all the explanations of gas inflation that impacts it, but nonetheless, in dollar terms, it was up 10% to $40 million. If you take FX out, it was up 9%. This is still a good showing. In terms of membership, we continue to enjoy strong renewal rates and continued increasing penetration of the Executive Member. As I mentioned, we had two openings in Q2, but actually and then one closing with at San Marcos, but two openings. Our new membership sign ups for the quarter were still up slightly year-over-year in the fiscal quarter, net new sign ups overall.

In terms of number of members at Q2 end, at the end of the first quarter, we had 23.5 million Gold Star members. It's now 23.9 million. Primary business, 6.2 million at the end of the first quarter, 6.3 at the end of the second quarter. Business add-on 3.6, million and 3.9 million, and total households would be 33.3 million and 34.1 million. And if you include all cardholders, some households of course have two cards, 61.2 million at Q1 end and 62.0 million at Q2 end. These figures, of course, include Mexico now that we consolidate, but both Q1 and in Q2 end to have apples to apples comparison now.

At Q2 end on February 13, our paid Executive Members were just shy of $11 million, $10,974,000; that's an increase of $200,000, $210 000 or about $17,000, $17,500 a week during the last 12-week quarter. In terms of renewal rates, they've actually continued pretty strong. At the end of the year, our U.S. and Canada renewal rate was 87.7. It was just the number we've always reported. At Q1 end, it was 88.2 and at Q2 end it was 88.8. But certainly part of that I believe is the continuing increasing membership penetration of the higher renewal rates that we engendered from the Executive Membership base. We see the same trends on a worldwide basis in many of the new markets where you have units that are a lot younger. You start off typically in the 70 range and trend up towards our company average. Overall, worldwide, we're around 86%.

Going down with gross margin line, our gross margins in the second quarter was higher year-over-year by 15 basis points. Before you get at your pen and will jot down a few numbers, we have three columns, fiscal '10, Q1 '11 and Q2 '11. We have several line items, core merchandising is line one, ancillary business is line two; 2% reward line three; LIFO line four; other -- well actually there is no other in these quarters total. And then I've added two lines, Mexico impact and then the last line below Mexico impact would be without Mexico. Again, because we were consolidating Mexico starting this fiscal year, I had to give you the true reflection of the basis point change, so we show you with and without that.

So going across these line items, core merchandise for all of '10, it was up six basis points, so plus six basis points. In Q1 '11, up 19 basis points; in Q2 '11, up 24 basis points. That's, again, on a year-over-year basis of how that margin improved. Within Ancillary business, its contribution to the total change, plus 3 in all of fiscal '10 minus 9 in Q1 '11 and minus 5 in Q2 '11. A 2% reward, which simply reflects the increasing sales penetration. So a higher reward being paid back to our members minus, 2 basis points in '10 and then minus 1 in each of Q1 and Q2 '11. LIFO was a charge of minus 5, not a charge but a year-over-year comparison of minus 5 in fiscal '10, zero in Q1 '11 and minus 3 basis points in Q2 '11. For a total reported year-over-year change in margins of plus 2 basis points for all of fiscal '10, plus 9 for Q1 '11 and plus 15 for Q2 '11. As I mentioned, the consolidation of Mexico benefited both of these numbers in Q1 and Q2. So in terms of Mexico impact, no number in the first column. Q1, plus 3 basis points and Q2 plus six. So without Mexico, it would be plus 6 for Q1 overall and plus 9 basis points in Q2.

So with that chart in front of you, as you can see, our overall reported gross margin was higher by 15, and that's what we reported. Within this plus 15, our core merchandise contributed 24 and the Ancillary business gross margins, principally gas, had reduced our Q2 gross margin by 5. In fact, the gas gross margin component was minus 6 or more than all of that minus 5 with the other Ancillary business on a net basis contributing 1 basis point.

In Q2, the gas sales penetration was higher year-over-year by just under 1.5 percentage points. As you know, it's a much lower gross margin business to start with. And, in fact, within the Gas business, the margin was reduced year-over-year with the rising gas prices, that's what we see. Our lower margin Gas business represented 7.2% of last year's second quarter sales compared to 8.5% of this year's second quarter sales. So, again, as the sales penetration of our core merchandise was lower year-over-year, that tend to temper. That 24 actually is tempered in the fact that on a like basis, if you look at the four core merchandising areas, which is a little about 80% of our business, which is Food and Sundries, Hardline, Softline and Fresh Foods, just those component -- those gross margin dollars for those four main departments divided by the sales for those four main departments were higher year-over-year in Q2 by actually by 36 basis points, but with the lower sales penetration that the net impact on the chart there is plus 24%.

Basically, within those four categories, Food and Sundries, Hardlines and Softlines were all up nicely. Fresh Foods was down ever so slightly, less than 10 basis points down year-over-year, primarily down due to the commodities price inflation, and the fact that we tend to hold pricing as long as we can, particularly key small business items like 15 packs of muffins and some the items at the food court as well, and then the bakery and the deli rather.

Overall, Q2 margins were just fine. The impact, as I mentioned, from Executive Membership was 1 basis point, which back on the envelope basis implies about a 2% increase in the sales penetration of those rewardable sales dollars. In LIFO, as I mentioned is back, and we took a charge of $6 million or 3 basis points in Q2. And again, there's no way to predict what will happen, other than my crystal ball tells me that certainly will be a LIFO charge in Q3 and most likely Q4 at this point. Mexico, again, has the positive impact that we just mentioned.

Moving to reported SG&A. Our SG&A percentages Q2-over-Q2 were lower or better by 24 basis points coming in at 9.96 as a percent of sales this year compared to 10.20% last year. In last year's Q2, as we mentioned in the press release, we had the $22 million charge related to the exchange in employee benefits that was a detriment last year in Q2 on a year-over-year basis by 12 basis points. So really, when we reported 24 basis point increase, it's really an improvement at 12 basis points net on that. Again, like margin, we'll jump down a few numbers, same three columns all of fiscal '10, Q1 '11 and Q2 '11 and the line items will be core operations, central, stock, or equity, quarterly adjustment, total and then, again, two new line items, Mexico impact and then the total without Mexico.

Going across and plus numbers here means lower SG&A, positive operations in fiscal '10 was plus 2 basis points year-over-year in Q1 '11 plus 17 basis points in Q2 '11 plus 13 basis points, so better by 13; central, plus 1, plus 1 and minus 2; equity, zero, plus 1 and plus 1; quarterly adjustments, plus 7, zero and plus 12, that plus 12, by the way, is that employee benefit from the $22 million right now. Total would be plus 10, plus 19 and plus 24. In

Mexico in Q1 '11, there is no numbers in the fiscal '10 column. In Q1 '11 it was plus 7, and in Q2 '11 plus 11. So excluding Mexico, it would be plus 12 and plus 13.

In terms of little editorial on SG&A, we did have a negative impact of the $4.9 million legal fee related to the derivatives settlement, that's a couple of basis points. There is about a five basis point negative impact from benefits costs, including healthcare and workers' comp. On a positive note, our payroll percentages year-over-year benefited SG&A by 14 basis points. Total payroll dollars for the whole company increased 7.3% in Q2 compared to an 11.4% total sales increase. Both of those numbers include higher increases because of FX spreads, again, this is on apple, both numbers do so for like comparison.

Big and small changes in central and equity, nothing big to talk about there. Overall, we feel pretty good performance this year given the continued escalating costs in healthcare and additional small legal expense. In terms of preopening expense, a little over $3 million in Q2 and a little over $4 million in Q2 this year versus a little over $3 million last year. Both numbers were calculated out to 2 basis points, no big issue in both quarters and two openings.

In terms of provision for impaired assets and closing costs, last year, we had a very minimal charge of just under $200,000 for the quarter. This year, just under $2 million. So all told, operating coming in Q2 was up 27% from $470 million last year to $597 million this year. Again, if you exclude that $22 million charge that hurt last year's number, the $127 million increase in this line item would be $105 million.

Below the operating income line, reported interest expense was slightly higher year-over-year, with Q2 coming in at $27 million versus $26 million a year earlier. These amounts almost entirely reflect the interest expense on the $2 billion debt offering in February of '07. If you recall, within February of '07, $900 million was five-year money, which will become due and payable in March of 2012. That will be a nice change given that we're earning a lot less on our excess cash right now and we'll be paying that off by essentially writing a check, $900 million of that $2 billion in March of 2012. In terms of interest income and other, which again, like Q1 was much lower year-over-year, it was lower by $26 million, just under $4 million versus a little under $30 million last year in the quarter. A big change there, of course, is again Mexico. Actual interest income was higher year-over-year by about $4 million. That's a reflection of higher cash balances certainly not because interest rates averages a lot but also the consolidation of Mexico's investment income into our financial statements.

However, the biggest component of this $26 million plus year-over-year change was the earnings from Mexico, which are now consolidated and to a lesser extent, profit on FX contract using our business. Overall, pretax income was up 21% from $474 million last year to $573 million this year. And again, excluding the $22 million charge, pretax earnings were up 16%. Our company tax rate is pretty similar year-over-year in the second quarter. It came in at 35.5% this year versus 35.6% last year in the quarter. We generally have seen that trend down a little bit. The effective rate in the U.S., which includes federal and state is higher than that and some of the foreign countries which have lower federal income tax rates given our increasing profitability overseas which you'll see that number over the last few years trend down a little bit. No big changes or issues on the tax rate.

A quick rundown on other things. We'll include in the what's you'll have online what we call the Q&A, which talks about quarterly LIFO charges, summaries of openings, calculations or earnings per share and also the full balance sheet. So we will go with balance sheet here.

What's not on there is when some of you ask for us depreciation and amortization for Q2, the depreciation and amortization was $195 million and year-to-date $386 million. We have a strong balance sheet, as many of you know, lots of cash, net cash even kind of $2 billion of debt, strong debt to cap ratios. Accounts payable, if you look at our reported basis a year ago, accounts payable as a percentage of inventories was 104%, at the end of the second quarter, at the end of this year's second quarter, it was 97%. If you take out all of the non-merchandise payables, notably and most importantly construction payables, it was flat year-over-year at 87%. Inventory for warehouse, $10 million right at $10 million last year at Q2 end and about $10.5 million at Q end of this year. So up about $500,000 or 5% for our warehouse. FX is about $170,000 of that $500,000, so it's really flat currency basis, $330,000. And of that $330,000, about little lower a third of it of $130,000 is electronics. No inventory concerns to speak of, we feel we did a good job of taking more accounts to the holidays and our inventory is in good shape, and in fact our physical inventory, which we take at midyear and year-end, our midyear numbers continues the trend of improving ever so slightly the basis points of our inventory shrink.

In terms of CapEx and in Q2, we spent $234 million. So year-to-date, $540 million. As I mentioned earlier, we've got a lot of openings planned for the last four months of the fiscal year, starting in mid May. And for all of '11, we would expect CapEx just still be in the $1.5 billion range. In terms of costco.com, in both here and in Canada, sales are up a little over 10% that continues to be a profitable business. Our average ticket has come down a little, but the site traffic continues to grow and it was up a little more than this total sales increase. In terms of expansion, as you know, in each of fiscal '09 and '10, we opened about 15 units, I think it was 13 in '09, net of 16 in fiscal '10. This year, as I mentioned, we plan to do 24, which includes eight in Q1. A net of one unit in Q2 was two less, three well prior to closing of San Marcos. In Q3, one with no relos Q4 '14. So all told, we have 24 net new increases on a starting base of $572 million. So about the 4% unit growth, which would translate is about 4.5% square footage growth given some expansion of existing locations adding some square feet here and there, as well as opening on average units that are, on average, a little higher than the existing company average.

As of Q2 end, square footage stood at 84 million and 84,000 square feet. In terms of stock repurchases since the beginning of our program back in

December of '05 through the end of fiscal '10 back in August, we repurchased just under 100 million shares at an average price of about $5.37 billion and an average price of about $54.37 a share. In Q1, we purchased those 12 weeks we purchased $150 million worth at an average price of a little under $62 and in Q2 at $94 million worth of stock at $71.73 per share.

We're generally buyers every day, including each of the past 11 or so business trading days since Q2 end, and no change in those expectations going forward in terms of being out there.

That's about it. As I mentioned, supplemental information will be posted on the Investor Relations site later this morning. Lastly, our Q3 scheduled earnings release date will be on Wednesday, May 25. That's a little bit out there. And with that, I'll turn it back over to Debbie for the Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Charles Grom from JPMorgan.

Charles Grom - JP Morgan Chase & Co

Can you just dig into a little bit the Fresh Foods margins being down? Is that because you guys haven't been willing to pass on the price increases? And then I guess looking ahead, do you expect to see similar pressure over the next couple of quarters because obviously those costs are going to continue to rise here?

Richard Galanti

Yes, it's us more than anything. When you look at -- I'm making these exact numbers up. But if you look at our 15 pack of muffins or something that we sold a heck, a lot of those to restaurants and businesses and convenient stores and then selling them in each. And I don't know the price of the top of my head right now. But if there was $5.49 or $4.99 or whatever the x was, you tend to hold off and realize a lower margin for several weeks or a few months and then finally bringing it up to that next level of $0.30 or $0.50 and you get back to your regular margin of that stuff. That's not a competitive issue other than we want to protect the prices to the members who are buying these items. And we feel that overall margins have been quite good and we continue to do that kind of stuff. We really don't see any major competitive issues in our Fresh Foods.

Charles Grom - JP Morgan Chase & Co

And then, you said gas pricing hurt by I think you said $0.02 in the second quarter. Can you give us a little bit of sense given how quickly gas prices have been moving up here in the past three weeks since your quarter end? How the profitability is looking for you guys?

Richard Galanti

Well, it impacts it. It's not as extreme as it used to be. Years ago, we lost a bunch in those weeks and we made some amount in most of the other weeks. We tend to make a little more in those other weeks and you lose some or make a little in those weeks. It's temporal to where it used to be. The big issue here was the comparison year-over-year. We had huge profits in Qs 1 and 2 last year. And I think like this $0.02 delta we talked about here in Q2, I think it was a little over $0.03 in Q1 on a year-over-year basis. So again, it's going to move around. Gas is still a profitable business, a very low margin business, a business as I've mentioned before requires some stomach lining occasionally. But nonetheless, we're getting good frequency. I think that's part of the frequency issue as well. But certainly, when prices spiked for a week or two here, you see some relatively flat numbers, whether it's plus a little bit of profit or minus a little bit of loss. It's not a real big issue. And looking last year, Q3 was not as impactful and it was not as profitable as Qs 1 and 2 I guess.

Charles Grom - JP Morgan Chase & Co

You called out for February California continuing to be strong. Is it at the company average in the U.S. or is it ahead now?

Richard Galanti

I think it's about the same. It's in line.

Charles Grom - JP Morgan Chase & Co

And then, it looks like you bought back about $100 million worth of stock here in the quarter. Is there any change in the company's cash priority? Is it really starting to build pretty big balance seems like plus to $12 per share. Just wondering at some point do you accelerate that or do you step up the dividend or what?

Richard Galanti

Every spring, historically, over the last six years we have, I can't tell you what we are going to do this time but we generally haven't done anything giant, special or we just increase it methodically and historically and again we'll look kind of what we'll do come the spring. CapEx certainly has been ramped up and will continue and so was cash flow. So it's a high quality problem. One of the issues, I think in a roundabout way, what you are asking is you bought less in Q2 than you bought in Q1 when your cash is going further north. Part of that has to do with, we tend to historically have bought through blackout periods with 75 ones, you have to put those in place before you know anything material about what you are going to report, whether it's monthly sales which is a week and a half before, let's say, week and a half or so before or in the case of the quarterly earnings number, four or five weeks before. Again, I think the high quality problem has been we put a matrix in place, if you will, with how much we're going to buy a different stock prices out there and puts some reasonable numbers above where what existing stock price is. During those four weeks, the stock price then climbs quite a bit. And so a part of it is simply a fact that we lock in a matrix four or five weeks ago based on where the stock price was then.

Again, I think it's ebb and flow, and I think the message here and the message that I've gotten in talking with the Board and Jim and Jeff, of course, is that we are certainly continuing to be comfortable buying stock back and you're not going to find us one to make some big announcement that because it went down $3, we bought a lot of extra to-date. We're going to buy more each day when it goes down a little, still buy when it goes up a little and then we get caught in these four or five week 25 ones [ph] when the stock jumps a lot and so that mitigates the amount that we've got as well. But overall, we're still a buyer out there and see where it goes.

Operator

Your next question comes from the line of Mark Wiltamuth from Morgan Stanley.

Mark Wiltamuth - Morgan Stanley

I just want to follow up a little bit on that California question. If California is kind of in line with the company average, how much more room of recovery does it have or another way to ask that is, how much stronger was California versus the average back before the downturn?

Richard Galanti

Well, California was always a little weaker, and I'm pulling these numbers from the air here. But if you looked at it -- of the total U.S. comp in good times a few years ago was I'm making up at six, California was the four. And part of that was we had more cannibalization in California relative to rest of the U.S. at that time as well, now it is a little bit of it. And then, when the economy got hammered, California went down further. So again, using my nomenclature if the spread of California comp versus the rest of the U.S. comp, a few years ago was at 200 basis points delta. There were times at the trough of the economy a couple of years ago where that gap was 4 to 4.5 percentage points. So California, we got hit harder. It's now back in terms of actual comp dollars. So part of that is, you might say the gap is closer to zero now then even two, and part of that is because it was weaker a year or two years ago. So again, trend wise, it's encouraging. We hope it's got some more room. We'll see.

Mark Wiltamuth - Morgan Stanley

How about sales per warehouse, is that metric back to normal?

Richard Galanti

I don't have that in front of me. My guess is, if you take out gas, it's probably still a lower gas is an unfair benefit here. But keep in mind, you had a couple of, I would say that it's closer on its way there given where we see comps the last few months.

Mark Wiltamuth - Morgan Stanley

And then on inflation for food, have you seen manufacturers providing some promotional support as the increases have been rolling in?

Richard Galanti

Yes, the biggest promotional support that you see is typically they announce an increase and then they allow you buying at the old price, two weeks, four weeks, six weeks at the old price. And, of course, we take advantage of every one of those. I would assume many retailers do. We probably then hold the price longer than anybody else as well because of that. And so that's the kind of thing you're seeing. I think there has been some pushback by the retailers, not just us as I would imagine, but at the same token, some of it is coming through. When you see underlying commodity costs go up, you see the improved penetration, a little bit extra penetration in private label, and it's funny. When you look at the -- when our merchants show us in the monthly budget meetings that this commodity went up 28%, this one went up 42%, then the average price point went up 2% to 6% on an item, partly is due to raw material, partly it's the pressure we can put and come to bear on manufacturers. Part of it is the pressure, the competitiveness of private label. But ultimately, some of the that has come through. And again, I would expect to see more, not less in the next couple of quarters at least based on what the buyers tell us.

Mark Wiltamuth - Morgan Stanley

And lastly, could you tell us what are your gallonage of exposure is on diesel with that price spiking?

Richard Galanti

I don't think we have diesel.

Mark Wiltamuth - Morgan Stanley

Gas on your transportation?

Richard Galanti

In terms of transportation, I'm speaking from a couple of years ago, so at 15% in terms of how -- big or 15% or so in total, what I'll call the freight surcharge that runs through our depot operations, and we've estimated that couple of years ago that every percentage point in that was about $18 million of freight costs in the system, both inbound freight to us from vendors as well as outbound freight from depots to warehouses. My guess, just rounding to the $20 million, most of that is passed on. It's passed on when the buyers are buying and it increases their cost in which they mark up. I would think that the freight is less of a lagging issue than when manufacturer raises their price of the item, we tried to hold it along there. So it's an impact, but it's just a modest trend impact. I don't think that's a big issue here. If anything, those numbers, by the way, are in our margin numbers, it's part of the cost of goods, and we've shown that our margins have been pretty good this last year and this last quarter, year-over-year when -- I can guarantee you, the freight costs within those merchandise sales have gone up in the last 12 weeks year-over-year.

Operator

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

Mark Miller - William Blair & Company L.L.C.

I've got a couple of questions on the average ticket. Can you first of all give us the comp sales leverage point for expenses we might see in the back half of the year? And then how much might that leverage point come down if we see further strengthening in the average ticket as a proportion of the total comp increase so that versus the first quarter it improved for you? We didn't see that much of that much of an improvement in the G&A trend, though I guess there was some noise there and outside of that payroll did improve a little bit.

Richard Galanti

Yes, it's hard to guesstimate what the actual point of leverage is. I can tell you that we -- the operators feel confident that in the last couple of years that we, like everybody out there, got a little better. So whatever that threshold was, it was a lower number and I think that's why we've seen things like the payroll percentage improve like they have. With healthcare, it's always something. Some of these increases don't even relate to some of the new changes that are coming over the next couple of years. So that's a challenge. I think now the fact -- to the extent that sales increase includes inflation on like items, clearly that's the good stuff in terms of leveraging SG&A. Again, I'm sorry I can't quantify it anymore, but I think it's going at least in the right direction.

Mark Miller - William Blair & Company L.L.C.

My other question on average ticket, while it's going up in the stores, you said down a little bit in E-commerce. Why do you think that might be different? And is that a function of members not buying as many of the higher price point items on the website or is it due to changes your merchants are making?

Richard Galanti

A single biggest reason is the average price point of an item going through the front end check out is what $10 to $12. The average item online is just under somewhere in the $375 to $400 range, I'm guessing. So part of that I think is, as economy got worse, I remember it falling in '09 versus '08 from like $425 down to $390 or $380. Couple that with deflation in big ticket electronics items, I think that's more than anything, the economy and the deflationary type items that permeate that site.

Operator

Your next question comes from the line of Adrianne Shapira from Goldman Sachs.

Adrianne Shapira - Goldman Sachs Group Inc.

Richard, just to follow keep on the inflation topic as you're holding prices flat on food in the face of rising commodity costs, any sense of what competitors or doing?

Richard Galanti

Again, this is from what I hear at the budget meetings from Tim Rose and others, we tend to be the strictest, not to imply that everybody else is not. Our sense is that some retailers try to get margin where they can. We try to hold it a little bit where we can, and given that we've had some relatively strong margin improvements in other areas, which includes every components. As we changed our electronics returns policy two years ago, we're still seeing some modest increases and improvement in what we call D&D, damage and destroyed, which is the cost of sales to total gross margin. Our shrink numbers got a little better just under one basis point better. Well, a basis point is $8 million, so $5 million or $6 million this year implied. So all of those little things helped too. It has more to do and has less to do with this traditional supermarket items like tin foil and paper goods and cereals, those things we tend to move along. I'm talking more about items within the bakery where you don't want to change prices every week. And so historically what we've always done is if you pick an item that forever it seemed like it was a $5.99, ultimately you're going to take it to $6.49. You are not going to take it to $5.99 to $6.09 to $6.19, sequentially. But once you get there, you're fine but it takes five weeks or 12 weeks or whatever, that's fine. Same thing in the food court, which is not part of Fresh Foods, but with rising prices in cheese and things like that, that's impacting the profitability of pizza. It's not a big deal to the company overall, but all those things impact margins a little bit. We certainly have had strength in our overall margin and feel very comfortable doing that and feel very comfortable that all the metrics are going in the right direction in terms of frequency and little improvement in G&A and the like.

Adrianne Shapira - Goldman Sachs Group Inc.

Understood. And in these budget meetings, when you're hearing from the buyers, any sense of how they see the direction of inflationary pressures? And following on that, given that you've had success on controlling what you can on shrink and payroll, is there a tipping point? Is there a point at which the face of these inflationary pressures, it is hard to hold prices? At what point does it get a little tougher to kind of hold off the prices?

Richard Galanti

Mind you, we're not holding prices on every item in a location. That's what is challenging. It's kind of like in a budget meeting when Barry gets up and talks about sales of this small subcategory or this item was up 30% while your department was up 4%. So what was down and so we hear about that cotton has doubled in price and that tin has gone up. And there are items like tin foil, I believe, that I don't know if it's happened yet but their price increase is coming from all the manufacturers in high-single digits. Well we're not going to sustain that. You've got to pass a chunk of that on. So when I highlight something like bakery -- and frontend, we're not going to change the cost of a slice of pizza until we really have to. We can well afford in that small sub-department to do so. So it's kind of like when you hear that the average price increase out there in the consumer price index was 1.5% or 2%. You think you'll wait and then gas went up 28% and my healthcare costs have gone up whatever high teens and all these other things. So overall, ultimately, you've got to pass on cost increases, but we want to hold in longer and particularly on those business items like the 15 packs of muffins.

Adrianne Shapira - Goldman Sachs Group Inc.

I'll ask membership fee hike increase. We understand you're doing well with controlling what you can and maybe you don't need the fee hike, but perhaps give us an update in light of the fact that, frequency is strong and ticket is improving and all the metrics are heading in the right direction that would seem to suggest that perhaps the backdrop is right for a fee hike?

Richard Galanti

Well, all the reasons that you would list on a page of why we should or shouldn't do it, you get comfort by the fact that you said, renewal rates and frequency and all that stuff -- and the customer loyalty, all that stuff is fine. We haven't made any decision yet. We will at some point discuss it and you all will be the next to know. The last time we did it was I think May or June in '06. So five years hence would be May or June of this year. I think I shared with someone, you guys on the last call or maybe the previous calls, that back in the middle of '09 at the height of the terrible economy, the trough of the economy where everybody was still feeling very poor from their 401(k) plans and their house values and their job layoffs, all things being equal, and we had very good frequency and loyalty then. And then, that, that was a time that we were thinking about doing and would we, and the view was generally no. There's no rush to do it, we'll do it when we want to do it. And I think I added to that that if you're looking at the next three or four year model, is it likely at some point? Yes, but I can't tell you when. And so we don't really have any indication of that at this time.

Operator

Your next question comes from the line of Bob Drbul from Barclays Capital.

Robert Drbul - Barclays Capital

Could you just give us a feel for where you think your consumer is and your ability to pass through some of the inflation and I guess more on any general economic thoughts in terms of where we are right now?

Richard Galanti

Well, we've been asked about like the 2% payroll tax benefit that everybody gets. It's kind of like when there was the $300 tax gift from few years, several years ago to the $600 one. Generally, upscale retailers and Costco tended to not feel the benefit of that as much as the lower medium end discounters and the dollar-type stores. The same thing here, we don't really see that as a big impetus for us. Again, as it relates our abilities, I think we have the -- the good news is, is we're most competitive -- we're our own toughest competitor and we recognize we've got to pass on increases, but we're in a pretty good position to be able to delay that for short point in some instances. This is, by no means, the example of late '08 when we took in excess $30 million or so of markdowns on a half dozen or a dozen key items to try to drive business a little. Business is fine. Some of these increases are being passed through and ultimately, you've got to pass them through. In terms of the economy, again, I guess I'll say the same thing that -- and again, none of us here are economists, and we read and listen to the same music you guys listen to. It doesn't seem like anything is causing to get better fast. It doesn't feel like there's another big shoe that's going to drop other than the current thorn is oil prices, and what does that do and how does that impact it. But again, we're adding jobs as we open new units. I think I've read recently that Target is adding a bunch of jobs. And so there's some jobs coming but nothing huge. And this housing concern is still an issue. So we feel confident in our numbers, in our frequency and in our comps and unit comps and everything else, in the face of not terribly exciting expectations about the economy.

Robert Drbul - Barclays Capital

Speaking of Target entering Canada, can you maybe just talk about the environment in Canada and how your clubs are doing comparing with the 80 that you have?

Richard Galanti

Well, that's been great. In local currency for a couple of years now, we've been running comps in the mid to high single-digits so compounded for the two years, their economy is strong. A big chunk of their economy, I believe, is natural resources, which have grown up. They did not have any or very nearly any fallout from what happened in the finance and banking, and with subprime issue plenty of thing, they did a lot of that kind of stuff. So it's a pretty good economy out there. So our numbers up there have been quite good. It's very competitive out there. Wal-Mart is huge up there over the last seven or eight years. There's some strong retail competitors like Loblaw’s and others up there. And so Target, I would think we'll do up well there. We like them all to close and just be us, but that's not going to happen - we're doing fine up there.

Robert Drbul - Barclays Capital

And then my last question, Richard, are there any new items that you're really excited about as you look to this calendar year?

Richard Galanti

You caught me off guard on that one. I'm just trying to think in top of my head. It's more of the same as I think in a category specific. Apparel has been pretty exciting in terms of vendors that are and not necessarily new people selling us, but really major increases in nice increases and everything from outer wear to shorts and pants to shirts to bathing suits as we start entering that category. So and to kids’ clothes and baby clothes, I'm trying to think what else. There's a lot of electronics stuff coming out to compete with some of the products that are already out there like the iPad and there's 3D is not the most exciting thing but I'm not telling you anything you don't know. The TVs, again, unit sales in TVs overall are pretty good. PCs, there has been a little income I think in the last several weeks with this new chip coming out that delayed some of the new laptops and PCs that the people are waiting for, not big to our company but a little thing there. I can't think of any specifics other than mostly in Fresh Foods, it never ceases to amaze me when the buyers get up in the budget meetings whether it's new bakery items to drive what was the sluggish sale and then it's a good sale. And we're very strong in the meat and protein department. So overall, I think we're doing well and then that's something just -- I can't tell you there's one late great item.

Operator

Your next question comes from the line of Deborah Weinswig with Citigroup.

Deborah Weinswig - Citigroup Inc

To continue on with the international comments. Can you provide additional color on your performance outside the U.S., especially as it representing a greater percentage of square footage going forward and also in light of that, how should we think about the margin contribution of those clubs?

Richard Galanti

First of all, every quarter, you get to see in the Q the segment reporting analysis. We've kind of implied that probably outside of -- we showed U.S. as a separate column and Canada as a separate column and then other international. Within other international, Mexico has actually done quite well despite the economy down there. U.K. has been the toughest one in terms of their economy and our comp sales over there. Asia, there are three countries in which we are in in Asia continue to do quite well. Australia is great, but it's all of one unit. We're have two more this calendar year this summer hopefully and maybe one will fall into early fall, but I think the summer. And so, overall, I would say margins reflect the strength or the weakness. So we're going to drive sales in the U.K. where there are tougher margins and in Asia, they are a little stronger. But there's other metrics that impact the profitability of the countries. On average, benefit expense as a percent of sales is lower everywhere other than the U.S. Labor costs, while relative to local labor costs in those countries, we still pay the best wages for hourly out there. It's a much lower percentage of certain of those countries and somewhat lower percentage in other countries than the U.S. In some cases, there's a little more occupancy like in Asia, but we're driving big sales dollars in Asia too, so that helps. So there's a lot of little things overall, I think the margins outside of the U.S. the pretax return on sales you'll see in those columns is higher than the U.S.

Deborah Weinswig - Citigroup Inc

And then, it's really been now two really impressive quarters in the core merchandise margins. Should we think of this an inflection point of impressive performance against tough comparisons and can you provide some additional details?

Richard Galanti

I hope it's not an inflection point. We'll see.

Deborah Weinswig - Citigroup Inc

I think an inflection point on the positive?

Richard Galanti

For those of you who don't know us for a lot of time, we feel very confident that we're still the most competitive pricing out there and we still have been able to show some margin improvement, but it's a tough business. As we get a little too strong, we're reminded by the powers to be here that we got to make sure that we are fiercely competitive. But we've done that over time. I've seen that in departments. I've seen that in countries where things are really strong and we bring it back a little bit and continue to drive sales and ultimately long-term profitability. So I think Jim summed it up recently in a budget meeting says, we don't have a lot of issues with margin right now. And we don't see that being an issue in the near future. Beyond that we'll see.

Deborah Weinswig - Citigroup Inc

And then one last question, can you just comment on what you're seeing out of your small business customer?

Richard Galanti

Actually, I don't have the exact date in front of me. When we look at the small business sales penetration and you got to take gasoline out of there, because gasoline is generally a consumer item even if it's worth a small business. It got hit a little bit in '09. It came back not all the way in '10 and my guess is it's continuing to come back a little bit maybe not being where it was before late '08. But when you look at these, like restaurant business, the restaurants that got hit the hardest, were the business restaurants, the high end steakhouses, not as much as the neighborhood ethnic restaurant or the diner. And those did get hit a little bit did come back though. So that's a very vague answer because I don't have the exact statistics at the tip of my tongue here. But generally speaking, that's the trend we've seen I know over the last couple of years.

Operator

Your next question comes from the line of Chuck Cerankosky from Northcoast Research.

Charles Cerankosky - Northcoast Research

I was wondering if we can go back to the promotions question again from the packaged goods companies. How are they looking at contributing to your coupon mailers as prices begin to go up faster?

Richard Galanti

I think it's really a separate issue. I could tell you that we've got more demand to be in those than we have spaces, and so it works well. They like it and we like it. So again, that's another way for them to give us some competitive monies. It's a vehicle for them to provide some discounts. But, again, we're pretty full in that stuff already in terms of the vendors liking it.

Charles Cerankosky - Northcoast Research

You're talking about space, is it something you could expand as part of the marketing approach to the members as inflation picks up?

Richard Galanti

Well, I assume so. But again, I'm shooting from the hip here. As you know, we've expanded it in terms of number of days and weeks, but there are various coupons out there. We've expanded the offerings a little bit over time as well. Clearly, as prices go up, there's an opportunity to drive more business of a given item. So again, conceptually, yes, I just am not -- I don't have the numbers specific to that to tell you what different suppliers are doing.

Operator

Your next question comes from the line of Neil Currie with UBS.

Neil Currie - UBS Investment Bank

I just wanted to go through the gross margin table, again, that you gave us because just allied to Deb was asking, if looks to me that if you take out Mexico that in the first quarter, it was still quite a nice increase in core operating gross margin. In the second quarter, once you take out the quarterly adjustments in Mexico, the core merchandise margin was pretty flat. Is that the right way to look at it?

Richard Galanti

I'm sorry. Say that again? I was just flipping to that page.

Neil Currie - UBS Investment Bank

So if you look at the Q1, total gross margin was up 19 bps and if you exclude Mexico, it was up 12 bps. And so the core margin still have nice useful at least 10 bps growth there. If you look at Q2, if you exclude Mexico, it was up 13 but the quarterly adjustment was 12 in that, so it would indicate that the core merchandise margin was pretty flat.

Richard Galanti

They are quarterly adjustments in the SG&A item, not the margin item.

Neil Currie - UBS Investment Bank

Sorry, I looked at the wrong page. So if I was to look at the first and second quarter then and look at the strength in the core merchandise margin, what was going on there? Because obviously it seems a difficult environment in which to raise margins given the fact that costs are going up. Is there a mix shift going on?

Richard Galanti

There may be a little bit of that. Frankly, I stand by my comment earlier that we're our own toughest competitor historically. And part of it is, which I actually didn't talk about today is the whole area of sustainability. As we take packaging and freight costs out of items, sometimes they are small enough amount that you're not lowering your price point or something that I gave a couple of years, if I remember was just on the plastic container that we sold our four pounds of grapes in. We reduced the height of that container by three or four centimeters, it allowed to get an entire additional line if you will, slip sheet of -- layer of those sell units on the pallet. Just the actual cost of the light number of plastic containers was like $300,000 of savings. Every budget meeting, the buyers, whether it’s going from a round to a square container for peanuts. Just on our cashews, that's another example I remember from last year I shared, just on the one item of cashews that three or four pound container of the cashews, like going from a round to a square container, we've reduced the on a like unit volume the throughput of pallets in our U.S. system by 32,000 pallets and, however, many couple of thousand truckloads. A lot of those freight costs don't necessarily lower the price by $0.08 a unit or something. We don't lower the price on something like that necessarily. So I think the fact that we improved each year, even in the last five years, probably on average 0.5 to 1 basis point of a shrink. The fact that we've had a little bit as a percent of sales slightly lower returns in part because of the change in the electronics policy a few years ago. All those things helped as well, not just pricing.

Neil Currie - UBS Investment Bank

So it's basically it's not that you're raising prices and that's what's improving the margins. Now that your cost of goods sold is seeing benefits here, there and everywhere and that's reflecting in slightly improved cost of goods sold?

Richard Galanti

Just penetration of private label. I'm not going to sit here and say that it hasn't happened. But I've got to tell you that's the last thing that buyer looks at because they know they're going to be looked at.

Neil Currie - UBS Investment Bank

So in the past, though, you generally tended to pass through a lot of the savings to shoppers and it seems like you're getting some savings building up and building up here. Could we expect you to maybe perhaps reinvest in the future or as Jim was saying, margins are looking good here. You are just -- you are happy to just to take the margin as we say it now?

Richard Galanti

Well, I can't tell you what's going to happen next week, much less next quarter other than we feel pretty comfortable about how we're doing right now. We certainly have our confidence level in our renewal rates and our frequency that until it changes won't feel comfortable about it. We feel very comfortable that competitively there are some tough competitors out there, but we're the toughest and I say that feeling very honest about that from what I hear from. The buyers know that they can't get too aggressive on things. And again, we still take the items down and we used to talk about the hot dog and soda for $1.15 and we added the rotisserie chickens to that couple of items and then we added the 35 count I think the half liter water that paid us has gone from $4.39 to $3.55 I think right now maybe still higher now with freight but that was a couple of months ago. So, I kind of look at us as having or taking in either of the two. We are able to have some decent margins and still feel very comfortable. The priority is still going to be the toughest competitor. Keep in mind, again, when you look at the fall of '08, when everything hit we had and I specifically talked about the $30 million or so million of extra markdowns, that's because comps for the first time and close to ever we're approaching zero, and we wanted to reverse that trend. That's not the case right now. So again, overall, I can sit here and tell you it will continue how it's been. But I can tell you that we certainly feel pretty good about how things are going.

Neil Currie - UBS Investment Bank

If I just may ask a second question, clearly you've been very successful for a number of decades, particularly with a shopper that started off with you as family shoppers and they've grown with you and you still have a lot of appeal among the boomer generation. How do you feel that your appeal is going with some of the younger shoppers now who are starting to form families who are perhaps thinking about where they should buy some of their consumables in bulk and with more options like the Internet? How do you think your appeal is to these younger shoppers, the Generation Y shoppers?

Richard Galanti

No, look at the end of the day, we ask ourselves those questions too. We're not going to be everything to everybody. To the extent that trend has occurred in last three or four years, it's occurred in spite of that our frequency is up and our comps are a little better than others in general for such a big retailer as ourselves. We are cognizant of that, but we keep coming and trying to come out with the right merchandise at the right price and we change it. And there's no items that has a lot on its space and we're constantly bringing new things out. Organic would be an example of areas which are growing nicely. Some things work by the way that area and some things don't. And some things we're just waiting for more supply because we could exceed the entire U.S. production of certain given organic items. Now as it relates to Internet, we are always a little behind everybody else? Yes. I think we've saved ourselves from stubbing our toes and some would argue the opposite that we're not looking as hard and fast. I can assure you we are looking, but we want to stay true to the things that we do. We think that, frankly, there's abilities to drive more traffic into the warehouse by using some of the same tools. We recognize we've got one of the largest manual social networks, say the word Costco and people start talking about it. So we're looking at the things, but I don't want to suggest that there's a lot of things coming tomorrow afternoon. I guess it's a question that will be better addressed if and when we see some reduction in some of the things I just mentioned. But we had some people looking at that all the time but we also don't want to veer from what we've seen to be successful.

Operator

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

Gregory Melich - ISI Group Inc.

Two questions. One, hopefully a bigger picture on inflation and on inventory. On the inflation side, I think you mentioned that food was up mid-single digits and sundries up low-single digits. If we just think about the mix of your sales, would you say that's probably impacted comps for the company about 150 bps in the quarter if you were to compare it to the U.S. comp of 3%?

Richard Galanti

No. First of all, I think the food number was the Fresh Foods number, not including sundries.

Gregory Melich - ISI Group Inc.

So if we were to think about general food, Fresh Foods coming together compared to that 3% U.S. comp number x gas?

Richard Galanti

Yes, I can't exactly calculate it. Only I can think some of the offsets to what your premise, and it would be things like the average price point on television downs close to 10% on a much bigger ticket item.

Gregory Melich - ISI Group Inc.

So if you look at it that way, was there inflation in that 3% number overall at least a little bit, or do you think that some of the pressure?

Richard Galanti

Absolutely. My guess is there is some inflation. Now the other thing, and I'm just shooting from the hip here, any increase we might have an inflation on the KS item, but we also have increased unit sales penetration of KS items which typically are 20% plus lower price points. So if I just took every physical item that went through the front end, my guess is, it has a plus sign in front of it, but it's closer to zero than one and that's a guess.

Gregory Melich - ISI Group Inc.

And then on the inventory side, I think you mentioned that, it was $330,000 on a true like-for-like basis up for club and the most of it was electronics. Can you just fill us on what actual products that was, which parts or electronics ended at sell-through in February that's sort of a historic number?

Richard Galanti

A little bit has to do with the year ago, there were some of shortages in some of the flat panels. We've got more SKU selection in TVs that we had a year ago. Probably helped our unit sales of TVs, by the way, and a little of it is, if you're talking about the pendulum swinging in terms of goal of SKU selection, I remember three or four years ago, and the U.S. example of the SKU selection, the SKU goals on average warehouse was probably somewhere around 4,000, 4,050. You turn around, they got up to about 4,200 and then, we brought it down to about 4,000 again. And actually, before the economy got hammered a couple of years ago, on a conscious way we said, let's bring it down to 3,850 to 3,900. There's got to be if the top 200 items or top roughly 5% of the items are in the mid to high 30% of sales that tells you what the bottom 200 items are. And so, it's a little bit of an art form. But I think that we probably have moved it yet as we got a little too high towards 4,200. We probably got a little too low towards, 3,800, 3,850, but come back a little. If I look at it, again, I think I mentioned about 130 of that 330 was electronics. The rest of it, if you look down about 7 or 8 subdepartments, it was 20 to 40 each.

Gregory Melich - ISI Group Inc.

And that would be indicative of the SKUs, maybe adding back 50 or 100 of those SKUs?

Richard Galanti

Yes. Again, there has been no indication even on seasonal stuff that we've got any big problems out there. In fact, there has been confidence in the last budget meetings about whether it was patio furniture or getting through outerwear last fall and getting into some of that spring and summer apparel items now.

Gregory Melich - ISI Group Inc.

And then, could you just maybe touch on the decision to take the Apple products out of the store?

Richard Galanti

No, there's really not a whole lot to say. Basically, the two of us couldn't figure out how to make both of us happy and we're both out there still selling merchandise, but just different merchandise.

Operator

Your last question comes from the line of Robbie Ohmes from Bank of America.

Robert Ohmes - BofA Merrill Lynch

Can you just remind us on the international outlook and sort of thinking the next three years plus, where are you most excited and where are your people most aggressively trying to get real estate sites and read into that? I think you've added one more store in Australia than we were expecting today, and just an update would be terrific on that outlook.

Richard Galanti

Well, again, as I've said in the last couple of quarters, the three existing countries in Asia that where we are, Japan, Korea, and Taiwan. Between those three, and probably over a five year period we are adding on average one or two to the total of three countries a year. We're going to open five in the fourth quarter, which is also I think six for the year in total. So we've stepped it up out there. Australia, again, so far so good but it's one unit. I'm pretty confident that a year from now, we'll say so far so good, but it's only three units. But we'll continue to look there. The only area is -- the fact that I think that we're opening three units in Canada this year implies that we still think that we're not saturated in a country that has 80-plus units. It wasn't that long ago that we felt that as we had 50 going to 60 at some point here we're going to fill the country, and we're happily finding that's not the case. Mike Sinegal who -- don't hold against him that's his dad's gym. But Mike's been here for 24, 25 years since college, and he opened and ran Japan for us and he did spend a couple of early years with Carrefour when Carrefour owned 10% or 20% across Costco years earlier. And he speaks, in addition to English in fluent Japanese. He speaks fluent Spanish and French. And so, he's over there in Europe and there's no promises. But my guess is, in the next two or three years, you'll see us announce, if not open, a unit or two in a couple of countries over there. But RMO, I think we'll continue there as well. It takes us a while to open a few units and make sure we like what we see and we understand all the issues with the distribution and labor hiring and everything else. And so, again, it will be additive, in increasing penetration, if you will. But even this year, with 24 net new units I think averaging 17 of them, 14 in the U.S. and three in Canada are in very predictable, very comparable countries. Seven out of 24 was more than we did in the year before and more than we did the year before that. Well, thank you, everyone, Bob and Jeffrey here as well and appreciate your time.

Operator

This concludes today's conference call. You may now disconnect.