Costco Wholesale (NASDAQ:COST) Q3 2012 Earnings Call May 24, 2012 11:00 AM ET

Executives

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

Bob Nelson - Vice President of Financial Planning & Investor Relations

Analysts

John Heinbockel - Guggenheim Securities, LLC, Research Division

Charles X. Grom - Deutsche Bank AG, Research Division

Daniel T. Binder - Jefferies & Company, Inc., Research Division

Nathan Rich

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

Peter S. Benedict - Robert W. Baird & Co. Incorporated, Research Division

Mark R. Miller - William Blair & Company L.L.C., Research Division

Brian W. Nagel - Oppenheimer & Co. Inc., Research Division

Christopher Horvers - JP Morgan Chase & Co, Research Division

Mark Wiltamuth - Morgan Stanley, Research Division

Sean P. Naughton - Piper Jaffray Companies, Research Division

Operator

Good morning. My name is Dawn, and I will be your conference operator today. At this time, I would like to welcome everyone to the third quarter and year-to-date operating results for FY '12 conference call. [Operator Instructions] Thank you. Mr. Richard Galanti, you may begin your conference, sir.

Richard A. Galanti

Thank you, Dawn. Good morning to everybody. This morning's press release reviews our third quarter operating results for the 12 weeks ended this past May 6. 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 uncertainty 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, for the quarter, our earnings per share came in at $0.88, up a little over 20% from last year's third quarter earnings per share of $0.73 and $0.01 greater than the first call consensus of $0.87. As was mentioned in this morning's release, this year's third quarter included a pretax LIFO charge of $6.5 million or about $0.01 a share. Last year's Q3 had a pretax LIFO charge of $49 million pretax or about $0.07 a share.

A few other items of note when reviewing the year-over-year earnings comparison. Again, our sales results: an 8% overall sales increase and a 5% comp sales increase. The FX impact from earnings of our foreign operations year-over-year, assuming FX rates have been flat year-over-year, that was a hit to pretax earnings of about $8 million or also about $0.01 a share. Also, we had a 9% increase in membership fees that I'll talk about. This increase included a small benefit from last November's fee increase in the U.S. and Canada, also about $8 million pretax or about $0.01 a share. Lastly, we had a favorable year-over-year income tax rate comparison similar to what we saw in Q2.

In terms of sales for the quarter, our reported sales were up 8% total and on a comp basis, up 5%. For the quarter, both total sales and comp sales were impacted by gasoline price inflation, which was largely offset by the weakening of foreign currencies on average relative to the U.S. dollar year-over-year. On a comp sales basis, the 5% U.S. comp sales increase in Q3, excluding gas inflation would've been a 4% and the reported 5% international comp figure, assuming flat year-over-year FX rates, would have been a plus 8%. If you take those 2 together, they offset each other, and the reported 5%, excluding both gas inflation and FX, would have remained at a 5% for the total company on a comp basis.

Other topics of interest, our opening activities and plans. After opening 4 new locations in Q1, which ended last November 20, we opened 2 locations in Q2, both in Japan. In the third quarter, we opened a location -- another location in Japan near Osaka, and we also reopened our Tamasakai warehouse in Japan, which had been closed since the tragic events of last March 11 in Japan. We also relocated a unit in Ontario, Canada and opened 2 new units in the third quarter as well in Pharr, Texas and in Huntington Beach, California.

At the end of Q3, our worldwide unit count was 602. All told, that would put our fiscal '12 expected opening schedule at 16 net new units: the 10 we have opened fiscal year-to-date and 6 more planned by fiscal year end here in the fourth quarter. These total 16 would include 10 in the U.S. and 6 in Asia: 1 in Korea, 1 in Taiwan and 4 in Japan. A quarter ago, I had indicated we expected the total number for the year to be 17; 1 has since slipped into early fiscal 2013.Also this morning, I'll review with you our E-commerce results, our membership results and also a little bit of a further discussion on margins and SG&A and repurchase activities.

Again, sales were $21.8 billion, up 8% from last year's $20.2 billion and 5% comp. For the quarter, the 5% reported comp figure was a result of a combination of average transaction increase of 1.7% for the quarter and average frequency increase of 3.6% for the quarter. In terms of sales comparisons by geographic region, in terms of -- in the U.S., the Midwest, Northeast and Southeast regions were the strongest. International and local currencies, Canada and Mexico were the strongest; with Taiwan and Japan being the weakest, mostly due to the small base of existing units in both of those countries and the cannibalization associated with recent openings over the last year, as well as a year ago the very strong post-earthquake business that we experienced in Japan in the third quarter.

In terms of merchandise categories, for the quarter, within Food and Sundries, we had a comp result in the mid single-digit range, a little below where it had been running in the each of the past couple of fiscal quarters. All subcategories are positive, ranging from 1% to 11% each among those 7 or 8 subcategories.

Within Hardlines, which was in the low single digits positive, the strongest subcategories were hardware and automotive, with electronics being slightly negative for the quarter.

Within the high single-digit Softlines' comp, small appliances, domestics and apparel were the strongest performers. In Fresh Foods, all subcategories were all centered around the mid single-digit range and -- as was the entire category.

Food and Sundries and Fresh Foods continue to experience inflation on a year-over-year basis at the low single-digit range, but we are seeing a little bit of inflation abatement, if you will, in the past few weeks; in fact, some price reductions on some food items like milk, cheese, bacon, butter, coffee, olive oil, flour, et cetera. Still, some inflation we see in beef and across many of the nuts categories.

On the nonfood side, not much inflation expected going forward right now, although probably a little bit of reduction on the apparel side. That being said, you never know until we get there.

Moving down to the line item of the income statement. Membership fees, we reported $479 million -- $475 million versus $435 million year a ago, so up 1 basis point or $40 million and then a year-over-year dollar increase, up 9%.

As I indicated at -- near the beginning of the call, the U.S. and Canada fee increases that went into effect last November benefited Q3 results by about $8 million. Excluding this fee increase benefit, if you will, as well as a slight negative impact of about $3 million from the FX that I mentioned earlier in terms of assuming flat FX year-over-year, the 9% dollar increase in new membership fees would've been up 8%.

In terms of membership, we continue to enjoy strong renewal rates, which I'll talk about it a minute, and we continue to enjoy increasing sales penetration from -- and membership penetration from our executive members. Our new member sign-ups in Q3 were quite strong, up 9% on a year-over-year basis, largely due to the strong international openings this past year in Asia and Australia. In terms of number of members at Q3 end, Gold Star we had 26.4 million, up from 25.9 million 12 weeks earlier; Business Primary at 6.4 million, also at 6.4 million a quarter ago; Business Add-on, 3.6 million compared to 3.7 million a quarter ago. That a lot has to do with just people convert to executive member, and they go out of the add-on category and become their own member. All told, we ended the quarter with 36.4 million member households versus 36.0 million at the end of the second quarter. And including spouse cards, total cardholders, 66.5 million, up from 65.7 million 12 weeks earlier. At Q3 end, our Paid Executive members were a little over 12.3 million, an increase of almost 200,000 in the 12-week fiscal quarter, about 16,000 new executive members per week. That's a combination of new sign-ups, as well as conversions.

In terms of renewal rates, they continued strong. The trends in the U.S. and Canada have sequentially been up every quarter for the last several quarters. At Q3 end -- as of Q3 end, our Business renewal rates were at 93.6%, up from 93.5% a quarter ago and up from 93.3% at the end of the fiscal year; Gold Star, 88.6%, up from 88.4% and 88.1% at the quarter end year -- fiscal year-end. So total all told, in the U.S. and Canada, 89.6% versus 89.4% a quarter ago and an 89.1% at the beginning of the fiscal year.

On a worldwide basis, we're up -- we're at an 86.2%, up from an 85.6% a quarter ago and 85.7% at the end of the fiscal year. So all told, trending -- continuing to trend in good directions notwithstanding the fee increases that we began in November in the U.S. and Canada.

As most of you know, we -- the increases. We increased the annual fee for Gold Star in business and Business Add-on. They're all now at $55 in the U.S. and Canada. That was -- and for Executive member, it went from $100 to $110. As I mentioned, those were effective November 1. But in terms of size, it really was effective January 1. It was effective November 1 for new sign-ups in the warehouse. But in terms of the renewers, the renewers, that started in January and will continue through this December. In all, about 22 million members were impacted or will be impacted by this increase, about half of whom are Executive members and half of whom are the $55 member.

In terms of timing of these increases in the income statement, please recall that the fees are accounted for on a deferred basis, so really, the first big impact to the P&L of that membership fee income line will be in the upcoming fourth quarter and into Q1 into the next year. As I previously mentioned on the first and second quarter calls, there was essentially no impact in Q1 to the membership line; about a $1 million pretax impact to Q2 and as I mentioned earlier in this call, about $8 million pretax in Q3. And again, it’ll be much more meaningful in Qs 4 -- in Qs 1 and 2 in the next fiscal year. It's essentially a 23-month timeline, as I’ve talked about before, how we recognize the $5 and $10 increases, starting when they renew – with the receipt -- the increase is paid and then spread out over the next 12 months. With regard to Executive Membership, also in conjunction with the increases I mentioned earlier, we increased the 2% annual reward from a maximum of $500 year to a maximum of $750 a year based on eligible purchases. While it's still pretty early to see the complete impact of renewals

-- renewal rates from the increase, so far, so good. And in our judgment, we don't expect any issue here.

Going down to the gross margin line. Margins were up, on a reported basis, 5 basis points, from a 10.50% to a 10.55%. I'll ask you to, as usual, jot down the following: 4 columns and 5 line items. The line items will be Merchandising Core; Ancillary; third line item would be 2% Reward; fourth line item will be LIFO; and then Total. And the 4 columns, there'll be 2 columns for each of Q2 and Q3; the Reported column for Q2; and then the second column would be Without Gas Inflation. We try to show you that to compare things on an apples-to-apples basis. The same thing for Q3, so columns 3 or 4 would be reported in column 4 without gas inflation.

So going across, core merchandise in Q2 as you recall, we reported core merchandise margin down 25 basis points. Without gas inflation, it was down 16. In Q3, it was down 21 reported and down 14 without gas inflation; ancillary, minus 5 and minus 4 in Q2 and in Q3, plus 7 and plus 8; 2% Reward, minus 2 and minus 3; and the same numbers for Q3, minus 2 and minus 3 again; LIFO, plus 2 and plus 2 in Q2; and in Q3, plus 21 and plus 21.

So all told, in Q2, we reported 30 basis point year-over-year lower margin; without gas inflation, 21 basis points to the negative. In Q3, as I just mentioned, plus 5 reported; and without gas inflation, a plus 12. Mind you, the big change there is still the LIFO effect of going from $49 million last year in Q3 to $7 million this year. As you can see, our core merchandise was down 21 on a reported basis, but the impact of gasoline sales now being almost 12% -- about 12% of our sales, up a little bit from last year. Net income -- increased penetration caused that number. Taking that out, it was 7 -- it was 14 basis points minus.

Within the 4 merchandising categories of Hardlines -- Food and Sundries, Hardlines, Softlines and Fresh Foods, Hardlines was up in margin year-over-year, where the other 3 categories, Food and Sundries, Softlines and Fresh

Foods, down a little bit year-over-year. Ancillary businesses and gross margin, as I mentioned, were up 7 basis points or 8 excluding gas inflation, mostly a function of higher gasoline gross margins and the higher sales penetration as well. Looking at those 2 together, we did it a little better in Q3 versus Q2.

The impact from increasing Executive Membership is minus 2 basis points, implying another percentage point of sales penetration going to those executive members and their eligible purchases. And again, of course, the big delta here, I'm looking at these numbers this way, is the LIFO that I already mentioned.

Moving on to SG&A. Our reported SG&A percentage Q3 over Q2 were lower or better by 2 basis points, coming in at a 9.84% compared to last year's 9.86%. Again, I think the best way to look at this -- explain it is to do the same 4 columns: Reported and then Without Gas Inflation for both Q2 and Q3. The line items would be: Operations; second line item, Central; third line item, Stock Compensation; fourth -- actually just those 3 items and then the Total.

Going across. For operations plus 25, meaning that in Q2 last year our SG&A from operations was lower year-over-year by 25 basis points. Plus means good. And then without gas inflation, the plus 25 was plus 18. In Q3, it was plus 10 and plus 4; central, plus 5 and plus 4 a year -- in Q2 year-over-year. This year, in Q3, versus last year, minus 8 and minus 9; stock compensation, minus 1 and minus 1, and then 0 and 0.

So all told, in Q2, we reported an improvement of plus 29 basis points year-over-year or plus 21 without gas inflation. And this year, as I mentioned, plus 2 and then minus 5 without gas inflation.

So a little editorial here. Just like the gross margin percentage where increased gasoline sales penetration hurt us, it correspondingly helped the core operation's SG&A by about 6 basis points, such that excluding gas inflation, our core SG&A was lower or better by 4 basis points in the quarter.

And this is despite increased health care and workers comp costs which, together, represented a Q3 year-over-year hit to SG&A in the high-single basis points level. In Q2, by the way, health care and workers' comp and benefits had actually helped the year-over-year comparison. Payroll, by the way, within the core business, was up about 7% in dollars compared to the 8.2% sales increase.

Our central expense was worse or higher year-over-year by 8 basis points or 9 basis points, excluding gas inflation. About half of this negative basis point increase is due to higher IT costs related to a combination of things going on, including the modernization of our systems and related activities that we've embarked on of late. This includes, among many other items, the replatforming of our E-commerce site, as well as our move to a new data center in central Washington. Central expenses also impacted a little bit, a couple of basis points, by health care and benefits, as well as 1 basis point on legal fees, which can go either way.

Next on the income statement is preopening expense, $8 million last year in the third quarter and $6 million this year, so $2 million lower. We actually opened 4 units in Q3 this year compared -- including Tamasakai compared to just 1 last year. No issues, simply the timing of these expenses related to the openings before, during and after the 12-week third quarter in question.

In terms of asset impairment closing costs, last year, we had a charge of $1 million. This year we had a similar charge of about $1 million. All told, operating income in Q3 was up by $67 million from $556 million last year to $623 million this year. Below the operating income line, reported interest expense was lower year-over-year, with Q3 coming in at $19 million this year versus $27 million last year, so about $8 million lower year-over-year. This mainly reflects the interest expense on our $2 billion debt offering and the fact that on March 15, we paid -- debt offering back in February of '07. On March 15, this last month --1.5 months ago, we paid off $900 million of debt. The anticipated annual pretax interest savings, given that we're paying off effectively 5.4% debt and foregoing interest income on our cash in the 20 to 50 basis point range, is about $46 million pretax per year, and that's net pretax savings to us.

For Q3, this represented a pretax savings from interest expense for about 7 weeks or about $7 million. For Q4, which, by the way, given this is a 53-week fiscal year and therefore, a 17-week fiscal fourth quarter, we had a pretax positive bump of about $15 million. So again, on an annualized basis, given where current cash interest rates are, it's about $46 million a year pretax savings to us.

In terms of interest income and other, that was $13 million better, $18 million this year versus $5 million a year ago. Actual interest income was higher year-over-year by $1 million. The biggest components of the $13 million year-over-year change was related to FX impacts on our business. As discussed with you in the past couple of quarters, internally, about $4 million of this benefit or this year-over-year positive change related to gains on FX contracts that we look at internally as efforts of our -- part of our merchandising efforts, but on a book basis, GAAP basis, it goes on this line. Also, about $7 million benefit of this change increase related to gains on nonfunctional currencies held in foreign operations, notably the fact that in Costco in Mexico, we held some of our cash in dollars given that we also procure significant goods from our U.S. operation on behalf of that operation. For example, so as the dollar strengthened these past couple of months, Costco Mexico generated a book gain, half of that is ours since we own half of the operation. But all of the $7 million goes on this line -- or is recorded in this income statement line, with the offset going down below in the noncontrolling interest line, near the bottom of our income statement. A little convoluted but that's how you report it.

In terms of income taxes, our company tax rate for the quarter came in at 34.8% versus 36.1% last year. Our lower effective tax rate is due both to a few discrete Q3 items year-over-year, some of which reduced our Q3 taxes versus last year and as well to a lower income tax rate in several of the foreign countries where we operate. For example, the statutory federal rate in Canada has come down in the last year by nearly 2 percentage points, and we've seen similar type of things in a couple of other countries. So not unlike Q2 where we saw the tax rate come down a little bit year-over-year, we've seen this as well. And to the extent that it's related to the changes in the tax rates in these countries, that's, at least for now, a little more permanent. Discrete can go either way.

Balance sheet. You'll -- was part of the press release, so I won't go into that detail other than the fact that the -- a couple of metrics that we always talk about and the accounts payable as a percent of inventories, how much of our inventories are being financed with trade payables. What's reported on the balance sheet is all types of payables, not just merchandising but construction payables and things like that. So on the balance sheet, last year, it showed the payables as a percent of inventories as 106%; and this year, 104%, so down a couple of percentage points. If you just look at merchandise payables and inventories, it was 91% last year versus 92% this year, so a little bit of a positive bump there in terms of trade payable financing.

Average inventory per warehouse last year in the quarter was $11.0 million; this year, $11.7 million, so up $700,000 on average per warehouse. This compares to higher year-over-year per warehouse inventory levels at the end of the second quarter of $1.1 million and at $1 million at the end of Q1, so a little bit reduced from those higher levels. The $700,000 increase per warehouse in Q3 is really spread among many merchandise categories, obviously includes also the impact of inflation year-over-year. Our inventories, we believe -- we feel, are in a very good shape.

CapEx. In Q3, we spent $278 million last year; almost the same this year, $268 million and year-to-date right at $900 million. Given the expansion we've got going on in Q3 -- in Q4 rather, as well as some ramped up expansion in the first 3 or 4 months of fiscal '13, starting in September, we'd expect CapEx during -- for the fiscal year '12 to be right in the $1.4 billion range.

In terms of costco.com. currently, that's -- or Costco Online, that's a combination of costco.com in the U.S. and costco.ca in Canada. Year-to-date sales and profits are up over last year. Our average ticket continues to be a little down, given the nature of the types of products that we sell. But our site traffic continues to grow and was up year-to-date versus last year and for the quarter. Lastly, we are -- as I mentioned, before, we're replatforming our dotcom site, which should be completed and then in operation by the end of the summer. Also, as I mentioned, I think briefly, last summer I was asked about, we are in the process of getting ready to launch our first 2 applications for mobile, both an Apple and an Android. Those are expected to be published and available within the next few weeks.

Let's see, next topic, expansion. Again, for the year, we expect to open a total of 17 units, 1 of which is a relo, so a net of 16 new units. On the basis that we've started with 592, that's a little under 3% unit growth and about 3% square footage growth. As of Q3 end, our total square footage stood at 85,885,000 square feet. As I mentioned earlier, in terms of our plans for CapEx for the year, that includes also a little bit of a ramp-up in the first part of next year. There's plenty in the pipeline next year. We currently have 13 openings planned for the September to December period versus 6 that were actually opened in the comparable 4-month period -- calendar 4-month period in calendar '11. There's always a possibility that a couple of those may slip, but those are all ongoing projects that are in different stages of site work or real estate planning or construction.

In terms of common stock repurchases, in Q1, we purchased $173 million worth of stock; Q2, $145 million; in Q3, $130 million. So -- and that would put us inception to date since the middle of '05 at 113 million shares at an average price of $57.12 a share or almost $6.5 billion we've spent on stock repurchases. Lastly, our scheduled fourth quarter earnings release, believe it or not, will be on Thursday, October 11. Again, that's for the 17-week and 53-week quarter in the year ended -- ending this coming September 2. With that, I'll open it up to questions with Dawn. And I'm going to put you on the speakerphone here, Dawn.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of John Heinbockel with Guggenheim Securities.

John Heinbockel - Guggenheim Securities, LLC, Research Division

Richard, couple of things. On the cost side, the incremental IT expense, I assume that has a finite timetable, and I'm not sure what that is, but what might that be? Or is there some ongoing piece of that, that'll be elevated?

Richard A. Galanti

I think you'll continue to see that. First of all, you'll certainly continue to see that over the next year in terms of we have a lot of things going on that have all started in the last year, in the last several months as well. And I don't -- it's hard to say exactly. We're in the process of putting our budget together for '13 in detail. But certainly, it's not going to go from up a few this quarter to nothing next quarter. It'll certainly be for the next few quarters. Whether it increases beyond there, we'll have to see.

John Heinbockel - Guggenheim Securities, LLC, Research Division

All right. Then on...

Richard A. Galanti

We've got a lot -- most of those activities are now in place and ongoing.

John Heinbockel - Guggenheim Securities, LLC, Research Division

Okay. On the health care, is that a -- something strange in there in terms of something that hit or a change in trend because the trend had been going very much in the right direction? Or is it something temporary, and they're changing that trajectory?

Richard A. Galanti

Yes, it's a little of both. It's a little bit of a change in trend. Pricing is the biggest issue -- mind you, in U.S. -- our U.S. operations are roughly 70 -- low 70% of our company in terms of sales and what have you. U.S. health care costs and other related health, medical, dental, vision are higher per employee than any other country. Overall, we have -- hold on one second; I’m just looking at the numbers here. So a, as I mentioned, the trend’s higher. The other thing is, is that this is -- it's just the U.S. health and benefit costs approaching $1 billion. And on this number, at the end of every quarter, you also actuarially look at what's called IBNR, incurred but not reported. In other words, you know based on actuarial history that even though if you -- as of that Sunday night of the quarter end close, for example, you have employees and their dependents, spouses and children, who have gone to the doctor or had a procedure done or a service done, performed, but it hasn't been reported yet to us or the claim hasn't come in. So I call that the big black box because it's an actuarial number. That actually benefited Qs 1 and 2 by a few million dollars and hurt Q3 by $4 million or $5 million. So again, getting a little more detailed, but that alone was a few basis points swing year-over-year. So I think it's a little of both, that claims have gone up. You have a combination of there is inflation in the mid to high single-digit range. You don't have a lot -- you don't have any kind of abnormal increase in participants. The fact that we have, in the last few years, opened fewer warehouses in the U.S. you don't have as many freebies, what I'll call, new employees that are starting. It's a tough economy; not a lot employees have left, and we're out opening a lot of new units. You don’t have a lot of new employees that in the first 3 to 6 months -- they're not eligible for those first 3 to 6 months based on their hiring status. So it's a combination of all those things, but again, a lot of little things just went negative instead of positive in the quarter. I wouldn't read as much into it beyond that.

John Heinbockel - Guggenheim Securities, LLC, Research Division

All right. And then finally, when you talk – when you think about disinflation or deflation, what's your sense of volume sensitivity to those changes in price, i.e. take dairy and produce as 2 obvious ones? As the pricing comes down, and I know it's going to vary by category -- big category and then subcategory, but maybe think about some of the bigger ones, what that does to volume purchases. How much more milk are people going to buy or certain produce items or apparel, for example?

Richard A. Galanti

Well, I think different categories are different. I don't know how much more milk people will drink. I think that on apparel and if you want apparel, it's -- and I'm shooting from the hip over here a little bit. If you want apparel, if we can -- if it's enough of a change to get the KS shirt down $1, that's real because you -- people notice that difference. Where it impacts us a little bit is on some things where we have always been known, as you guys know, to hold the price. And I've mentioned on several of the quarters over the last couple of years, when we had huge inflation in cheese, as an example, that impacted the profitability in our food court because we held the price on pizza. Well, good news, it's coming down. So that means we're still holding the price, but we're getting back to perhaps a better margin. And I'm giving you a single data point item but nonetheless, a high-volume item. So those types of things on some of those food commodity items help us in different ways other than driving traffic.

John Heinbockel - Guggenheim Securities, LLC, Research Division

So all-in, less inflation, do you think that's neutral to gross profit dollars? I mean, I know there’s tons of different moving parts. But neutral to gross profit dollars, is that fair versus higher inflation?

Richard A. Galanti

Well, given that with higher inflation we tend to lag a little because of our nature. I guess, given a little less, that's good for us. But I'd be hesitant to know which way directly it's going to go if you add up all the pieces. Again, I guess it can't hurt and it might help.

Operator

Your next question comes from the line of Charles Grom with Deutsche Bank.

Charles X. Grom - Deutsche Bank AG, Research Division

It's been a good 2 to 3 years now that your traffic's been really strong, up over 4% in most months. And just wondering when you look ahead, how critical a metric is that for you guys internally when you guys look to balance your price investments over the next couple of years?

Richard A. Galanti

Well, I mean, we -- it's hard to answer because we don't -- we kind of give you the aw-shucks answer here. We're just going to invest in price, but it's not something that we look to do forever. We have always felt that you're not -- we're not going to sustain 4% to 5% frequency increases. It's still fluctuating week-to-week, up and down a little bit. I mean, up, but how much up? And we're still feeling pretty good about the fact of where it is. I don't necessarily believe that those 2 things are linked. I would say that one of the things that, in my view, has happened as we've enjoyed 5-or-so percent, 4% to 5% frequency increases now compounding for 3 years running, in my view and taking gasoline out of it, that people -- that just the sure fact that they're coming a little more frequently in our view is, is Fresh Foods. And if they're doing that, there is still a limit to how many TVs they're going to buy, and that extra shop doesn't get the same percentage of extra nonfood discretionary items. So to the extent it comes down a little bit, you have a little bit of offset by the ticket. It may hopefully go on up a little bit. I'm talking of theory here. Who knows? But we feel pretty good about where we are and where we're continuing.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay. And just a follow-up on the gross profit margin question. With food costs beginning to fall and then holding retail, I mean, how much do you think that helped out you guys here in the second – sorry, in the third quarter?

Richard A. Galanti

I don't know exactly, honestly. I still feel very strongly that the margins are the levers that we just -- we choose to control rather than what's going on third party in most instances.

Charles X. Grom - Deutsche Bank AG, Research Division

Okay. And then just my final question is just on store growth. When you take a multiyear view, the pace of openings has really begun to slow the past few years in the 15 to 20 per-year range. And it's clearly not a capital constraint given your balance sheet. I'm just wondering why you guys don't think you can open up more stores. Is it do you need to invest more in your real estate team? Is there site issues? And if you could just flush that out for us.

Richard A. Galanti

Well, one reason I went as far out to tell you, mention on the call, what we have planned for the fall is to tell you that next year is starting off stronger in terms of number of openings. And part of that is an investment in additional real estate. We had more people landed in different countries. And one of the comments, I've mentioned, I believe, on these calls, as well as when people have come out or called us, that Craig has indicated -- Craig Jelinek, has indicated a desire to ramp that up a little bit but do it within the controls that we have. So I think that part of it is, is the switch from international to domestic, having a higher percentage international. There's been a longer window to get those open. The pipeline has more in it, and we'll continue. But I think you'll -- this sounds like a broken record, but I can't go beyond talking about the first 4 months of -- or the last 4 months of calendar '12 because it gets a little less exact. But certainly and hopefully that's an indication that we'll see some improvement -- or increase in that number.

Operator

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

Daniel T. Binder - Jefferies & Company, Inc., Research Division

I had a couple of questions. First, on the gas business, the last couple months, you've had fairly high gas prices, but the comp gallons pumped, which we sort of think of as a proxy for traffic at the pumps, seems to have flattened out a little bit. I'm just kind of curious what your thoughts are on that. And then the second question was related to membership. I think you said your member growth was being, in part, largely driven by international. I was wondering if you could just give us what the U.S. comp member growth looked like.

Richard A. Galanti

Well, on the latter question, I don't have that detail in front of me. Clearly, it's a lot less. I mean, generally speaking, when we haven't opened -- over the last couple years, when we have not opened a lot of international locations, the number might be a couple of percentage points to the minus or 5 percentage points to the positive, depending on openings. Generally speaking, the fact that our renewal rates improved a little and we're still seeing net increases in our total membership base, you're still getting -- we're still maintaining that. But the big difference is, is when we open -- we opened Huntington Beach, California, and I don't have the specifics, just a week or 2 ago. And needless to say, we've got a lot of units in the greater L.A. market, so a lot of those members are existing members. We're not getting as many new sign-ups, and I don't have the exact number of how many sign-ups we had as of opening day. But it could be 3,000; it could be 8,000. But it's not 30,000 and 40,000 or 50,000, like we've had in the last --

in some of these international openings. When I say, as of opening day, it's the sign-ups that we have during these 6 or 8 or 10 weeks prior to opening when we've got the folding tables and the flags and the balloons out front so people can come by and sign up in advance. I mean, the numbers are just chart-popping in some of these Asian and Australian countries. In terms of gallons comp, our trends -- we again for -- gosh, 6, 8 months ago, we were enjoying some months where the gallons comps were in the 10% range, 8% to 10% range. I believe, of late, it's been in the 3% range, 4% range and again, it's how much -- for how long can we sustain that. The fact that gas prices have actually come down a little bit in most of the country, that swing does make some changes to that number. I think that again, I don't think we can sustain tens. I think I feel confident we can continue to sustain numbers better than the U.S. economy -- or the U.S. gasoline sales overall, which we've done handily, and we'll go from there.

Daniel T. Binder - Jefferies & Company, Inc., Research Division

Great. And then do you have a number on dotcom sales growth for the quarter?

Richard A. Galanti

I don't. We don't give out as much detail on some of the components that we used to.

Operator

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

Nathan Rich

Richard, this is actually Nathan Rich filling in for Deb today. If I could start, I wanted to get your thoughts on the macro environment and how you feel about the discretionary side of your business right now.

Richard A. Galanti

Well, you look at -- first of all, in terms of our discretionary business, as I think I mentioned, Softlines is up in high single digits. Hardlines is -- x electronics, is in the low single digits; with electronics is lower because majors is down a little bit. And again, this is one person's view with reading the same things, I mean, as you read. Our view is, is notwithstanding our relative sales strength and member sign-ups and renewal rates and all that stuff, we still think it's pretty fragile out there. We are gratified that we can get people in more frequently than we ever have. We believe fervently that, that's related not only to the extreme value proposition but to fresh foods and gas, and so those are things that have driven more people in more frequently. And if we got you walking by the TV or the batteries or the patio set or whatever it might be, there's a chance you might buy it. So we get a little jaded given our relative success out there, but we're not seeing any big risk of a big shoe dropping here, but we're also not seeing anything that's driving it in a big way that's sustainable right now. You look at the housing starts and you look at -- these things are improving slightly, but it's got a long way to go. So we are -- the good news for us, I think, is that notwithstanding -- and this is not a change from our position, we've felt this way for a few years now, that there's nothing that -- there's not a big engine underneath a lot of this. But it is, to our -- to the credit of the activities that with monetary policy and good fortune that we have in the U.S. that things are actually growing a little bit. That's a positive. But it's not like we're not concerned about what's going to happen tomorrow in the economy. That being said, given that we have extreme value proposition that we're in and out of seasons early, we are still -- throughout this last 3 years and continuing, we are aggressive on discretionary items, whether it's patio furniture, which we did well with; apparel, which we are doing well with; patio, we did well with the seasons behind us pretty much. But we can -- in our view, we can afford to be more aggressive even given those concerns in terms of merchandising.

Nathan Rich

Great. And then I also wanted to ask if you think that you've gotten a benefit in your pharmacies from Walgreens being out of the Express Scripts network and if that's driving traffic to the rest of the club as well.

Richard A. Galanti

A little bit, but I wouldn't say that's something that anybody's talked big around here in our budget meetings. I'd have to look at it in more detail. But I can tell you nobody's mentioned that as being a big reason why we're getting more frequency. I mean, what I hear and what we see is when you've got Fresh Foods being whatever, 12%, 13%, 14% of sales and growing nicely. When you've got gas driving more people into the parking lot and the percentage of those, that's a much bigger impact than some modest improvement in the pharmacy scripts.

Operator

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

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Richard, if we could just look at -- when we look at traffic and ticket, we've seen the ticket has been inching down sequentially the last few quarters. I'm just wondering is that a function of inflation abating and how we should think about ticket if we see continued abatement across the inflationary line. Would you expect that offset in volume?

Richard A. Galanti

Well, clearly, some of it's inflation abating; some of it's increased penetration of private label. I think that probably continues a little bit. But again, I use the silly example of cheese coming down. That doesn't affect the price of our pizza because we were, no pun intended, eating that increased cost and having a -- incurring a lower margin. And I think the same thing could be said for some of the raw material products in bakery.

So it's not all -- it's a combination of some things that help you a little bit and some things that hurt you a little bit on that. And I guess the last thing is we're always trying to upscale the item and upsize the item.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Right, okay. So a follow-on to that, as others are also seeing some of those costs coming down, what are you seeing competitively? Obviously, we just saw the quarter that Wal-Mart put out there; they seem very committed to the price investments. It finally seems to be working. What are you seeing competitively? As other's cheese prices are coming down, are they starting to come closer to you?

Richard A. Galanti

First of all, just following up on the last question and my response, the other thing that's impacted that number, at least not year-over-year but from the last quarter or 2, gas prices have come down. And that's in that average ticket, and also FX has impacted it a little bit. So year-over-year on the FX. And getting to the other question, again, I don't want to sound cavalier about it, but our view is, is we're always fiercely competitive. We haven't seen on a cross retail, every type of competitor basis, any big changes of how we have to react. We are always reacting strongly. Certainly, there's always going to be items where, whether it's Wal-Mart or a supermarket chain or Home Depot, for that -- and Lowe's for that matter, where we're going to respond and get down, but -- come down in price. But there's other things that are going the other way. Our -- one of the things that helps us a little bit is specialty items, whether it's high-end nuts or organic items. As we take some of our penetration in anything from ground beef to fresh turkeys to organic milk, our higher-end member, we can a, show a better savings on those items, and there's a little bit more margin protection on those items. So all those -- again, there's 100 different things that are affecting it up and down. I'm not terribly concerned about what you -- the question you asked about how that's going to impact us.

Adrianne Shapira - Goldman Sachs Group Inc., Research Division

Okay. And then lastly, just on the 53rd week, any help you could provide us on line items in terms of how the week impacts gross margin or SG&A.

Richard A. Galanti

It really doesn't impact it a lot. Most all things are spread over the extra week. So you have an extra 2% of weeks, if you will, 1 over 52, but it's not like you get a free week of rent. All that stuff -- there's a small amount of depreciation benefit, not enough to move the needle a lot, but the big things, like vacation -- payroll, vacation, health benefits, rental, though we don't have rent on all the 20% of our unit that we lease, utilities, all of those things are -- you have an extra week of those costs in that 53rd week. So if 1 over 52 is the incremental weeks, a shade better than that is what you'll see from that week.

Operator

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

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

I just wanted to follow up first on the competitive question a little bit. I think first quarter we've seen that Sam's, on an x gas basis, had a little better comp than you did on an x gas basis. So just kind of curious what you think they're doing right or is it just a matter of easier compares. And have you seen any change out of BJ's since they've exited the public realm?

Richard A. Galanti

Well, I think that they're doing a better job than they were before is what I hear from our operators, to their credit. I think they had a little easier comparison, but I'm not going to take that away from them. On BJ's side, we -- the only thing we've seen is they're still aggressive on openings. They tend to -- in my view, from, again, the last few months of budget meetings, there's not a lot of discussion in our budget meetings about pricing necessarily, but more about their opening new units, and they're intending to open these -- I forget if they're 75,000 or 85,000 square-foot units. So they're continuing to grow. Hold on one second.

Bob Nelson

[indiscernible]

Richard A. Galanti

When we do -- Bob has made a point -- good point. When we do our weekly competitive shops and we see those at our budget meeting by region every 4 weeks here, in terms of the delta of competitive like items, commodities, Bounty paper towels, Tide detergent, soda pop, Advil, you name it, from our own pricing versus our competition, we're not seeing any big change in those deltas.

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

Okay, that's really helpful. And then actually, a nice lead into my second question, which is if you look at the underlying merchandise margin, maybe that 3 quarters now, there's some moderate compression on the underlying merch margin. Next quarter, you begin to anniversary a much, much more moderate expansion. And then in the November quarter, you actually start hitting anniversary on compression. So how are you thinking about kind of price investment given that you're not seeing any deltas combined with traffic that has slowed down a little bit?

Richard A. Galanti

Well, I mean, it's that -- I guess I don't want to be too assertive or aggressive here. When we anniversary that -- the next quarter, you're right, will be the fourth quarter of this anniversary-ing of year-over-year lower core merchandise margins. There's no desire here to drive that in one direction. I mean, we have always -- even during these last few quarters, we've stated that we feel good about our ability to generate margin when we need to and still be very competitive. So again, I can't predict what's going to happen in Q1, but certainly, your comment is a good one.

Colin McGranahan - Sanford C. Bernstein & Co., LLC., Research Division

Okay. Final question. We obviously get this on a lag basis, but segment margins, you've had now a couple of quarters in a row where the other international segment margins are down. Obviously, it's a quarter ago. But what's driving that?

Richard A. Galanti

Well, I think 2 things, the price investment that we've talked about. And also, in a couple of those countries, the cannibalization, that's impacted as well a little bit.

Operator

Your next question comes from the line of Peter Benedict with Robert Baird.

Peter S. Benedict - Robert W. Baird & Co. Incorporated, Research Division

Richard, a couple questions. First, just on May, it looks like from your reported sales numbers, it may be that perhaps the month got off to a softer start. Just curious as to how you've seen this month flow so far, that's my first question.

Richard A. Galanti

Well, we can't -- I can't talk about May until we report May.

Peter S. Benedict - Robert W. Baird & Co. Incorporated, Research Division

Okay. And then, shifting over to the accounting for the extra week, how does that impact the MFI? Will you get an extra week of MFI? Or is the accounting different on that?

Richard A. Galanti

\

Yes, you'll get an extra week of -- it's daily. So that extra week, you'll get an extra week of membership fees.

Peter S. Benedict - Robert W. Baird & Co. Incorporated, Research Division

Okay. And then just lastly with Craig now in the CEO spot here for 5 months, just speak to maybe are there any strategic differences that you're hearing, seeing from him versus Jim, whether it be on day-to-day stuff or even capital allocation, when you've got 13% of the market cap, I think in net cash right now. Just trying to understand some nuances there with him in charge right now.

Richard A. Galanti

Sure. Well, I think, Craig is the best one to ask that question. He, by the way, is in Australia today just looking at new sites with Jim and with Jim Murphy, our Head of International. And the -- Craig said it best. He says his goal is a, not to screw things up. And also, he certainly appreciates the culture of what we do. The things that he's mentioned and that I've noticed as well is a desire to get a few more openings done more quickly. Clearly, his background of 30-plus years in operations, I think, I talked about the fact that certainly, he's focused on some efficiencies in the warehouse. The fact that -- the 8-or-so years, he spent in merchandising, but then handing that baton back to Doug Schutt, who's now in charge of all merchandising. And as Doug's -- most of his career was spent in merchandising. So I think those are positive things for us. Again, I don't expect to see big changes. I expect to -- again, growth being one of them. I think he's giving Doug and

Jay Reighland [ph] under Doug, a little bit more leeway to see what they can do with dotcom. Although don't expect giant changes. I mean, the more significant changes to start with are replatforming and adding a couple of apps. But the focus is going to be on hot merchandise at great prices and making sure we're communicating that to our members.

Peter S. Benedict - Robert W. Baird & Co. Incorporated, Research Division

And anything on the capital allocation front, Richard.

Richard A. Galanti

Well, the biggest thing on the capital allocation front is going to be hopefully a ramp-up in expansion. And beyond that, we just announced another higher than earnings growth increase, if you will, and looking at history of dividend. And we continue to buy stock back. But the core issue of having a lot of cash, as you just said, isn't going to go away overnight nor do we feel compelled to do it for the wrong reasons. But clearly, we do feel compelled to ramp up expansion and certainly we're doing that.

Operator

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

Mark R. Miller - William Blair & Company L.L.C., Research Division

A clarification on the renewal rates. I think you said that sequentially in the U.S. and Canada, you went up by 20 basis points. And then worldwide, you went up by 60 basis points. Did I take that down correctly? And I guess, if that is…

Richard A. Galanti

That's true -- I think it was 50, 85.7% versus 86.2%, and it's worldwide. So that would imply a bigger increase in the 20% of our company or 18% of our company that's non-U.S. and Canada. Mind you that -- I mean if you go back to the beginning of time in the U.S., if we signed up 100 members in year 1, about 70 renewed in year 2, renewed that first time. And in year 2, you also had another 100 sign-ups. In year 3, the 70 -- that new 100 was 70 in year 3, their first year of renewing. But the 70 from year 2 in their second year of renewing was a higher percentage than 70, let's call it, high 70s maybe. And then of course, over time, when you’ve got a lot of mature members and mature locations, we're up to that 89 number in the U.S. and -- 89-plus number in the U.S. and Canada. Given that we've -- and when you're signing up so many more people in a new market, you also have an even lower than 60 -- 70% rate. I think it's close to the 60% in that first year overseas. But then we're still getting more. I mean, in Asia, I think the average number of members per location is almost double the company average. So we're still adding a lot of people over there, albeit at a -- not only a lower renewal rate. So that's why you see -- that number jumping implies that yes, you're having a bigger improvement overseas, but you started at a lower base overseas, a lower renewal rate.

Mark R. Miller - William Blair & Company L.L.C., Research Division

Right, okay. I mean, just on the same maturity level then, would you be tracking similar to the U.S. and Canada to adjust for that mixed effect?

Richard A. Galanti

Well, I'd say no because you're starting lower overseas. If we open a new unit here in the United States, it's not that new. I mean, certainly people know us even in a new state, which there aren't a lot of those anyway. Whereas over there, it's been a little bit of a positive frenzy, and so you're going to get a lot more people coming in to look see; and by definition, more of them not renewing in that first year. But relative to what we've seen over the last several years in those countries, I would say that new units are starting off -- units that are 2 and 3 years old are trending better than the units that we opened 8 or 9 years ago that were in their first, second or third year.

Mark R. Miller - William Blair & Company L.L.C., Research Division

Okay. Most of my other questions have been answered, but one back on the gross margin. As you have a moderation in input costs, should we think of that possibly flowing through to a little bit better margin? And then can you just highlight what extent markdowns played a role in this quarter, if it was significant?

Richard A. Galanti

Markdowns weren't an issue at all relative -- on a year-over-year basis. And the first question I can't answer, just, I'd get shot.

Mark R. Miller - William Blair & Company L.L.C., Research Division

Well, maybe in this period as you saw a moderation going through the quarter, did that help you as you progressed through the quarter?

Richard A. Galanti

Well, I'm sorry, repeat the first part of the question

Mark R. Miller - William Blair & Company L.L.C., Research Division

Some of the food costs are beginning to moderate. Take whole foods, they saw an increase in their gross margin partly from that. I guess, I would think that would start to help you on the food side. So I guess I'm curious if that's happening. And if it's not, why not?

Richard A. Galanti

Yes, well, again, I think we were always the first to go down and we're not -- frankly, we're not really -- I don't think we even price shop whole foods. So I don't think that's been an impact to us. I think, again, where we're getting some margin improvement on lower commodity costs are those items where we held the price. And as I mentioned, in previous quarters, it's hurt us a little bit. The fact that we tend to lag when there's inflation, the fact that there's less inflation is an improvement on that. Again, I think those are – that's generally been a little better for us than not. But we're still investing in price, and again, it's not completely scientific. We do what we think we need to do, and we think we're driving our business in the right direction. And we're stronger today than we've ever been.

Operator

Your next question comes from the line of Brian Nagel with Oppenheimer.

Brian W. Nagel - Oppenheimer & Co. Inc., Research Division

Most of my questions have been asked, but I did want to just touch on the consumer electronics category. If you look at your stores, you, like others, have started, I think, really pushing into the bigger screen TVs. So I guess first question is, is that true? And with that, what type of consumer response are you seeing in these bigger TVs? And Richard, maybe just a comment on -- any thoughts on what we're seeing out of the manufacturers in the TV categories that are attempting to put a process in place to maybe keep pricing more firm.

Richard A. Galanti

Our TV sales actually improved throughout the quarter. We are driving bigger TVs; you're right there. So the average price point of our TVs, I'm looking just at the last 4 weeks of the quarter. I've got some -- a little detail. The sales -- the average selling price per TV was about the same year-over-year, which is even though, there's the inflation so it's all about driving the customer towards a little bit higher screens. I mean, we're doing 60s, 70s and even 80s now out there, as well as the smaller ones. And the second question; I'm sorry.

Brian W. Nagel - Oppenheimer & Co. Inc., Research Division

With the -- just on the manufacturer efforts out there now. They're trying to limit promotional activity in their TV sets. Have you guys seen any impact of that or what are your thoughts going forward?

Richard A. Galanti

I haven't yet, and what I know is what you know based on what I think I even read yesterday talking about that. We haven't seen the big promotional stuff like $300 or $400 off on a TV in our MVMs for a few years, and that went to nothing for a while and then to something. And I'd say it's still something, but not as good as it was a few years ago and not as bad as 0. So not a big change yet. And part of that, I think, is that we've gone -- we've tried to drive the TV in towards the bigger sizes where there is perhaps a little better.

Brian W. Nagel - Oppenheimer & Co. Inc., Research Division

Yes. And then if I could, just a separate question, more of a, I guess, a longer-term type of question. We've talked for a while about the traffic-driving benefits of the Fresh Food category. I guess as you look at the Costco enterprise now, how much more is there still to come from the benefit of fresh foods? I mean, as far as maybe expanding the categories, putting into more centers, for how much longer will this be an incremental driver of traffic, you think?

Richard A. Galanti

I mean, that's a hard question to answer. I can tell you that, again, when we attend the monthly budget meetings and the merchants get up and talk, they still are coming up with new stuff. I mean, I look at something like bakery, which, a few years back, after years and years of great growth, was kind of slowing. Well, guess what, Sue McConnaha, our VP of bakery operations and longtime employee of Costco, and her staff, they came up with a lot of new items, and what we're doing now in that area is there's a lot of in and out items during the year, whether it's the red velvet cake or the cupcakes, not just having the same old great giant chocolate cake and apple pie. And it's specialty breads, artisan bread. So I think we've -- we do what -- we do well what we do in terms of being merchants and mixing it up a little bit. So I think there's still -- I still get -- I still feel pretty confident when I hear the presentations from the various merchandising categories, particularly on the Fresh Foods side, that we've got a lot of good things going on, whether it's specialty items, high-end commodity items from around the world, organic items, things that separate us from our competition and continue to drive our business in the right direction. The challenge is always going to be on the nonfood side. And I think, we've -- again, I look at things like apparel where we've driven more business, you see more presentation out there. So we've got good comps in that. We're always trying to drive the nonfood side because we know we got you in to get the chicken and the paper towels. And how can we get you to buy some more of those things? And so it’s that ongoing focus for treasure hunt and that ongoing focus for those specialty items. And so I feel, again, it's a qualitative answer, but we feel pretty good that there's – we’ve still got a lot of runway but that's partly because Craig is -- and Doug are pushing that with the buyers.

Operator

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

Christopher Horvers - JP Morgan Chase & Co, Research Division

Question, most retailers saw some sort of lift from the weather in February and March and then some sort of moderation in April. It doesn't seem to be the case for you. So perhaps you can share your thoughts on whether there was any pull-forward. And if not, why don't you think that happened?

Bob Nelson

[indiscernible]

Richard A. Galanti

We -- Bob is helping me here with this answer. We don't -- it did happen, but we haven't really quantified it. It's probably not as big of an impact. Certainly, we're in 42 states so we’re across the country. Certainly -- I mean, what always surprises me that it could be raining and we're bringing out patio furniture at the end of December, the 26th and all through January and it's selling like heck because -- it's selling well because people – it’s a great deal and people know if they don't buy it, they may not get it. So I think we're a little bit of an unusual animal as it relates to some of the weather impacts. Even seasonal apparel, we're bringing it in a month or 2 earlier than typically a traditional retailer on those areas would be. So we don't see as much -- in my view, we don't see as much of an impact of weather even in a geographically discreet area.

Christopher Horvers - JP Morgan Chase & Co, Research Division

But you're saying there was a small one -- there was a small impact.

Richard A. Galanti

Yes, there was a small impact.

Christopher Horvers - JP Morgan Chase & Co, Research Division

And then as you think about last year, I think gas prices peaked in May last year and started out flat to start of the year and maybe up 35% year-over-year in May. I mean, in retrospect, do you think is there a number you could put out there and say, you know what, in these months, traffic maybe got 100 basis point lift because of the gas, but that seemed to be in the rearview mirror now?

Richard A. Galanti

Well, we know -- it's hard to say. We know that when gas spikes, it helps our frequency. And when gas subsides, it hurts -- or doesn't help it anymore, the frequency. We know that every person that comes in the gas station, about 30% of them do come into shop that same day. Whether they came to shop or to do gas, who knows? But it's got to be a positive. And again, I can't tell you more than that.

Christopher Horvers - JP Morgan Chase & Co, Research Division

Fair enough. And then finally, West Coast. It's not been in the best category for some time. Can you talk about if weather actually had any negative impact there? Or is there something that you're seeing with the consumer maybe feeling better going out to eat more, so frequency going down, something like that?

Richard A. Galanti

I'd be hard pressed to know the exact reasons. I know one of the things was, is that California, as an example, was particularly strong top-wise if I go back when it was a stand-out for the first time. So it's coming off of some of very strong comparisons from a year earlier. I can't tell you that's the only reason, but certainly that was one of the reasons. Why don't we take 2 more calls?

Operator

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

Mark Wiltamuth - Morgan Stanley, Research Division

Could you give us the number of Asian stores that are in your pipeline over the next 2 to 3 years? And when do you think you'll really start ticking up in the mix of international, in the store openings as you look out the 5-year period?

Richard A. Galanti

Well, I think if you look at this year, 16 of 10 in the U.S. and 6 elsewhere, I would've guessed it was 50-50. I don't have the original budget in front of me. Part of that is, is they do take longer and when they run into a little snag, it's more than a month, a little snag. But again, going forward, I would say the trend will go from 6 out of 16 this year, whatever percentage that is...

Unknown Executive

6 out of 16.

Richard A. Galanti

37%. I think it'll be 50-50 or close to that next year and a little – or close to that and then higher than that in the year following. But -- and that's based on what's in the pipeline now and the fact that, certainly, these countries are less saturated than the U.S.

Mark Wiltamuth - Morgan Stanley, Research Division

And how about the number of them that are going to be Asian stores in the next few years?

Richard A. Galanti

Well, our activity in those 3 countries started sooner, and so there's more in the pipeline, so sure. But again, I can't predict exactly how quickly, but yes. And as I mentioned, the guys are over in Australia for the last 2 days looking at a bunch of sites, so I'd throw that in the pipeline recognizing there's only 3 in there right now.

Mark Wiltamuth - Morgan Stanley, Research Division

Okay. So you've got 3 Asian stores in the pipeline right now in total?

Richard A. Galanti

No, no, no. There's 3 Australian locations already open, and I'm sure that'll be ramped up given that we're looking at a lot of sites. The same thing with Asia. There's -- I was just trying to get to that page, hold on. We ended this fiscal year with, hold on, 30 locations between the 3 countries. And my guess is we'll have gone in those 3 countries from opening 2 or 3 a year, in the total, a couple of years ago to having opened 8 this fiscal year, if all goes as planned. And I would say, easily more than 8 over the next couple years. So the trend is in the right direction in that regard. But again, they take a little longer too. But we've -- as I mentioned earlier, we have ramped up our expansion, our real estate, personnel efforts and so we've got more in the pipeline.

Operator

Your next question comes from the line of Sean Naughton with Piper Jaffray.

Sean P. Naughton - Piper Jaffray Companies, Research Division

So just following up on one of the economic questions on the consumer. Obviously, a lot of concern out there, a lot of negative headlines. Have you seen any more exaggerated kind of peaks and valleys in your traffic trends on a week-to-week basis in Q3 versus Q2? And then just secondly, following up on the international side. Can you comment on how the U.K. business did in the quarter?

Richard A. Galanti

I'm sorry, what was the second question?

Sean P. Naughton - Piper Jaffray Companies, Research Division

The U.K. business.

Richard A. Galanti

Okay. Well, the first question, the biggest thing in the last few months has been holiday shifts, like Easter, Mother's Day, even. Those things shift a week or 2 weeks and it wreaks havoc with our comparisons of traffic and volume. They're a bit -- a little bit geographically and weather, but nothing to -- that's usually in one region where -- if southern California had huge rainstorms for a few days, that's going to impact a 2-week period down there, minus and plus. In the U.K., it's come off of -- it has been -- its comps in local currency for a few years have been pretty tough for us, flat to up a little, and they're up a little better than that right now.

Sean P. Naughton - Piper Jaffray Companies, Research Division

Okay. And then, I guess, just following up on that. You talked a little bit about being on the ground with essentially some people in Europe over the last 12, 18 months. Does what's going on over there change anything with respect to the signing of anything that would potentially be in the pipeline or you're thinking around that particular market?

Richard A. Galanti

I don't think it changes the timeline. If anything, and given that we'll be using dollars to convert into different currencies, it's actually a little less expensive. I guess the question is it’s a little bit expensive because you're also going to be there. The economy's tough right now. If anything, it's making it a little easier for us, but I don't think it's beating anything up for us. And again, as our history has shown, don't expect us to go into any country and have 10 locations in operation 2 years out. We'll open a unit or 2 in the first couple years and go from there and see how it goes. And so we have a lot of patience in that regard.

Operator

And at this time, there are no further questions. Sir, I will now turn the presentation over to you for any closing remarks.

Richard A. Galanti

That's it on our side. Bob and Jeff and I are around to answer any additional follow-up questions. Thank you very much. Have a good day.

Operator

This concludes today's third quarter and year-to-date operating results for FY '12 conference call. You may now disconnect.