Costco Wholesale Corporation (NASDAQ:COST) F4Q 2013 Earnings Conference Call October 9, 2013 10:00 AM ET

Executives

Richard Galanti - EVP and CFO

Analysts

Steve Forbes – Guggenheim Securities

Matthew Fassler - Goldman, Sachs & Co.

Christopher Horvers - JPMorgan

Daniel Binder - Jefferies & Co.

Gregory Melich - ISI Group

Jason DeRise - UBS

Charles Grom - Sterne, Agee & Leach

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

Chuck Cerankosky - Northcoast Research

Budd Bugatch - Raymond James

Joe Feldman - Telsey Advisory Group

Scott Mushkin - Wolfe Research

Operator

Good morning. My name is Felicia and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter Fiscal Year ’13 operating results conference call. All lines have been placed on mute to prevent any background noise. After the speakers’ remarks there will be a question-and-answer session. (Operator Instructions) Thank you. Mr. Galanti, you may begin your conference.

Richard Galanti

Thank you, Felicia, and good morning to everyone. This morning we are reporting our 16 week fourth quarter and 52 weeks fiscal year 2013 operating results, which ended on September 1. These results are of course were compared to the 17 week and 53 week periods of the prior fiscal year. In addition, we are reporting this morning our September sales results for the five weeks ended this past, on the October 6.

Let me start by stating 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 fourth quarter operating results, for the 16 week quarter, reported earnings per share came in at $1.40, up a penny from last year's 17 week fourth quarter earnings of $1.39. I will come back to this in a moment.

In terms of sales for the quarter, total sales were up 1%, which again was impacted by the extra week. Comp sales, which compares like 16 week periods were up 5% both on a reported basis and excluding gas and FX. For the quarter gas prices year-over-year were effectively flat, so no impact on the 5% U.S comp figure. However, foreign currencies weakened related to the U.S dollar year-over-year in the fourth quarter, primarily in Canada and Japan. Such that our reported 4% international comp figure assuming flat year-over-year FX rates would have been up 7%.

In terms of sales for the five week September period, total sales increased 6% year-over-year. Reported comparable sales increased 3%, and that 3 was comprised of a 4 in the U.S and zero internationally. And excluding gas and FX, comparable sales would have been up 5%. The four U.S reported would have been a five excluding gas deflation and zero internationally would have been an up six assuming FX was flat year-over-year in local currencies.

In terms of comparing our $1.40 reported earnings for the fourth quarter to last year's fourth quarter of a $1.39, several items to note. First a few items that I've discussed each in the prior several earnings calls. Last year's fourth quarter had an extra week simply dividing the 17 weeks intuitively $1.39 figure would have suggested that the benefits from that extra week was about $0.08 a share. Membership fee income of course included about $25 million pre-tax extra and that relates to the late 2011, early 2012 annual fee increase in the U.S and Canada and how that works way to our income statement based on deferred accounting over about a 23 months period.

Interest expense of course was higher in the fourth quarter by about $13 million pre-tax were $0.02 a share. This related to last December's $3.5 billion debt offering that was done in conjunction with $7 per share special dividend.

There are also a few items that year-to-date through the first three quarters have represented a positive year-over-year profit variances, but that's one the other way in Q4 year-over-year. For example FX on a strengthening foreign currency is relative to the U.S dollar added to earnings per share year-to-date through the first three quarters and swung the other way in the fourth quarter.

In Q4 foreign currencies -- the foreign currencies where we operate weakened versus the U.S dollar, resulting in foreign earnings in Q4 when converted into U.S dollars being lower by about $10 million pre-tax or penny and half a share then those earnings would have been had FX exchange rates been flat year-over-year. A similar year-over-year profit swing occurred in the profitability of our gasoline operations.

Year-to-date through the third quarter the gas profitability was higher year-over-year through the third quarter year-to-date. In Q4 it too swung in the other way coming in lower at Q4 year-over-year. In addition to these factors, I point out in our discussion of SG&A, a few other items that resulted in our expense percentages coming in higher year-over-year in Q4.

In terms of new openings, for all fiscal ’13 we opened 26 new locations, 12 in the U.S, three each in Canada and the U.K., five in Japan and one each in Korea, Taiwan and Mexico, ending fiscal ’13 with 634 locations worldwide. For fiscal 2014 we’ve ramped up our expansion plan on our documented plans to open 36 new warehouses with half of these in the U.S. and the remaining in international markets, including our first two plan for Spain next spring and summer.

Inevitably a few of these will probably get delayed. So I would estimate that a number in the low to mid 30s is more likely still a pretty good increase about the 16 and 26 new warehouses opened in each of the past two fiscal years.

During the first four months of 2014 through calendar year-end, we plan to open 15 of these locations, 10 in the U.S including three next week, two each in Canada and Australia and one in Mexico. Also this morning I will review with you our member trends, our e-commerce activity and of course additional discussion about margins and SG&A.

Quickly on the start to the call here in terms of fourth quarter results, more detail. Sales for the year's fourth quarter were $31.8 billion, up 1% from last year's 17 week fourth-quarter of $31.5 billion. Again if you normalize the 17 weeks by taking 16, 17 --, if you will, would have been up 7% on a normalized comparable week basis.

Our reported comp basis, Q4 comps were up 5% for the quarter. For the quarter our 5% reported comp was a combination of almost flat average transaction for the quarter that included the detriment of FX of about 80 basis points. So we are moving up slightly without assuming flat FX and an average frequency increased in the quarter of 4.5% up.

In terms of comparisons by geography regions most U.S regions registered mid single digit comp increases for the quarter with Texas, Midwest and Southeast being the strongest. Internationally in local currencies, Korea and Taiwan were on the weak end due in part to cannibalization on relatively small base of existing units. With Canada and Mexico the strongest in terms of comp sales increases.

In terms of comp sales by merchandised category for the quarter, within food and sundries, which were mostly in the mid single digits. Deli, wine and spirits, beer, frozen foods and candy were all relative standouts. Within hardlines, fairly flat numbers year-over-year. The departments with the strong results for office, health and beauty aids and hardware. Electronic sales, which is a relatively large size sub department within hardlines was weaker year-over-year in the fourth quarter.

For softlines low-double digits for the quarter; small electrics, housewares, domestics and apparel were standouts and the same old department media continuing being the relatively weak department there.

In fresh foods, comp sales in the mid-single digits; deli and produce showing the best result. In September, the five-week month, sales were $9.9 billion, up 6% from last year's September reporting period. On a comp basis, September comps were reported – were up a reported 3% for the month.

That 3% included a negative 1.3% average transaction. This includes the detriment of FX of about 1.5 percentage points and deflationary gasoline which deflated quite a bit, about 1 percentage point. So the 1.5% and the 1%, those 2.5 percentage points negative is included in that minus 1.3%

transaction. Average frequency up about 4%. Excluding FX and gas effects, comp sales for the month of September were plus 5%.

In terms of sales by geography from September, most of U.S. regions were in the low to mid single digit comps with Southeast and Texas being on the strong end. Internationally, Korea and Japan were on the weak side of all the international countries with Canada and Mexico showing the strongest comp sales increases in local currency.

In terms of category sales for September, food and sundries, low to mid singles; hardlines, low singles similar to the quarter. Softlines in the low to mid teens, up a little bit from the quarter. Fresh foods continues in the mid single digit range, led again by produce and service deli.

And lastly ancillary business comps were slightly negative on a reported basis basically due to the gasoline business which experienced 8% deflation year-over-year in the average price per gallon during the five-week monthly reporting period. Gallons in terms of gas were slightly positive.

Moving on down the line items in the income statement, membership fees were up 3% or about $22 million, an increase of 4 basis points year-over-year to $716 million. Both membership fee members for this year's fourth quarter and last year's had some items to look at. Within the $716 million, of course it was – this year it included the $25 million benefit as I talked about from the fee increase.

And last year's $694 again it was a 17-week quarter, taking one-seventeenth out of that it would reduce that number by 41 million. So I think the 3% reported increase in dollars again adjusting it for those two anomalies would have been up about 6%. But the 3% is what we reported.

In terms of membership, renewal rates remain strong both in the U.S. and Canada and worldwide. We continue to strengthen our executive membership program. New member sign ups in the quarter companywide were very strong, up 9% year-over-year despite one less week in the quarter. That strong performance was mostly reflective of very strong sign up and our three Japan openings that opened in the fourth quarter. As I've mentioned in the past, we get very strong opening sign ups at locations in Asia and Australia.

In terms of number of members at fourth quarter end, Gold Star and in the quarter and year at 28.9 million up from 28.2 million 16 weeks earlier. Primary business remained at 6.6 million. Business add-on remained at 3.5 million. Again you get some of those add-ons moving into other categories as they opt for executive. Total paid memberships went from 38.3 million at Q3 end and 39 million at fiscal year end. And total cards went from 69.9 million at third quarter end to 71.2 million at fiscal year end.

Executive members continue to increase. We're up over 13.5 million at the end of the fiscal year which is about 250,000 increase in terms of members since Q3 end or about 15,000 a week added during the quarter. As I've mentioned before, executive members are over third of our member race and about two-thirds of our sales as well.

In terms of membership renewal rates, they too continue strong. Our business renewal rates went from 93.9 at the end of the third quarter tweaked up to 94.0. Gold Star went from 88.9 to 89.1, so total business in Gold Star went from 89.9 to 90.0. Those numbers by the way are for U.S. and Canada which we've always showed in the aggregate. That's a little over 82%, 83% of our business.

Worldwide the number went from an 86.4 at the end of the third quarter to an 86.3 and the reason there is with all these new international openings you're always going to have much lower renewal rates in start-ups years of new occasions, and particularly in new markets.

Going down the gross margin line, again I'll ask you to jot down a few numbers. We'll have four columns. The columns would be reported and without gas and the second column without gas. That will be Q3 '13 and Q3 '13. The third and fourth columns would be reported for Q4 '13 without gas for Q4 '13. As I mentioned in Q4, there was no inflation so the third and fourth columns will be the same numbers.

The line items, the first one will be core merchandizing. Going across to the four columns would be minus 5 basis points year-over-year, minus 11, minus 4 and minus 4. Ancillary and other businesses; plus 6, plus 5 and then plus 3 and plus 3 in the last two columns. 2% reward minus 2 across the board. LIFO, plus 6 and plus 6 in the Q3 columns and plus 7 and plus 7 in the Q4 columns. And other there was plus 7 and plus 7 in the Q3 columns and 0 and 0 in Q4 columns. That related to a loss in recovery that we mentioned last quarter.

All told, reported in Q3 year-over-year, gross margin was up 12 basis points. But again taking out gas inflation, it was up 5. This year both on a reported and without gas, it was up 4 basis points. I'll provide a little color on these numbers. Core merchandize component to gross margin was down 4 basis points year-over-year. Three of the four core categories; food and sundries, hardlines and softlines showed higher year-over-year gross margin percentage on their own sales in the 10 to 25 basis point range each while year-over-year in Q4 fresh food margins were lower by about 80 basis points.

As I mentioned in the last few earnings calls, our investment in pricing occurs throughout many merchandizing departments but has been most notable in fresh foods. Ancillary business gross margins were up 3 basis points year-over-year in Q4. I guess in food court margins coming in a little lower than Q4 last year with others like pharmacy, optical, hearing aids coming a little bit better.

The impact from the increasing executive membership business represented a reduction in gross margin of 2 basis points reflecting the cost of higher penetration of sales going to the executive member reward program. LIFO with the fourth quarter, we recorded an $8 million pre-tax credit this year in the fourth quarter compared to the $11.5 million pre-tax charge last year in the quarter, so that was a year-over-year 7 basis point swing in our favor. All-in-all, a pretty good margin result in the fourth quarter.

Now moving to reported SG&A, our SG&A percentages Q4 over Q4 were higher by 9 basis points coming in at 975 this year compared to a 966 last year. Again, we'll jot down a few numbers. The same four columns; reported and without gas and then again reported and without gas. And the first two columns will be for Q3 year-over-year and the third and fourth columns will be Q4 year-over-year. Going across operations; plus 2 reported in Q3 '13, plus 7 without gas. That means – plus sign means better or lower. In Q4 it was minus 9 and minus 9.

Central; plus 2 and plus 2 in the columns one and two; plus 3 and plus 3 in columns three and four. RSUs or equity compensation minus 1 and 0 and minus 3 and minus 3. All told, in Q3 year-over-year we reported a plus 3 or SG&A better by 3 basis points. Without gas inflation it was actually better by 9 basis points looking at it that way and again in Q4 year-over-year it was higher or minus 9 basis points.

The core operations component again was 9 basis points year-over-year. There are several moving parts to that. For example, benefits to worker's comp expenses were higher year-over-year in the fourth quarter by 5 basis points, 4 in the benefits side and 1 in the worker's comp side. In part due to year-end true-ups of various expense accruals as well as some increases. So again some of that I would say would be more normal, some of it is just how we true-up things at year end.

Several additional basis points of our expense comparisons in Q4 year-over-year resulted from a variety of other year-end expense true-ups that in the aggregate had helped us a little last year in the quarter intended to hurt us a little bit this year in the quarter. These items now withstanding within core operations our payroll as percent of sales continue to improve year-over-year.

Central expense it was better or lower by three basis points as you saw on the chart. This benefited by bringing back a little bit of our bonus accrual for the year. That benefit was somewhat offset by ongoing IT monetization costs. I'm happy to mention also that -- I want to mention also that IT expense as a percent of sales will continue to be, negatively impact the SG&A throughout the upcoming fiscal year as we continue these monetization efforts.

Lastly our equity compensation which has provided us part of a compensation package to more than 3000 people in Costco represented a three basis point hit to SG&A in the quarter. So told there are few other things I think were anomalies and few they were a little higher expense all resulting of course the reported higher SG&A. In terms of the income statement pre-opening expense $15 million last year up $2 million to $17 million this year, no real surprises. Last year we had six openings, four in the U.S. and two international. This year we had seven openings in the quarter, two U.S. and five international.

All told reported operating income in the fourth quarter increased slightly year-over-year, I mean last year at $949 million versus $954 million this year. Again lots of reasons for this, the extra week and many of the items I pointed out earlier in this discussion. Below the operating income line reported interest expense was $14 million higher year-over-year with Q4 '13 coming in at $36 million versus $22 million in last years quarter. This difference relates to additional interest expense again in the December 12, $3.5 billion debt offering which equates to about $44 million pre-tax a year and about between $13 million and $14 million for the 16 week quarter.

Interest income and other was lower year-over-year by $2 million coming in at $36 million this year from $38 million a year ago. Actual interest income within this figure came in at $14 million compared to $16 million a year ago. The other component of interest income and other amounted to income of about $22 million in each of the fourth quarters; essentially it was same over year-over-year. Overall pre-tax income was down $11 million versus last year's fourth quarter coming in at $954 million this year versus $965 million last year. Again last year's fourth quarter included one more week of earnings results and this year's 16-week fourth quarter.

In terms of income taxes, our Company's tax rate this quarter came in at 34.8% versus 35.6% a year ago, so a little less about 8/10th of a percent lower year-over-year tax rate. While many of the items I talked about in expenses tended to go against us in the fourth quarter this year versus last year. There are few discreet items in taxes that tended to help us and reduce that rate a shade from a year-ago. Overall net income was up $8 million versus last year's fourth quarter from $609 million last year to $617 million this fiscal year in the fourth quarter.

Now for a quick renown of other topics, while the finance balance sheet is included in this morning's press release, a couple of balance sheet informational items. Depreciation and amortization for the quarter totaled $295 million and therefore $946 million for the entire fiscal year. Merchandize accounts payable, again and then when you look at accounts payable on the balance sheet it includes majority of it is merchandize related, the other component is typically construction related.

So anyway on the balance sheet a reported AP ratio was 100% this year down from 103% just using merchandized accounts payable to inventories, it was 89% down from 90%. Average inventory per warehouse; last year it was $11.7 million per warehouse. This year it was $12.5 million or about $800,000 per warehouse or about 7% up year-over-year. The $800,000 increase is really spread throughout many merchandized departments and overall our inventories regain shape our fiscal inventories at fiscal yearend came in as good as they've ever been.

In terms of CapEx, in the first three quarters of this year we spent $488 million, $455 million and $435 million respectively. So in Q4 we spent $705 million not only as it's more weak in the fiscal quarter but again it's in -- and expect it's related to all the openings we've had coming on this fall. So for the total year we spent $2,083,000,000. I'd estimate that our fiscal '14 CapEx given the planned 36 openings will be approximately $2.3 million to $2.5 million again the lower end of that range taken account that probably there's a couple of things that will slip during the period.

Costco Online, currently costco.com which is our U.S. ecommerce, costco.ca and costco.co.uk. For Q4, sales and profits were up over last year even with the extra week last year. Q4 ecommerce sales were up 8%, again if you extrapolated that for the extra week it would have been about 15% normalized. Ecommerce is again a little over 2% of our sales. We re-platform dot com sites; our dot come sites last fall as I mentioned and we also launched the Android and Apple apps during the same time. costco.uk was launched last fall and in this fall we plan to begin ecommerce operations in Mexico.

In terms of expansion, for the year again this assumes that we opened the 36 that I mentioned at in our plan. It would be 14 in the first quarter, two in the second quarter including one which is before calendar yearend that's how we had the 15 earlier; nine in Q3 and 11 in Q4. So with fiscal '13 the 26 we added represented about 4.5% square footage growth. Assuming 36 on a base of 634 this year, that would be 5.5% square footage growth. If you assume that the low end perhaps 30 that would be about 4.7% square footage growth. So something in the 4.5% to 5% -- closer to 5% range should be our expectation this year.

The new locations by country assuming 36 figure, half would be in the U.S, three would be in Canada, seven would be in Asia between four in Korea and three in Japan, five would be in Australia, one in Mexico and two would be in Spain as I mentioned we'd enter in the spring and the fall. As our fourth quarter end some of you asked about square footage. We stood at -- square footage stood at 90,805,000 square feet, an increase year-over-year of 4.5%.

In terms of dividends, our current quarterly dividend stands at $0.31 a share or $1.24 annualized that was up 13% from the previous $0.275 per share quarterly dividend. This $1.24 annualized dividend represents the total cost to the company of about $541 million and of course these quarterly dividends were in addition to the $7 per share a special dividend which totaled a little over $3 billion that we paid to shareholders back in December of 2012 our fiscal second quarter of ’13.

The usual supplemental information will be posted on the Costco investor relation site later this morning. And lastly our fiscal ’14 first quarter scheduled earnings release date will be Wednesday, 11th of December that will be for the 12-week fourth quarter ending on November 24th.

With that, I will turn it over to Felicia.

Question-and-Answer Session

Operator

(Operator Instructions) And your first question comes from the line of John Heinbockel with Guggenheim Securities.

Steve Forbes – Guggenheim Securities

Hey Richard, it's actually Steve Forbes on for John today.

Richard Galanti

Hi.

Steve Forbes – Guggenheim Securities

When you think about the, I guess the holiday selling season coming up; does the shorter selling season between Thanksgiving at Christmas not matter or does something get done differently from a merchandizing or operational standpoint?

Richard Galanti

It doesn’t matter, I mean every pre-holiday Christmas day is better than a post holiday Christmas day, but overall we’re approaching it the same from an inventory standpoint and it being fairly positive on our buying.

Steve Forbes – Guggenheim Securities

Okay. And then just on Canada; how are you progressing with the rollout of gas and then I guess who’s our target for the number of locations that offer gas as for the end of next year?

Richard Galanti

I have to -- we are 40 right now. North of 40 right now and my guess is this …

Unidentified Company Representative

Every new building will have a gas station.

Richard Galanti

That every new building will have a gas station, so those three I guess another three to five. So six to eight is my guess on a -- oh here I got the numbers here. Gas in Canada we have 43 currently, at the end of, as this past sundry, and that’s out of 85 total Costco’s in Canada. So, on a base of 43, six to eight would be given expected gas.

Steve Forbes – Guggenheim Securities

And then just lastly on our cost pressure; actually the competitive environment I guess you mentioned fresh foods, the 80 basis points and so forth. Is there anything else you can give a little additional color on and then I guess how are you -- is there any sense of the return that you're seeing on these investments?

Richard Galanti

Well, keep in mind the return – I used the example of the rotisserie chicken in the past. We get more positive press out there from keeping that incredible giant chicken at 4.99 and over the last year, year and a half, the underlying poultry price have skyrocketed so we've – the underlying price has skyrocketed such that there's very little margin on it right now although it looks like there is some relief in terms of where pricing is going over the next few months based on poultry future's cost. It doesn't mean we're raising price, it means that we'll at least make a little margin. But sometimes that's fast and that's what we do. In terms of the competitive environment out there and then from what I see at the every four-week budget meetings from all the regions, it's not easy but it's not – there's always pockets of something but there's nothing that's changed in the extreme either way.

Steve Forbes - Guggenheim Securities

Okay. Thank you.

Operator

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

Matthew Fassler - Goldman, Sachs & Co.

Thanks and good morning. Can you comment on whether you bought back stock this quarter and what your general thought process is on the buyback at this stage of the game?

Richard Galanti

Sure. Well, we did not – I forget to mention that. So for the year we bought very little, about $34 million I think at the very beginning of this year back in September. On a long-term basis we're still positive about the outlook of our company long term and we'll continue to look at it. We report once a quarter and we'll let you know next quarter what we've done or not done this quarter. We did of course do the $3 billion special dividend back in the fall at a time when the stock was showing a lot of strength and so we feel good about the combination too over time and I'm trying to be as coy as possible because I can't give you any direction until we'd let you know a quarter from now.

Matthew Fassler - Goldman, Sachs & Co.

Understood on that. And just a quick follow-up. On the electronics business, can you give us a sense whether the weakness was volume or price driven and what do you think your market share did during the quarter?

Richard Galanti

Well, it was both. I honestly don't know what others have done. We've been very strong up until the fourth quarter. Like through May, it seemed like every month we had what we call majors which is electronics principally and TVs within, that's the biggest category, tended to be up in the 5 percentage point to 10 percentage point range. A little of that I think back then was higher average price point even though electronics tends to be deflationary, we were selling bigger and bigger and more advanced televisions, 60s and 80s. Back in June, July as we saw some weakness and we shared that with everybody on our monthly sales call, the big effect tended to be – it was the Olympics a year ago and that's what we've seen so far.

Matthew Fassler - Goldman, Sachs & Co.

Thanks so much, Rick. I appreciate it.

Richard Galanti

Hold on, one other thing here. The managers are telling us there is a challenge that sales have come down a little bit everywhere. I don't know what others have done.

Matthew Fassler - Goldman, Sachs & Co.

Got it, thank you.

Operator

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

Christopher Horvers - JPMorgan

Thanks. Good morning, guys. Can you talk about how you think about inflation in key categories going forward and does that provide an opportunity for some margin relief such that maybe we can move back to flat core margins? And then related to that, how should we think about the LIFO impact related to that?

Richard Galanti

Okay. Well, first of all, as I've said several times in the last year or two when margins have showed a little year-over-year downturn, in our view it's us more than our competition and we have been pretty extreme on certain categories. I think a year ago was the food court, as I mentioned the rotisserie chicken when you're selling 60 million plus of those a year that adds up to more than a couple of basis points alone for the company. But that's overall what we do. In terms of LIFO and in terms of what does inflation or deflation do? Certainly inflation we tend to – ultimately you got to take some of it subject to competition but we tend to be laggard historically. With deflation we tend to be the first out of the box. So certainly though when there is inflation, there is perhaps a little bit of opportunity and that gets to the LIFO question, what generally you see is when there's a LIFO credit meaning that there has been deflation, you've also had some price reductions. So part of the reason I think the core year-over-year was down a little is that is well; when it goes the other way they tend to go in opposite directions. Not all the time but that's the case. So I think that we do better when we're reducing prices and driving business and overall that's good for us better than others. We view that we tend to be more aggressive and take more advantage of that to show a difference between us and our competition.

Christopher Horvers - JPMorgan

So does that mean that are you seeing more deflation and do you expect more deflation going forward and would that result in…?

Richard Galanti

Keep in mind we're not seeing a lot of anything right now. I did mention gasoline in general. I mean gasoline is quite deflationary. Year-over-year in the month it was 8% lower but it's kind of – everything else is kind of neutral certainly well under 1 percentage point. Again, I mentioned poultry as an example that had more to do with the fact that poultry prices had risen dramatically over a couple year period and we've maintained 4.99 price on that which again we find ourselves in the news about that which is a positive. Now that there is some – it seems like there is some downward pressure on both feed and poultry prices of futures over the next few months as the commitments for the producers go through the higher cost up, we would expect hopefully to see those prices come down which adds to margins and we'll maintain that 4.99.

Christopher Horvers - JPMorgan

So what about – isn't there pricing on the grain side, isn't that causing pressure? There is some Nielsen data out today suggesting that prices are coming down on the grain side and if you look at corn and soy out there where the price of the market today that would suggest that prices will come down in the future, so are any of the merchants talking about on the dry grocery side or other areas in the box where they expect pricing to come down or is the outlook basically neutral?

Richard Galanti

If our landed cost come down, generally you expect to see our prices come down. I think we have the anomalies or the outliers are going to be something like in extreme light of – by the way, rotisserie chicken is just one form of chicken we sell. We sell frozen and fresh and everything else but just that one item is $300 million plus. So when we have been the leader in terms of keeping the price down despite very upward increases in underlying costs, as those come down that gives us a little margin relief. But generally speaking across what I'll call this supermarket canned and box categories, we're going to try to lower prices.

Christopher Horvers - JPMorgan

Understood. And then any commentary in terms of how September played out from a cadence perspective week-to-week?

Richard Galanti

I don't have that detail in front of me. I mean a lot of it has to do with how Labor Day falls and what the weather is with back-to-school. There's probably a 3% or 4% range between the weeks but I don't have that in front of me.

Christopher Horvers - JPMorgan

Okay, fair enough. Thanks very much.

Operator

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

Daniel Binder - Jefferies & Co.

Hi. Good morning. Just want to touch on a couple of things. First, with regard to competitive pricing, as you know one of your competitors has been out there with a new vendor book program that I think they've done now three or four times. Just curious in your price sensitive organization, how are you dealing with that? Are you matching price when they do a vendor book or do you just set up, do your own vendor book and disregard that as promotional pricing that's not every day?

Richard Galanti

We're going to do what we do. Look, if they keep doing it, it must be working and we've been doing it for a long time ourselves. We're always out there trying to do new things as well and I think that's fine. We take that into account when – the comments I mentioned earlier about levels of competition out there.

Daniel Binder - Jefferies & Co.

But I guess just day-to-day when they have a vendor book out there, do you feel compelled to lower the price on those items or do you just treat it as their one-off promotional event that you don't necessarily match?

Richard Galanti

Well, in a perfect world absolutely yes every time. The reality is, is just like on our NVM booklets when we're getting – we've negotiated a specific deal with a specific vendor and its essentially a lower cost to us because of that, but that's because of the deal that we negotiated. We are not going to go way down to match something all the time; we're looking at it as promotional. At the end of the day, all of the big retailers from the biggest to the next three or four and the large supermarket teams as well, all the big manufacturers have various buckets and different silos of promotional monies whether it's for the MBM or slotting allowances or seasonal back to school whatever it is and different retailers going to use it at different times in different ways. So ultimately every day blocking and tackling were going to match prices. We're not going to go crazy 20% below costs for somebody else had used that -- their silo of promotional monies in a way on a promotional basis. As I wouldn't expect they would either.

Daniel Binder - Jefferies & Co.

And then with regard to Canada I think you guys are a little bit more aggressive in front of target openings, they kind of came out the gate maybe a little bit higher priced than people thought, just kind of curious how you've adjusted to that or if you have at all?

Richard Galanti

I would say it has been less of an issue than we had thought. We never thought it would be a huge issue other than the fact that having have a formidable player and they certainly are formidable and respected coming into a market where that would impact promotional activities with Walmart, with Loblaws and others up there that there will be a lot of marketing and excitement and promotional stuff. There has been some, but probably not as much as we had felt. Now we’ve also been held by the fact that we have rolled out things like gas that drives business and the economy overall in Canada has been very strong over the last few years. They have not suffered any economy strains that we have here in the U.S. So maybe you can ask them, but we haven't seen a big deal.

Daniel Binder - Jefferies & Co.

Have you been able to take price back ups since they weren’t as aggressive or you just stay pretty stable?

Richard Galanti

No, we cannot do that.

Daniel Binder - Jefferies & Co.

Yes, okay. Last item was just on this other income line, you mentioned $22 million outside of interest income, was that related to like FX gains? I know you’ve that Mexico peso issue against the dollar.

Richard Galanti

It's principally FX gains.

Daniel Binder - Jefferies & Co.

FX gains? Okay.

Richard Galanti

Yes.

Daniel Binder - Jefferies & Co.

Great. Thanks.

Operator

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

Gregory Melich - ISI Group

Thanks. Richard thanks for the walk through on the membership fee income. I did have a follow-up there. You said that the 3% really sort of gets to 6% if you try and back out the extra week and fee increase, does that also adjust for FX which I presumably would have been a headwind to that year-over-year in the quarter?

Richard Galanti

That would affect it a little more, you're right.

Gregory Melich - ISI Group

So that will be another 100 bps, so we just think of it as proportional to the business?

Richard Galanti

It's probably a little less than that, but I should have mentioned it. I always try to find reasons here.

Gregory Melich - ISI Group

All right. So that basically in local currency membership fee income might have been up 7% not 6%?

Richard Galanti

It could have been, I just don't -- I need to calculate it out, but yes certain -- something, but I don't know if it’s (indiscernible) that.

Gregory Melich - ISI Group

(Indiscernible).

Richard Galanti

Yes.

Gregory Melich - ISI Group

Then second on SG&A, I just want to make sure I got the nine bps of headwinds that I got that right, the workers comp sounded like most of it was a catch up for maybe under accrual earlier in the year and then there are few other things that you said were true up by year end. Could you summarize of the nine bps, how much of it was true up versus how much of it is actual cost of running the business ongoing?

Richard Galanti

I don't want to get that granular not because the number is worse than I think. Somewhere in the middle it was probably the right answer. They’re literally the two big ones of course are benefits in membership -- benefits in workers comp, which I mentioned was five bps year-over-year. I know within workers comp, first of all, understand what a true up is. You think about workers comp we have just the U.S workers comp well in excess of $100 million of in current expense every year. There is also what we reserve when somebody gets injured or whatever to say it went down on disability, we set a reserve based on what we think. Now to extend it's a bad injury it might be a reserve of tens of thousands, if not a few hundred thousand dollars based in anticipation over several year period.

Every quarter end the actuary -- our actuaries look at that to adjust the -- what's on the balance sheet, if you will, we’ve expensed or reserve already. So on top of that 100 a year of incurring items you are also truing that up at the end of every quarter directly under GAAP accounting. That I think the reserve on our balance sheet at any given time just on workers comp is over $300 million and so a swing of $5 million or $10 million one-way on actuarial changes based on what happened in the last quarter of real expenses and adjusting those things, sometimes it helps you by a few million, sometimes it hurt you by a few million. And there are several large expense pools given our size that we try to be granular to help you understand the numbers, but again if I had to look at last year in Q4, a few more of those moons lined up for us, this year a few of those expense is lined up against us and probably somewhere in the middle of that nine is the right number, I hate to go further than that because I don't know.

Gregory Melich - ISI Group

All right. Fair enough. And then lastly on the CapEx, I understand that it’s going up this year with more openings. But how should we think about the number there? Is that number -- because I know you spend money on land and everything well before the opening. So should we think about that number is proportional to a number that might be out there in 2015 or in other words we model it out if we’re going to open 30 or 35 plus a year, is this the run rate we use now or is this year elevated because you're going into Spain and it was like …?

Richard Galanti

I say more of it’s the run rate than one-time elevation. So, I mean, I think something in the 2.3 to 2.5 is a best guess right now.

Gregory Melich - ISI Group

Right. So that makes sense with this sort of opening level.

Richard Galanti

Right. And again if its 6 or 7 less and we got delayed on a couple of property purchases and we did a little less or more on depots, all of those things add into that. But probably something in the -- something between 2, 2.5 is the right guesstimate for the next few years.

Gregory Melich - ISI Group

Okay, great. Thanks a lot.

Operator

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

Jason DeRise - UBS

Yes, hi. It’s Jason here. I just wanted to understand a bit more on the membership income in addition to what was shared before. I guess, maybe just looking forward though what kind of -- now that the accrual base is in there and you’ve taken the fee increase and renewal rates are high, I mean what can be done to drive more members per store? Is executive membership going to be a bigger focus now that we've got a couple of years from that the increase? And if you can share anything in terms of the international progress in terms of membership obviously the renewal rates are lower than the U.S., but what could be done there? Thanks.

Richard Galanti

Well, first of all, let me -- what I am always be surprised that this the continued increased penetration of executive membership even in countries like the U.S which has been around for 13 or 14 years and Canada which has been around for 10 years. We still -- we do a better job at thing in store of converting people to executive membership both when they -- new sign ups. I remember several years ago, 10 to 15 of every 100 signed up – existing warehouse in the U.S and Canada signed up as executive membership, now its in the 30s and 40s. Part of that has been a little bit better at just doing that and hopefully it’s as we point that out there, obviously their value.

In terms of driving membership the fact that we’re getting a lot more members in some of these countries like Asia and Australia certainly helps that has a higher percentage of our openings go to those markets. The low renewal rate is -- I remember the first previous even in the U.S back in the mid-80s in and the Canada in the late 80s, signed up a hundred people in the first year to get to that what was awfully down to mature a mid 80 renewal rate would have been great, but of course now its 90. In that second year maybe 70 or 72 or 73 of those 100 signed up. But then a new 100 signed up also in the year three, a higher percentage of that 70 or 72 plus 70 or 72 of the second year's 100. So it kind of builds over time.

I would say those starting renewal rates in Asia start out a little lower than that 70, sometimes in the 50s or 60s and then go from there. But mind you it's been somewhat of a phenomena where we get a lot of press, very densely populated cities and people coming in from a little further distance in a city -- in cities where it is little harder to travel. So I think all those things have tended to be the reasons why we're going to keep doing what we do is it relates to driving membership, I think we got better in our marketing activities in what we do. And so I think overall we will keep driving membership the old fashion way in terms of opening newer houses certainly in less penetrated countries that is a bigger help and giving them value. And historically we've tended to raise fees about every five, five and a half years and I can't promise what it will be again but that's what it's been for 30 years.

Jason DeRise - UBS

In terms of the age of the stores in the international market and the maturity process there are obviously writing, you're talking about adding new stores and new countries even. Is there anything in the cadence of that that we should think about in terms of if we're modeling on a member per store basis on a year-over-year basis if there's anything that you can share there for the coming year or so compared to prior years?

Richard Galanti

It tends to be higher internationally. I think when we opened in Australia we got off to an incredible start, our highest per share volumes ever in a country. Again, I think people around the world know what our membership club is and we get a lot more press when we go into a country. We've had outsized members and it helps when you got five or six locations in a 20 million population city and it's getting to press. And so I think – given the size of our whole company and the fact that still 70% of our company is in the U.S. and another 10% or 12% is in Canada that yes, the international keeps moving the needle but it moves it a little upward.

Jason DeRise - UBS

And maybe just to wrap up my line of questioning on the member fees, so talking about 6% is the clean number, maybe something closer to 7% really clean for FX for the way that it grew in the fourth quarter. How would you consider that as a run rate and with the new store openings, do you think it could be better than that or do you think that – I guess I'm going to let you answer how you think about that?

Richard Galanti

Yes. We're going to try but I think that – again, something plus or minus a couple of percentage points from that is probably a best guess at this point. Mind you also there's deferred accountings, so when – I've shared examples when we open a new unit in the United States membership sign ups as of opening day which tends to be the eight or 12-week period prior to opening day, through opening day because you've got tabling activities there where people can come in and sign up once the parking lot you can get in and out of. And in the best markets in the U.S., Northern Cal, Southern Cal, Seattle, when we open a new unit it's a no-brainer success story that you might only have 5,000 to 8,000 sign ups or 4,000 to 8,000 sign ups because a lot of people were already members, they're going to come more frequently because we have – we're closer to them. When you open in some of these countries you might have 20,000 to 40,000 new signs ups through opening day. Now even that's the case it takes a year for that to get into the system based on deferred accounting because it's basically you book that annual fee one-twelfth a month. So I think it will trend in there over time but on a base of 635 or 640 locations, an extra few locations internationally again it moves the needle in the right direction as it relates to this question but it's not a giant mover.

Jason DeRise - UBS

Okay, thank you very much.

Operator

Your next question comes from the line of Charles Grom with Sterne, Agee.

Charles Grom - Sterne, Agee & Leach

Thanks. Good morning, Richard. As part of these modernization efforts that you talked about, when you look at your membership fee data base, is there any thought internally to start data mining some of the consumer information that you have and begin more personalized couponing or targeted promotions versus the standard 3.5 week MBMs that you're currently doing?

Richard Galanti

I would say we're closer than we've ever been but it's still going to be a while. One of the modernization things that we're doing is rewriting the membership system. Let's start with some of the basics. The extreme examples last year when we replatformed a dot.com a year ago, prior to that the search engines couldn't even crawl on the site so you'd never Google us and see Costco.com. And now I guess and that is the membership and the data mining. I think that Craig has shown a little openness to our marketing people but we're not going to go crazy quickly for us, but there's some opportunity there. But again, as we do some things we'll let you know like we did with dot.com.

Charles Grom - Sterne, Agee & Leach

Okay, fair enough. And then just to fall back on Matt's question on the balance sheet and with $14 per share in cash and then adjusted the EBITDA ratio one of lowest in retail, what's the Board waiting to see before you guys get more aggressive on the buyback? I get last year with the big dividend kind of holding back on the buyback but what are you guys waiting to see to get more aggressive?

Richard Galanti

Well, stay tuned to 12 weeks from now when we talk to you. We'll let you know. I mean again I think we view our runway, if you will, long term that we've got a lot of opportunity. We certainly – I agree with you even with the risk of CapEx we have a strong balance sheet and we'll continue to talk at our quarterly Board meetings, but I really can't say a whole lot more than that at this point.

Charles Grom - Sterne, Agee & Leach

Okay. And then I know your purpose when the K comes up, but do you have the U.S., Canada and international margins for the fiscal year of 2013?

Richard Galanti

I don't think I can give that to you unless it goes out publicly from an 8-K standpoint. Next Wednesday is our plan to send out the K.

Charles Grom - Sterne, Agee & Leach

Okay, great. And then on the 80 basis points and pressures in the 10 to 25 up in the three areas, could you just give us a little bit of perspective how that compared to the last quarter?

Richard Galanti

Why don't we go to the next question and then I'll answer it. I think I did talk about it in the last earnings call which I have in front of me, so we'll go to the next question and I can answer that.

Charles Grom - Sterne, Agee & Leach

Okay. And just a follow-up on Chris' question earlier with regards to that price investment. It appears that you guys weren't really necessarily offensive, it was more of a defense. I mean the fact that your costs were going up and so you were keeping rotisserie chicken prices at the 4.99, is that fair to say the large chunk of why you saw the margin pressure in fresh foods?

Richard Galanti

No, that was the outsized component of it but there were a few other items within fresh foods as well.

Charles Grom - Sterne, Agee & Leach

Okay, great.

Richard Galanti

Back to your other question, I did find what I said a quarter ago. The four core categories – this is in Q3 of '13, the four core categories; food and sundries, hardlines, softlines and fresh foods each showed lower year-over-year gross margin percentages, so that compares to what I mentioned this quarter that food and sundries, hardlines, softlines being up year-over-year. All four of those subcategories were low year-over-year in Q3.

Charles Grom - Sterne, Agee & Leach

Okay, great. Thanks a lot.

Operator

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

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

Hi, Richard. I wanted to know whether Costco is giving consideration to having its employees enter healthcare exchanges, going to kind of a defined contribution, if you will. And additionally, if you can give us some color on the rising healthcare costs and is it likely we'll see that continuing to run ahead of sales?

Richard Galanti

First of all we have no plans to change what we currently do. As it relates to continuing to rise, the answer is probably yes. We have made a few tweaks to our plan to try to – have the participants in the plan make more thoughtful decisions on a few things and made some very other, very small changes which maybe it brings down the rate a little bit. In each of the last three years, part of the Affordable Care Act as it is transitioning in we estimate was about 1 to 1.5 percentage points of increase each year, so even when we showed in 11 let's say or 11.5 a couple of years ago year-over-year, that 11.5 included 1.5 from affordable care incrementally. And I think this is the last year of a few of those transition items that are going in. An example would be you have to have the same limit, lifetime limit irrespective of the plan and we had a different lifetime limit for part time and full time plans.

We opted – as you would expect us to do we opted to the higher limit for both. And so there's things like that that's part of those 1% and 1.5% growth items on a sizable number to start with. I would guess whatever it would have been it'd be a little less because of one, these annual pieces that have gone into the Affordable Care Act that are transitioning over three or four years now, I think this is the last year of that as it relates to what we know now, but I've read some articles that they seem cost come down and when I talk to a few others of different industries, they don't see it a lot of low inflation there either. So I don't know where those reports are coming from. But I would guess it’s a little lower than it’s run? Yes. It's a lot lower now.

The other thing that I think helps us on a global basis is, is the members I’m talking about here are U.S. We have a lot lower experience at these costs in all other countries because in most cases it's nationalized healthcare and in controlled -- expense controlled quite a bit better as it relates to lower. And as an increasing percentage comes from outside the U.S. that helps us; and we get a little help from the fact that as we ramp up expansion for you to be covered in our healthcare it takes three to six months based on full time and part time. The fact that we’re opening more units now means that there’ll be a few more people and but again that’s on a very large basis, so that tweaks it down a little bit, but not a lot.

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

On that dementia, I know when in your past as your employee turnover came down, that I think added to the rate of healthcare costs. What is the kind of employer retention year-on-year and is that a factor here too?

Richard Galanti

It's still very low. It did come down and a lot of that had to do I think when the economy hit hard and it means that economy hasn’t improved greatly. I think then probably our retention rates of employees has continued at a low good rate in our view, because we have -- we drew -- we have a good compensation and benefits package, and it's tough out there. And so it's, I think our renewal rate overall in the U.S. is about 11%, those numbers are most familiar with and after a year it's 6% I believe. And that’s pretty much about how low. I think there’ll be a 11% -- might have been a 10% a year or two ago, a (indiscernible) It can be off five percentage point here, but that’s pretty where its been.

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

Okay. And a separate question; do your buyers see much ability to trade the consumer up, I mean really the average ticket is kind of moving with inflation, it seems like at this point but I mean are you -- as you're planning for the holiday do you think you've got any ability to move it up usually with the upper end comp consumer showing some strength in consumer confidence at least up until recently you've been able to do that, what's the outlook now?

Richard Galanti

Well we keep trying and we keep -- I think we keep being successful. By the way, while the average ticket has moved as you suggested with inflation maybe a little more or less depending on the quarter that's now stating the fact that we've had four plus percent sharper frequency for five years compounding now. So, which compared to 1%, 1.5% compounding for the each of the 20 years before that. So I think that in part tends to put downward pressure on that number. So we're actually kind of pleased that it's held up where it is given that increase of frequency. Also in new markets it's a lower number to start with. And so that all goes into that weighted average as well. So I think overall our number is holding up pretty well. And look and mind you as merchants we're always trying to upgrade the product. We want to save a member money, but on the best item and the biggest quantity as you might expect that we do and so always trying to drive that and sometimes that's because we can drive more value that way particularly on very competitive items.

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

All right. Thanks, Richard.

Operator

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

Chuck Cerankosky - Northcoast Research

Good morning, Richard. Regarding the venture into Spain anything you would point out about those clubs that will be different from some of the others?

Richard Galanti

Nothing really. Yeah, it will be -- it looks like warehouse. I think the one thing is that they'll be on one floor as you know in several of the very densely populated cities in Asia and even in Sydney we've got some double deck retail facilities with two and three decks of parking on top of that or below that. In Spain our plan is to be on one level so far but that we could have over time but the first one will be on across.

Chuck Cerankosky - Northcoast Research

And the size is in inline with the corporate average?

Richard Galanti

Yes. The size is in line with the corporate average of new locations. I think our average per warehouse is about 144, 143. We tend to build things in the 155 range.

Chuck Cerankosky - Northcoast Research

Got you. And the real estate pipeline is ready for additional international expansion is that why we're seeing this nice step up here in the new openings?

Richard Galanti

Yeah, I mean I think the pipeline has been built over the last couple of years there. If you go back four, five years ago there were a few if any real estate people on the ground in many of these countries. Now there are people on the ground in every country and that's been for the last couple of years. And so, yes the pipeline is full but it's never any easier, sometimes when you look out at dates in these cities it has planned opening in 2016 if everything goes well, and sometimes a lot sooner. But the fact is, is it's certainly harder than some of the smaller cities in the United States.

Chuck Cerankosky - Northcoast Research

What would you -- how would you rate the prospects for additional new countries in Europe?

Richard Galanti

Well I think we talked about going likely into two countries, one in ’14 and one in ’15, and beyond that we’ll see.

Chuck Cerankosky - Northcoast Research

And finally can you give us what the gasoline sales were in fiscal 2013?

Richard Galanti

I don’t know if I have that in front of me. We’ll go to the next question and I have somebody looking at that one.

Chuck Cerankosky - Northcoast Research

All right. Thanks.

Operator

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

Unidentified Analyst

Hey, guys how you doing? It's actually Matt for Paul. I was wondering if we could talk a little bit about SG&A. I know you kind of ran through healthcare as an issue and some of the other things you’re facing with the technology investment, but with your payroll, your payrolls are getting better as a percentage of cost, how would we think about SG&A kind of for the remainder of the year? Thanks.

Richard Galanti

Well, look we keep trying to bring it down, but we're not going to bring it down. We have our own constraints on certain aspects of that life. We're going to still do top of scale increases for our two thirds of our hourly employees that are top of scale. We're going to not cut back which we could easily do on certain healthcare aspects. So we're going to do the things that we've always done. We're going to do it first and foremost by trying to drive sales. Gas -- by the way gas deflation does hurt you a little bit. When there is inflating gas it's a very low gross margin business but it's an even lower thankfully SG&A -- low SG&A business. So when you've got a big gas inflation that seems to hurt your margin a little bit and help your SG&A conversely the other way. So, given that gas was 8% deflation in September if that continued to the next couple of months I'll be showing you that second column again for margin in SG&A, but that hurts it a little bit when it's deflationary. The thing that's going to help it first and foremost is top line sales growth and secondly is lower -- ultimately lower structural SG&A in several of these other countries so far that we're currently in like Asia, Mexico, frankly Australia.

Unidentified Analyst

Okay, great, thanks. I appreciate it.

Operator

Your next question comes from the line of Budd Bugatch with Raymond James.

Budd Bugatch - Raymond James

Hi, good morning. Thanks for taking my question. Richard just on Asia I think you talked to -- you said there was cannibalization in Asia and I just wonder how you think about cannibalization in Asia going forward given the high productivity in those clubs?

Richard Galanti

We want to get more open faster even if it's a little hurtful -- even if it's a little hurtful to cannibalization. Mind you, you're going from five to six locations in a 20 million population city you might have some cannibalization, but we've been blessed by having some units that are $250 million, the 300 plus million dollars in some cities in Taiwan, in Korea and Japan where we opened the second unit, you'll take $50 million to $75 million of that $300 million away and the only thing that goes into your comp is that negative $50 million or $75 million for that first year, but come second year you've got two units that are going nicely, and so that's part of the business.

Budd Bugatch - Raymond James

And typically in the second year or in the third year you usually start to see that first unit rebuild, is that been your experience so far or?

Richard Galanti

We really see the 53rd week out, I mean once that impact -- that cannibalizing impact anniversaries is when you'll see that rebound.

Budd Bugatch - Raymond James

So almost immediately after you get to that second year. Secondly and just lastly for me, I know in the States we're all thinking about the government shutdown and just interested to how the management thinks about that impact going on your business and if there's anything strategic you're doing because of it?

Richard Galanti

Other than scratching our head in disbelief …

Budd Bugatch - Raymond James

We’re all getting bald doing that.

Richard Galanti

I actually told our senior executives in operations, on the west coast there is really not seen any effect. Around D.C. is the only place where we’ve seen some effect downward a little bit.

Budd Bugatch - Raymond James

Okay. All right. Thank you very much.

Operator

Your next question comes from the line of Joe Feldman with Telsey Advisory Group.

Joe Feldman - Telsey Advisory Group

Yes, hi. Good morning, guys. Wanted to go back to the SG&A again, I had a couple of questions. Just talking to the people this morning about with the 5% comp why not get it -- couldn't you get a little bit more leverage? I know there were some incremental expense, it sounds like some true ups things like that, but should SG&A had a little more leverage or what -- how should we think about it going forward I guess?

Richard Galanti

I think the two biggest things are the fact that, again given our size and given even our $30 billion sales number for the quarter, $3 million which isn't what it used to be when you are doing a $100 billion a year. $3 million of anything is a basis point swing. When you’ve got just a similar example of workers comp where you’re adjusting every quarter as you do it for GAAP accounting, actuarially a $300 million plus tale of previous years of workers’ comp issues. You have got a much bigger number adjusting in healthcare; you have got lots of other expenses.

So I think it’s a combination of several of those lining up in one direction instead of some of them offsetting. There is always going to be a range. Usually you have got half one way and half the other. We will see what else was there. The fact that we’ve 17 versus 16 weeks hurt you a little bit. Again, my guess is at the end of the day, you – we’ve some increased expansion efforts with opening in Spain and IT monetization that's a few basis points. So all of those things add up.

I think at the end of the day what I was trying to convey when we look at all the numbers it's nine over stated kind of the underlying secular trend. But I don’t want to suggest it was zero, it was probably somewhere north of zero and south of five, but I don't know what the number is.

Joe Feldman - Telsey Advisory Group

Got it. That’s helpful. Thanks for that. And then just another question, as far as holiday season goes, any changes to how you’re approaching this year versus last year, opening closing, different times of events, anything like that we should think about?

Richard Galanti

Nothing.

Joe Feldman - Telsey Advisory Group

Okay. And then the one last thing I wanted to ask you guys was just -- I know you give us the monthly trends, so we kind of know where things are at. But I want to ask anyway, any changes in sort of purchasing habits from the core consumer in terms of surprises, when you’ve -- maybe launched the new -- some of those special items that you’ve that things either sold better or worse or than you may have expected and the way people are purchasing. Do you have anything to comment on?

Richard Galanti

I think we -- I continue to be pleasantly surprised and happy that our frequency is where it is with [four in] front of it. Recognizing some of that gas expansion in Canada some of its new markets where we opened new units, but overall no.

Joe Feldman - Telsey Advisory Group

Okay. Thanks guys. Good luck for this quarter.

Richard Galanti

Why don't we take two last questions?

Operator

Your next question comes from the line of (indiscernible) with Citi.

Unidentified Analyst

Hi. Thanks for taking my question. I wanted to ask how you do think small business owners are feeling right now. What's the sentiment that you are perceiving?

Richard Galanti

Well, I'm not in a kind of -- we haven't seen a big change in our small business members in terms of their sales trends. So it's hard to say. I can't really answer that one.

Unidentified Analyst

Okay, thanks a lot.

Operator

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

Scott Mushkin - Wolfe Research

Hey guys, thanks for slipping me in and I know a lot of questions have been asked. So I just wanted to talk about the magnitude of the price investments in Fresh Food next year, I guess, it could vary to some degree on what happened competitively -- from what you can control, do you anticipate a continuation of the trend there?

Richard Galanti

Well, I can't really give you any direction going forward other than -- we're going to be aggressive, it's in our blood. Again, good news is that to the extent that certain commodity prices are coming down. We kept our prices down when commodity -- those underlying raw material costs skyrocketed. Now that they're coming back, its – it hopefully will give us a fair -- a fairer margin in some of those areas where we have really hit ourselves hard, and so hopefully -- under that scenario that's -- they're positive to margin. But we're going to keep doing what we're doing in terms of being aggressive and I do want to say while we certainly aren't cavalier about our competition, we think our toughest competitor is ourselves and we're going to keep driving that.

Scott Mushkin - Wolfe Research

So just to clarify if I heard you right, that you're going to be pretty aggressive, but -- and we've noted this in our research as a chance that the wholesale prices could come down faster than have as a retail. So you actually think it could be a potentially net benefit given that dynamic, is that a good read of what you were saying?

Richard Galanti

Potentially and again I'm using a data sample of one item here to check in. Certainly just few other a lot of those in fresh foods are like that because if you recall a few years ago, we were talking about food court margins got hammered, because the cost of cheese skyrocketed and needless to say we sell a lot of pizza. And so -- but we gave that as an anecdotal example of where we’re going to hold the pricing though, because it’s such a value proposition. And so there are few of those. On general merchandise, subject to competitive challenges out there, it rains on all of us -- all the competition out there and when underlying costs are coming down a little bit, there is -- if there is pressure out there we probably are more of it than others, but a little of it we will retain.

Scott Mushkin - Wolfe Research

Okay. Richard, thank you for taking my questions. I appreciate it.

Richard Galanti

Sure. Okay, before we hang it up here, were Bob and Jeff and I are in a budget meeting -- monthly budget meeting till about one, so we will take calls after that if you have any questions or shoot us an email. Thank you.

Operator

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