

25. 3. 7.

Operator

Ladies and gentlemen, thank you for standing by. My name is Abby, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Costco Wholesale Corporation Fiscal Second Quarter 2025 Earnings Conference Call. [Operator Instructions]

And I would now like to turn the conference over to Gary Millerchip, Chief Financial Officer. You may begin.

Gary Millerchip

Good afternoon, everyone, and thank you for joining Costco's Second Quarter 2025 Earnings Call. In addition to covering our second quarter financial results today, we will also review our February sales results.

I'd like to start by reminding you that these discussions will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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.

Forward-looking statements speak only as of the date they are made, and the company does not undertake to update these statements, except as required by law. Comparable sales and comparable sales excluding impacts from changes in gasoline prices and foreign exchange are intended as supplemental information and are not a substitute for net sales presented in accordance with GAAP.

Before we dive into the numbers, I'm delighted to say that Ron Vachris is joining me for today's call. I'll now hand over to Ron for some opening comments.

Ron Vachris

Thank you, Gary, and good afternoon, everyone. Thank you for joining us today. As we wrap up the second quarter of fiscal 2025, I'd like to make a few brief comments on some of the highlights since we last spoke. While we only opened 1 new warehouse in the second quarter of fiscal '25, we have big plans for the rest of the fiscal year. Tomorrow, we will open up in Brentwood, California, followed by an opening in Highlands, California the following day, and 4 additional U.S. openings next week, including our Sharon, Massachusetts opening on March 12, which will be our 620th U.S. warehouse and the 900th Costco location worldwide. We're projecting 28 new openings during fiscal year '25, of which 3 will be relocations for 25 net new buildings.

In addition to adding warehouses to serve our members, we also extended our gas station hours in North America during the quarter to make filling up at Costco more convenient for our members.

Generally, our stations are now staying open an hour later than they did previously with some opening earlier as well.

Our updated employee agreement took effect this week in the U.S. and Canada. This agreement reflects our continued commitment to provide industry-leading pay and benefits for our employees. Highlights from the new agreement include an immediate \$1 hour top-of-scale increase, followed by an additional \$1 top-of-scale increase on March of 2026 and again in March of 2027. The top-of-scale wage for U.S. service clerks is now \$31.90 an hour.

Additionally, on March 3, our bottom of the scale wage increased by \$0.50 an hour, taking our minimum wage to \$20 an hour. The average wage for the U.S. and Canada employees is now a little more than \$31 an hour, including hourly employee bonuses, with the majority of our employees at the top scale based on tenure. Paid vacations for new employees is now offered during the first year of employment, and a 6-week of vacation is available to U.S. employees after 30 years of service.

Our operations and merchandising teams did a fantastic job in the quarter, delivering strong operating results despite the uncertain macro environment. In particular, our Canada and Other International business had an outstanding quarter, delivering record results on a constant currency basis, although reported results outside the U.S. were negatively impacted by foreign exchange fluctuations year-over-year. As we look ahead to the remainder of this fiscal year, headwinds from foreign exchange look likely to continue.

Given events over the last week, it is difficult to predict the impact of tariffs, but our team remains agile and our goal will be to minimize the impact of related cost increases to our members. About 1/3 of our sales in the U.S. are imported from other countries, and less than half of those are items coming from China, Mexico and Canada. In uncertain times, our members have historically placed even greater importance on the value of high-quality items at great prices. And our teams will continue to rise to this challenge by leveraging our global buying power, strong supplier relationships and innovation.

With that said, I'll turn it back over to Gary to discuss the results of the quarter and February sales. I'll jump back on during Q&A to field some questions.

Gary Millerchip

Thanks, Ron. In today's press release, we reported operating results for the second quarter of fiscal 2025, the 12 weeks ended February 16. We have once again published a slide deck on our investor site under Events and Presentations with supplemental information to support today's press release. You might find it helpful to have this presentation in front of you as I walk through our results.

Net income for the second quarter came in at \$1.788 billion or \$4.02 per diluted share, up from \$1.743 billion or \$3.92 per diluted share in the second quarter last year. Last year's results included a tax benefit of \$94 million or \$0.21 per diluted share related to the tax deductibility of the special dividend paid to 401(k) participants. Excluding this discrete tax item, net income and earnings per diluted share both grew 8.4%.

A couple of additional data points that may be helpful relative to our reported net income. Operating income in the quarter increased 12.3% compared to last year. This was partially offset by a \$70 million year-over-year headwind in interest and other, and I'll share more detail on these items a little later. And foreign exchange rate movements negatively impacted the translation of international net income to U.S. dollars by \$57 million or \$0.13 per diluted share.

Net sales for the second quarter were \$62.53 billion, an increase of 9.1% from \$57.33 billion in the second quarter last year. U.S. comparable sales were up 8.3% or 8.6% excluding gas deflation. Canada comp sales were up 4.6% or 10.5% adjusted for gas deflation and FX. Other International comp sales were up 1.7% or 10.3% adjusted. And this all led to total company comp sales of 6.8% or 9.1% adjusted for gas deflation and FX. Finally, e-commerce comp sales were up 20.9% or 22.2% adjusted for FX.

In terms of Q2 comp sales metrics, foreign currencies relative to the U.S. dollar negatively impacted sales by approximately 2.1%, while gas price deflation negatively impacted sales by approximately 0.1%. Traffic or shopping frequency increased 5.7% worldwide and 5.6% in the U.S. Our average transaction or ticket was up 1% worldwide and up 2.6% in the U.S. This includes the headwinds from gas deflation and FX. Adjusted for those items, ticket would have been up 3.2% worldwide and up 2.8% in the U.S.

Moving down the income statement to membership fee income. We reported membership fee income of \$1.193 billion, an increase of \$82 million or 7.4% year-over-year. Membership fee income growth was 9.4%, excluding FX. The recent membership fee increase contributed approximately 3% of fee income in the quarter. Due to the effects of deferred accounting, the majority of the benefit from the membership fee increase will come over the next 4 fiscal quarters, with the largest impact in Q4 fiscal year 2025 and Q1 fiscal year 2026.

In terms of renewal rates, at Q2 end, our U.S. and Canada renewal rate was 93%. The worldwide rate came in at 90.5%. As cohorts of new members move in and out of this calculation, there could be 1/10 or 2/10 of volatility in the reported number quarter-to-quarter. The biggest impacts come from digital promotions and Asia warehouse openings, both of which generate outsized membership sign-ups but also have lower renewal rates.

We ended Q2 with 78.4 million paid household members, up 6.8% versus last year and 140.6 million cardholders, up 6.6% year-over-year. At Q2 end, we had 36.9 million paid Executive Memberships, up 9.1% versus last year. Executive Members now represent 47.1% of paid members and 73.8% of worldwide sales.

Turning to gross margin. Our reported rate in the second quarter was higher year-over-year by 5 basis points, coming in at 10.85% compared to 10.8% last year and up 4 basis points excluding gas deflation. To simplify the gross margin matrix provided in our slide deck, starting this quarter, we have incorporated 2% Reward as part of the business area which generated the reward. This is split between core and ancillary and other businesses.

Core was higher by 5 basis points and higher by 4 basis points without gas deflation. In terms of core

margins on their own sales, our core-on-core margins were lower by 8 basis points. This decline was due to investments in supply chain to support higher inventory and some mix changes in our nonfood categories. Ancillary and other businesses gross margin was higher by 1 basis point and flat without gas deflation. E-commerce, again, showed considerable strength year-over-year but this was offset by lower gas profitability. LIFO was lower by 1 basis point and flat without gas deflation. We had a \$12 million LIFO credit in Q2 this year compared to a \$14 million credit in Q2 last year.

Moving on to SG&A. Our reported SG&A rate in the second quarter was lower or better year-over-year by 8 basis points, coming in at 9.06% compared to last year's 9.14%. SG&A was lower or better by 9 basis points adjusted for gas deflation. The operations component of SG&A was lower or better by 7 basis points and 8 basis points without gas deflation. Higher labor productivity and great cost discipline by our operators drove this improvement.

Central and stock compensation were flat, both with and without gas deflation, and preopening was lower or better by 1 basis point, both with and without gas deflation, driven by fewer new warehouse openings in the quarter this year. As Rob mentioned earlier, our new employee agreement went into effect earlier this week. While there was no impact in Q2, we estimate that this will create a headwind to SG&A of 13 basis points from March 3. However, we will also lap a smaller increase from the same point in the prior year, so the net year-over-year basis point headwind from this wage investment is expected to be mid-single digits.

Below the operating income line, interest expense was \$36 million versus \$41 million last year, and interest income was \$109 million versus \$147 million last year. As indicated on last quarter's call, interest income faced headwinds due to lower cash balances subsequent to our \$6.7 billion special dividend in January 2024 and lower interest rates. While we expect interest rates will continue to be a year-over-year headwind for the remainder of the fiscal year, we have now lapped the lower year-over-year cash balances following the special dividend.

FX and other was a \$33 million gain in Q2 this year versus a \$69 million gain last year. In terms of income taxes, our tax rate in Q2 was 26.2% compared to 22.1% in Q2 last year. Recall, last year's rate benefited from a \$94 million discrete item related to the tax deductibility of the special dividend paid to 401(k) participants. Adjusted for this benefit, the tax rate for fiscal year 2024 Q2 would have been 26.3%.

Turning now to some key items of note in the quarter. Capital expenditure in Q2 was approximately \$1.14 billion, and we estimate CapEx for the full year will be approximately \$5 billion. Taking a deeper look into core merchandising sales, our non-foods category led the way this quarter with comparable sales in the mid-teens. Our buyers continue to bring in new and exciting items at great values. This included big-ticket consumer electronics products such as 98-inch and 100-inch TVs, Stern pinball machines, and gaming computers, all of which performed very well during the holiday season.

For the quarter overall, gold and jewelry, gift cards, toys, housewares, appliances, sporting goods, home furnishings, and small electrics were all up double digits. Fresh in Q2 was up high single digits. This

was led by double-digit growth in meat where we continue to see a shift toward lower-cost proteins such as ground beef and poultry. Bakery and produce also performed well this quarter. Food and sundries had low to mid-single-digit comps with Cola and International Foods showing the strongest results.

We continue to look for ways to increase the value for our members, both with national brand items and our private label offerings. Our goal is always to be the first to lower prices where we see opportunities to do so and the last to increase prices in the face of rising costs. A few examples of lower prices this quarter include KS Refined Olive Oil Single 3-Liter from \$29.99 to \$27.99, KS Organic Peanut Butter from \$11.49 to \$9.99, and KS Tortilla Strips from \$5.69 to \$4.99.

Another way we have been able to lower prices is by continuing to expand the local sourcing of our bulky private label items across the globe. In Q2, we introduced a KS Purified Water SKU for the China market that is produced in-country. By moving production into the region, we were able to bring member savings of greater than 20% versus the prior branded water offering.

Our merchants also continue to drive innovation with Kirkland Signature. Most notably this quarter, we worked with a new supplier to rework our Kirkland Signature Diapers. Improvements versus the prior offering include a longer and thicker absorbent layer, softer outer cover and 2x more stretch in the waistband. As well as improving the quality of this item, we were able to increase the value by 11%.

Other new KS offerings this quarter include KS French Fries, KS Vodka and Soda and new KS Lager. Kirkland Signature continues to grow at a faster pace than our business as a whole. Within ancillary businesses, pharmacy and food core departments led the way. In the food court, we have introduced a new strawberry banana smoothie and are excited to announce the fan favorite turkey provolone sandwich is making a return in Q3.

Gas comps were negative low single digits during the quarter, driven by the average price per gallon being down slightly. Now a few comments on inflation. While there was a fair bit of variability across departments, overall inflation in the quarter was low single digits. Fresh was the most inflationary of our categories, driven by meat and bakery. Food and sundries inflation remained relatively low as inflation in eggs, cocoa, coffee, cheese and corn were partially offset by deflation in commodities such as sugar, butter and flower.

The supply chain continues to be relatively stable, albeit shipping delivery dates are still less predictable than they were pre-COVID. In nonfood, our buying teams have been proactive in ordering higher levels of inventory over the past year, which has helped support our strong sales momentum, and overall, we are pleased with sell-through rates.

Turning to digital and e-commerce. We continue to make progress with our technology road map. The new warehouse tool in our app, which allows members to view local warehouse item availability and prices had over 43 million visits. On personalization, for the first time in Q2, we sent out multiple versions of our digital MVM, differentiating the message for members based on their previous shopping behavior. We still have a lot of work to do in this area and are excited about the potential to

improve the member experience through more relevant targeted messages and experiences.

While strength in bullion was a meaningful tailwind to e-commerce sales, home furnishings, small electrics, hardware, and sporting goods were a few of the other departments that grew double digits year-over-year. Costco Logistics had a record holiday season with over 500,000 deliveries as we continue to grow share in big and bulky items. And Costco Next, our curated marketplace also had record holiday sales. We are now approaching 100 vendor sites and significantly grew average order value in the quarter.

Shifting gears to alternative revenue streams, we made some improvements to our co-brand credit card this quarter. The card is a great way for members to increase the everyday value they receive when shopping at Costco, offering attractive cash back rates with no annual fee. Executive Members who use the card can double their cash back on the majority of purchases in warehouse and at costco.com from 2% to 4%. And last quarter, we increased the reward on gas purchases at Costco locations to 5%. On retail media, following our first off-site retail media campaign in Q1, we have entered into a number of additional similar campaigns with roughly 10 different partners live currently and many more in the pipeline.

Turning now to our February sales results for the 4 weeks ended this past Sunday, March 2, compared to the same 4 retail calendar weeks last year. Net sales for the month of February came in at \$19.81 billion, an increase of 8.8% from \$18.21 billion last year. Comparable sales for the month were as follows: U.S. comparable sales were up 8.6%, both with and without gas deflation. Canada comp sales were up 3.2% or 8.7% adjusted for gas deflation and FX. Other International comp sales were down 0.6% or up 6.5% adjusted. This resulted in total company comp sales of 6.5% or 8.3% adjusted for gas deflation and FX. Finally, e-commerce comp sales were up 19% or 20.2% adjusted for FX.

Our comp traffic or frequency for February was up 5% worldwide and 5.8% in the U.S. Foreign currencies year-over-year relative to the U.S. dollar negatively impacted total and comparable sales as follows: Canada by approximately 6%, Other International by approximately 7% and total company by approximately 1.8%. Gasoline prices were flat year-over-year in the month. Worldwide, the average transaction for February was up 1.4%, including the negative impact from foreign exchange.

In terms of regional highlights, U.S. regions with the strongest comparable sales were the Midwest, the Northeast, and Los Angeles. Other International in local currencies, we saw the strongest results in Mexico, Taiwan, and Korea.

Moving to merchandise highlights. The following comparable sales results by category for the month exclude the negative impact of foreign exchange. Food and sundries were positive mid-single digits. Cooler, frozen foods and sundries were the strongest departments. Fresh foods were up high single digits. Better-performing departments included meat and produce. Nonfoods were up positive low teens. Better-performing departments included jewelry, gift cards, and housewares. Ancillary business sales were up low single digits. Pharmacy and optical were the top performers, and gas was down low single digits on lower volumes.

And finally, in terms of upcoming releases, we will announce our March sales results for the 5 weeks ended Sunday, April 6, on Wednesday, April 9, after market close. That concludes our prepared remarks, and we'll now open the line up for questions.

Operator

[Operator Instructions] And your first question comes from the line of Simeon Gutman with Morgan Stanley.

Simeon Gutman

Simeon Gutman. I will ask one question. I want to talk about sales impact and the consumer broadly. Curious if the consumer's willingness to purchase, either discretionary or nondiscretionary, as egg prices are booming, is the consumer cutting back at all? And then it looks like your results don't show an impact, especially in Canada, both in the quarter and in February. But curious if there's any slowing in any places from tariff backlash, et cetera?

Gary Millerchip

Yes. Thanks, Simeon. Yes, to take the first part of your question, the state of the consumer, I guess more broadly, I think you're right in the way you described it. We're not really seeing any change in what we've seen around our members over the last really few quarters. We believe that the member is probably as much focused now on quality, value and newness as they have been for quite some time. But they are still showing that willingness to spend, but they're being very choiceful where they're spending their dollars.

And we think that's likely to continue and maybe even become more choiceful as the impact of some return of inflation and the potential impact of tariffs could flow through as well. I'd say we're also seeing a continued sign of what I mentioned last quarter, where there's some indication that members are spending a little bit more on food at home versus food away from home overall. So they're kind of, I guess, the macro themes that we see.

When we talk about individual categories, I would say on nonfoods, again, I think you characterized it well for us. Our merchants have done a great job of really focusing on those 3 key themes that we hear from our members around bringing in great items at great quality and great value. And while there's examples of that with newness around things like gold and some of the large electronic and gaming items I mentioned, we're really seeing it being fairly broad-based across all the categories that I listed on the call earlier. So generally, we're continuing to see strong trends overall in nonfoods.

There are a couple of categories generally that have been flatter, I would say, over recent quarters, consumer electronics and apparel. We believe we're performing relatively well on those compared to the industry, but they are lower trends on those items than there would be in some of the other categories that I mentioned earlier. And we're seeing, as I mentioned in some of the prepared remarks, we continue to see great trends on fresh products overall.

And it's really a bit of bifurcation there. We're still seeing really good growth on the more premium

meat items, but we're seeing even faster unit growth, I would say, on some of the lower cost cut items like ground beef and poultry and pork. So overall, I think the trends that we've seen, we're not really calling out anything significantly different. But of course, we're watching very closely and making sure we're reacting to what we see from our members.

On Canada, in particular, as you mentioned, really the results that we reported in February are very much in line with the results that we've seen year-to-date. They actually had the strongest overall comp sales when you adjust for FX and gas out of the 3 reported segments that we talk about with International, U.S. and Canada. But they had a phenomenal Q2 so they did come down a little bit from the trend that we saw in Q2 but still very strong results overall.

Operator

And your next question comes from the line of Michael Lasser with UBS.

Michael Lasser

With core-on-core margin being down modestly this quarter, can we take that as a sign that the recent string of margin expansion that Costco has been able to achieve is coming to a conclusion or at least a pause, especially in light of what seems like going to be a much more inflationary environment and a difficult dynamic would have managed through the tariffs?

Gary Millerchip

Yes. Thanks, Michael. Thanks for the question. No, I wouldn't really read too much into the individual results in the quarter on the core-on-core margin. Overall, we were pleased with the fact that the gross margin rate was up 4 basis points, so a slight improvement while we're still investing in more value for the member. And when we look at the breakdown of that core on core, it was down, as you mentioned, 8 basis points.

To give you a bit more color on that, food and sundries was actually up slightly. Fresh was up slightly, nonfoods was down slightly. So there was a sort of a mix change in there somewhat that impacted the number as well. You may have heard me mention on the prepared remarks, but one of the things that was an increased cost during the quarter was higher supply chain costs as we have been continuing to buy more inventory, which we think will be helpful as you think about some of the unpredictability that we've seen in supply chain timing and also with the potential risk around tariffs.

And really, when we looked at the overall results for the quarter and saw that the core margin overall was going to be up slightly, we have that ability to be able to invest and ensure that we're continuing to take care of the members. So we were quite deliberate on that this quarter. But again, I wouldn't read too much into the individual puts and takes. We feel good about the overall margin and our ability to keep investing in the member while at the same time continuing to deliver the results that we delivered.

Operator

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

Christopher Horvers

One quick follow-up and then an additional question. Other retailers are talking about weather having a negative impact on some of their more weather-sensitive businesses. So I guess turning the question upside down, as you think about the 8-plus percent core comp that you saw on the month of February, did you see any weather headwinds on your discretionary businesses? Or was it just simply offset on the egg side?

And then on the tariffs, historically, foods -- for things that come from like Mexico that are fresh foods, historically, that stuff gets passed through directly to the consumer. How do you think about Costco's stance on that? There's opportunities maybe with eggs where you're vertically integrated and you can absorb some of the costs. But as you think about stuff like fresh food that's more commodity-based, would you just pass those price increases along?

Ron Vachris

This is Ron. As far as the weather, we experienced the same weather everybody else did the last month. And we tend to capture a lot of that back that's not an extended event and if it's not tied to a holiday. So yes, we saw some hits here and there but we recovered most of that. And there probably was a little bit of the edge on sales taken off due to some extreme weather in the Northeast and the Midwest. So we feel pretty good about how we handled through those storms.

As far as the tariffs go on the grocery items, our buyers deal with those like they would any other cost increase. And sometimes the margins are much tighter in those categories, but they are prepared to work closely with the suppliers and see how efficient we can bring goods to market. And is there anything we can mitigate in those categories? So the tariffs are very fluid right now so it's hard to really give any predictions on what we can do. But we are prepared, our people are very well equipped to lower prices and defer any cost increase that come our way. So we're going to do what we can should that happen.

Operator

And your next question comes from the line of Scot Ciccarelli with Truist Securities.

Scot Ciccarelli

Scot Ciccarelli. With your Treasure Hunt structure, you guys have a lot of merchandising flexibility. So I guess if we get tariffs rolled into China, Mexico, Canada, would the strategy be more focused on, look, it is what it is. Costco still has the best value for those products relative to others? Or would there be a more aggressive effort to find goods from less tariff-impacted countries?

Ron Vachris

It would be a little bit of both. I mean you're exactly right with our flexibility of the Treasure Hunt, there's not many items that we can't find something to replace or something else to bring in, in that

category. But it's going to be a little bit of both of those strategies that we can. As we say, when it rains, it rains on everyone such as a tariff that we're all equal there.

And I feel like our people are very well equipped to deal with anything coming our way with our reduced SKU model, and we can -- we have great partnerships with our suppliers, and those items are very important to them as well. So I feel like we are well equipped to deal with whatever is coming in our direction and not knowing what that's going to be. I can't really tell you what the outcome will be, but our people are nimble and they're ready to go at it if they need to.

Operator

And your next question comes from the line of Zhihan Ma with Bernstein.

Zhihan Ma

So a bit of a follow-up on the international side. First of all, a short-term question in terms of the February sales results. Is there any timing shift between January and February that led to this sequential slowdown in the Other International segment? And longer term, can you just provide an update for us to understand how do you think about the long-term international growth runway from here?

Gary Millerchip

Sure, yes. On the first part of the question, there is some impact from -- particularly on the Asian markets, the Chinese New Year. Generally because it didn't roll up to be a meaningful enough number at our total company level, we didn't call that out in our results. We didn't call it out in the January number specifically either. But yes, I would say you have to kind of look at the 2 months and combine the 2 really to understand the trend because of the impact that we would see from the Chinese New Year impacting particularly Korea and Taiwan and China.

And then in terms of the long-term prospects for our international business, Ron mentioned it in the prepared remarks, we had a tremendous second quarter. We were thrilled with the progress that we saw across those international markets overall. And as we think about new store, new warehouses and the plan there, as you may recall, we talked about 25 to 30 new warehouses a year. And as we look at our long-term plan, we would think just over half of those would likely be in the U.S., but just under half would be in our international markets, including Canada, Mexico, Asia, and Europe.

And we look at all 4 of those as strong markets for us and opportunities to continue to expand our presence because we wouldn't see any of those as being fully penetrated today. And we're fortunate in that our international markets have similar or, in some cases, better profitability as a rate of sales than we have in our U.S. market as well. So we still see plenty of opportunity and they remain an important part of our growth strategy.

Operator

And your next question comes from the line of Oliver Chen with TD Cowen.

Oliver Chen

Gary, we had a question about general merchandise and electronics. Would love just thoughts on what you're seeing with respect to those categories and the health of the consumer. We've also thought that you've done a great job with UPTs and innovating with international products, it would be great to hear prospects there. And then a follow-up is on the more targeted and strategic multi-vendor mail as well as digital promotions and deals, what's happening there? It seems like there's some nice traction, and is it driving traffic? Or how are you approaching the next inning of that?

Gary Millerchip

Sure. Thanks, Oliver. I'll just quickly rattle through, I think there were 3 different components there. So on consumer electronics, generally speaking, we believe from what we see, we're growing market share, but that area would still be relatively slow, so we're flat to slight growth there, whereas the market overall, though still seems to be pretty sluggish. And I think we're still looking for that next wave of new innovation to really spark extra growth in that category.

We did see some really nice sales around the holidays on the larger TV screens, the 98-inch and 100-inch TV screens. I think that created some new excitement and visually was very compelling in the warehouses, and our operators did a great job in merchandising those and we saw some nice lift at that time of the year. But overall, relatively flat as a category, especially compared to many of the other nonfood categories where we see double-digit growth currently.

On the international products, I think, was the second comment you made, yes, we're really excited about that opportunity. We continue to see at our monthly budget meetings when we have all of our operators come in, they're sharing examples of products that are resonating in each of the markets that we operate.

And very quickly because of the ability to share those ideas across the teams, we're finding ways to bring those and bring our global buying to bear and finding even better ways to bring them to our markets but also a better value for our members. And we've seen some great growth in those opportunities, and we think that will be an important part of our continued growth in the future as well. Ron, anything you want to add there as well?

Ron Vachris

No, and I think Gary is 100% right. And then on the multi-vendor mail and the promotions, it really is excitement in that product mix. And it's a good balance of everyday low prices that our buyers work towards, on ensuring that key commodities are at an everyday price that our members can count on, but also bringing in some newness and excitement and partnering with our suppliers when they want to drive some sales, and we can deliver that through the multi-vendor mailer. So I think the key to the success there, it is driving traffic. It continues to be a win for our members. And I think the newness and keeping it fresh has been the key to that success.

Operator

And your next question comes from the line of John Heinbockel with Guggenheim Securities.

John Heinbockel

Ron, I had a couple of holistic questions with regard to KS. When you think about new item introductions, KS versus national brands, how does that kind of compare in most years? When you think about categories where KS is at a lower penetration, right, which is a lot of nonfoods, where can you kind of make breakthroughs there, right, and introduce KS items that don't currently exist? And then would you think a very high percentage of the KS introductions end up in permanent fixtures in the assortment?

Ron Vachris

Okay. The greatest opportunity we have would be in nonfoods. And it was something -- it was a category that we always felt brand loyalty was extremely strong, which it is. But the motor oil was a great example of -- it is now our top-selling motor oil in all of our warehouses across our Kirkland Signature, where that was a very brand-related item before.

Golf balls was another example of when we entered into an extremely brand loyal category that we were able to break through. So we see great success there. Our buyers continue to look at where are those opportunities that we can improve quality from the brand or meet the quality of the brand and bring a substantial value to it. So we're not in a race to develop hundreds of Kirkland items. We look at it more of a strategic item-by-item basis that when there's an item that with an opportunity, then that's when they will go after that.

The recent -- the sandwich bags and storage bags that we did in our sundries department are a tremendous value, supreme quality and really doing very, very well. And yes, you're right, we do have a very high success rate of Kirkland items. I mean -- but there are failures out there. There are things that we always say, Claudia and myself, our head merchant, we can't fall in love with our own stuff. And so we hold Kirkland Signature to the same standards we would as any branded item.

If the sales are not performing, our members are not resonating with that item, it is as quick to go out as any branded item would be as well. So there's no annuities to a Kirkland item. It has to meet the same standards. But I'm very proud of the buyers that they do have a high success rate. They do their due diligence on those items, and they really deliver great value to the member when we launch a Kirkland item.

Operator

And your next question comes from the line of Rupesh Parikh with Oppenheimer.

Rupesh Parikh

I guess, Gary, just going back to the 13 basis point headwind on the wage front, I think, starting in March. Is that headwind larger, given it's the first year of the agreement, given some of the other changes? And then just related to that, given that it is a significant headwind, do you guys see any new productivity opportunities to help offset some of the increased wage pressures?

Gary Millerchip

Yes. Thanks, Rupesh. Just to clarify, to answer your question, as you may recall, we had a number of wage investments that we made back in March last year -- or wage investment, I should say made in March last year. And then we had another wage investment in July where we introduced a \$1 increase at the bottom of the scale, on the top of the scale and a \$0.50 increase in the intervening points between those 2.

And then we just announced the wage increases that we've implemented this month with our new employee agreement. So overall, what you're seeing is that the investment from this time last year will drop off -- well, it wouldn't drop off but we'll have cycled it. So we've made that investment now and that's embedded in the numbers that we're operating with. So the headwind that we'll see in the current quarter will be the investment from July and the investment that we've made in May.

As you think about it quarter-on-quarter, it's about a mid-single-digit increase in the basis point of investment because we're essentially cycling last March's and replacing it with this new increase. So think of it as adding about a mid-single-digit basis point increase on our wage investment in the new quarter. And to answer -- I should also say, there'll probably be a sort of a onetime catch-up in Q3 as well. That will be the accrual for vacation for the full year because we're implementing that now, but we have to go back to the start of the fiscal year with that change. So there'll be an adjustment in the quarter for that as well.

Outside of that, to your point, we were very successful in the current quarter. Our operators in Q2 did a great job of continuing to drive productivity and continuing to improve efficiency so that we actually still were able to achieve SG&A leverage as you heard me talk about earlier of 9 basis points actually on the core. And so our goal will be exactly the same is to continue to find ways to be more efficient because we are committed to continue to invest in our employees as part of our code of ethics is to make sure that we're delivering industry-leading wage and benefits for our employees. So that will be a continued part of the strategy, but that also includes being more highly productive and finding ways to fund those through labor productivity and continuous improvement. That's certainly the expectation we set for ourselves.

Operator

And your next question comes from the line of Greg Melich with Evercore ISI.

Gregory Melich

I had one clarification and then my question. The clarification was on inflation. I heard up low single digits. Is it fair to say that grocery was slightly above 1% and then maybe general merchandise was deflationary? And then I wanted to ask about alternative media.

Gary Millerchip

Yes. On the inflation side of things, so fresh was our highest of the 3 categories and particularly in meat was the highest there. Food and sundries would have been very low single-digit inflation but still

inflationary. And I would say, important to know, I guess that the trend was a little bit of an increase during the quarter because if you recall, last quarter, we shared that inflation was flat. So we did see some increase in inflation as the quarter progressed. And I'd say meat was the largest of those. Food and sundries would have been next. And nonfoods has been deflationary relative to recently. That's sort of evening itself out now as we cycle some of the deflation from the supply chain about a year ago.

Gregory Melich

Got it. And then on the alternative media, you talked about building that out. Could you help frame it a little bit, Gary, and the strategy behind it? I mean some of your peers have shown 4% or 5% of digital revenues can be the advertising business. How do you guys think about that?

Gary Millerchip

Sure. I think overall, I know I've mentioned this previously as well in discussions, that we do have an alternative profit stream today where we generate significant value through our large co-branded credit card program, the travel business that we have. And we have a revenue -- e-commerce ad revenue stream that comes from many of the suppliers that participate on our website today, and that's a few hundred million dollars. So there are a number of areas today where we generate value in that space.

Having said all of that, we do believe that the new sort of retail media theme, which is really going after the marketing dollars that the CPGs are spending is a significant growth opportunity for us. We are, though, in the very early stages of that. We need to continue to build out the infrastructure and the capabilities. And I would say we're not only building those out to deliver on a retail media platform that we want to create for our CPG suppliers but also to build out more of a sort of personalized capability for our own membership experience.

So delivering more targeted and relevant messaging and sort of think of it as the right offer, the right communication to the right channel to the right member at the right time. And this is really the capability that we're building for ourselves today and it will take some time to do that. So it's likely to be a multiyear road map as we build those capabilities, I would say.

But we did, at the same time, launch this sort of offers media channel so that we can start to really test and learn and grow capability with our CPG suppliers. And there's been a lot of interest and appetite to really build that capability. And we -- as we mentioned on the call, we now have 10 campaigns live and we see a lot more in the pipeline.

From our perspective, though, we've also mentioned this in the past is that I wouldn't think of it as Costco really coming out and declaring a new revenue stream with a new margin profile. We'll think of it very much as being how do we generate that share of that value so we can reinvest it in our members and continue to drive our overall loyalty member engagement and drive top line sales. So a little bit of a different approach for us than you probably hear from some of our peers and others.

Gregory Melich

One more reason for a bigger executive rebate.

Gary Millerchip

There you go, exactly.

Operator

And your next question comes from the line of Edward Kelly with Wells Fargo.

Edward Kelly

I wanted to ask you about throughput in the stores. Maybe you can talk just a little bit about like where you are from a standpoint of initiatives to drive better throughput. I know you're scanning now when people are coming in. I'm sure what you're doing with that data. But then when you think about checkout and exit, and obviously, it's a high-class problem but it's very busy.

And then you did mention extending hours on the gas stations. Is that something that you maybe could take to the stores that would help with that problem?

Ron Vachris

That is a very good question. The speed of the checkout is one of our primary focuses right now and what uses of technology we have. Scanning at the front door was very, very helpful for our operations, really kept our people informed on what traffic looks like and they can adjust opening up registers and closing registers, and we saw some great improvements in productivity from that as well. That was just the foray into the whole technology thing.

So we see many things going with self-checkout, how we can improve that. And so that is indeed one of our biggest areas of focus for technology in our warehouses is how we can get members through quickly and turn parking spaces and do those types of things is a big push for us. Yes, the standard was a very big win for us. I'm sorry?

Edward Kelly

Yes, I'm sorry. Would you consider extending store hours? I know that's probably logistically a lot harder than it sounds. Just curious your thoughts there.

Ron Vachris

That is something that is not off the table. We do look at that. I mean we -- our gas expansions, we have 60 U.S. gas stations going through different -- they're at a different phase in expansions now. We did see some demand from the commuters, both at the early hours and the evening hours, so I think that, that's going to be a real benefit to those folks as well. But we will continue to look at the warehouse hours. No plans in place at this time, no.

Operator

And your next question comes from the line of Chuck Grom with Gordon Haskett.

Charles Grom

I wanted to just go back to the digital MVM and was curious how vast that effort has been at this point in time. I guess maybe how many members received the digital MVM? And are you replacing the paper MVM? And then I guess the ultimate question is, I guess, what have you learned so far in terms of elasticity or response rate?

Ron Vachris

It is -- it allows us to do different things that you can imagine the print process is quite extended. So we're -- our merchants are 2 months out when they're putting together the mailed MVM, which is still very effective. I mean it's still very effective when these arrive in people's homes. The digital MVM gives us quite a bit of nimbleness that up until the day before we put that out there, we can -- if a vendor wants to jump in and wants to drive some sales, and it really gives us a lot of flexibility.

So our buyers have taken some items out. They run the digital MVM for 10 days compared to the 28 or so that we had run the regular MVM. And you may be able to let other vendors now get into this type of communication to people. And it really drives a lot of sales, but it has been incremental to the mailed MVM that we have out there. So we found it to be very effective. And it's -- we're talking 40 million people are getting this kind of an imprint in their e-mail on what kind of activities.

One of the biggest open rates we have in our e-mail is what's going on in their warehouse nearby. And so when members get to see new items that are arriving and items that are on a special deal from the supplier, it's very effective for us in driving traffic.

Gary Millerchip

And Chuck, maybe just to build on the part of your question that was tied to more of the targeted element of the communication. Yes, think of it as our first sort of foray into how do we be a little bit more targeted by using our membership data to make the message more specific to how you shop with Costco as a member. So how frequently you're visiting us, what are the type of products that you're buying, and then kind of reprioritizing the way in which the individual items are messaged on the communication to reflect more that's relevant for you, and also the messaging that's really driving the communication to the member at the top of the e-mail that's sending out the message as well.

So it's really that first step for us into saying rather than one size fits all, how can we start to adjust that without changing the way we go to market, but just making the communication part of that more relevant. And the early signs were encouraging around the level of engagement and the change in behavior that we saw as a result of that. So certainly, more to come on that front.

Charles Grom

And just a quick follow-up, Gary. Just I guess when did you guys start that effort?

Gary Millerchip

That was this last month.

Ron Vachris

The digital MVM, the digital mailer has been for years but the more personalized was this month.

Operator

And your next question comes from the line of Kelly Bania with BMO Capital Markets.

Kelly Bania

Wanted to just ask about membership fees. Obviously, you've had the increase in U.S. and Canada that's flowing through. But any update on where you are at with other international countries and if it's the right time for any changes there? And maybe just also an update on the other international countries' executive programs, if there's any plans for any additional rollouts there.

Gary Millerchip

Yes. Thanks, Kelly. So on the membership fee, first of all, yes, we increased the membership fee in Australia in 2023, fiscal year 2023. Mexico actually increased last year as well. That was in September. And actually, we just announced in Japan and Korea, a membership fee increase as well. So we are -- we don't have them all on the same cadence.

They tend to be tied to their own individual plans and when the membership fee was introduced and when they've previously had changes. So it doesn't always follow the same cadence of the U.S., but we are changing membership fees in those countries or have already, and other countries will continue to look and review on their own sort of cadence. So continuation of a previous strategy there is very much the plan.

And then on Executive Membership, typically, we look at it from the basis of when we're reaching a scale in an individual market. We have Executive Membership in a number of the Asian markets. We have Executive Membership in Australia and the U.K. as well because, again, they've reached a level of maturity and size. But the exciting part there, I'd say, is that if you look at Canada and the U.S. that have the highest level of executive membership penetration. As you go down that maturity curve, Asia would be next but would still have a meaningful opportunity to continue to grow Executive Membership more towards the U.S. and Canada conversion rates, and Australia and the U.K. would be further behind Asia as well.

So as they go through the maturity curve, it's one of those areas where we see opportunity to continue to increase Executive Membership penetration. And as we grow some of our newer markets and smaller markets into a larger number of warehouses, we'll continue to evaluate the opportunity to introduce Executive Membership there as well.

Operator

And your next question comes from the line of Robbie Ohmes with Bank of America.

Robert Ohmes

I was wondering if you could talk a little bit about the average ticket trends in the U.S. ex gas and give a little more color on mix versus number of items versus inflation impact. And if anything is changing there in terms of how you're getting to average ticket ex gas? And maybe related to that, I was just kind of curious if sugar and butter and flour are deflationary. Why is bakery inflating?

Gary Millerchip

Yes. Sure. I'll take the second one first because it's easy. It's really eggs that's causing the major pain there. It's kind of -- it's offsetting, unfortunately, just the percentage growth that we've seen in egg has far outweighed the deflationary situation on those other items. In terms of sort of mix in the basket, I'd say we've been really pleased over the last 12 months because if you looked at our results 12 months ago, we'd have seen consistency in the visit growth, which has continued to be the case. And that's been something that has been a trend for the last 2 or 3 years that we've been extremely pleased with and seeing that continued frequency of increase in visits.

But about a year ago, we would have been flat to negative on the overall sort of basket size. And as you look at the change that we've seen over the last 12 months, partly, I think, because of the improvements that we've seen in nonfoods growth over that period of time. And as we've continued to deliver great assortment and great quality and great value for our members, we've already seen our merchants and operators do a really good job of turning the corner in that situation and growing the number of items in the basket and the overall basket size.

Up until this quarter, as you know, inflation has been relatively flat for us. So any improvement that we were seeing at that point would have been largely driven by items in the basket versus the -- or upselling in terms of better or bigger products by the member versus inflation driving that growth. But obviously, that could change this year depending on what we see with inflation and also with the potential introduction of some tariffs.

Operator

And your next question comes from the line of Joseph Feldman with Telsey Advisory Group.

Joseph Feldman

I had 2 kind of quick ones for you. First on gas volumes. I think I heard you guys say the volumes have been down and we heard that from another company you know pretty well, Gary. And I was just wondering what is driving that? It's a little surprising to me to hear that the volumes were down. The other question was about stores. If you could just remind us the kind of new versus existing market balance of stores and also U.S. versus International for the year.

Gary Millerchip

Sure, yes. On the first part of the question, so the comment that we made about gallons being down was very specific to February. So if you look at our year-to-date results, we would be positive in gallons

on gas. I would say that there isn't a huge amount of growth, and I suspect the market generally may be flat to down, but we've been growing our market share as we look at the year-to-date. It's a little bit difficult to talk about one particular month because as Ron mentioned earlier, certainly, weather can have an impact on those things. So we'd look at probably the trend over a slightly longer period of time and say, generally, gallons are up, but it's low single-digit growth in gallons versus -- compared to the growth that we see in other parts of the business today. On new stores...

Ron Vachris

I've got that one. This year, we'll open 15 locations in the U.S., 3 in Canada, and we'll have 7 in the Other International countries that we'll open up. And that's pretty typical for a normal '25 warehouse year for us.

Joseph Feldman

Good luck with this quarter.

Operator

And your final question comes from the line of Mike Baker with D.A. Davidson.

Michael Baker

Okay. First, as a lifelong resident of Sharon, Massachusetts, I'll just say that the entire town is really excited for your 900th store. The buzz is high. My question also on gas, I'm just wondering the -- extending the hours, has that led to incremental gallons? Are you seeing customers take advantage of that?

And then a second question, just periodically, we ask about your price gaps versus others. How do you see those right now, particularly with some inflation creeping back in?

Gary Millerchip

Yes. On the first part of the question, yes, we've been pleased so far with the member reaction and we are seeing an improvement in overall usage of the gas station. So that's -- it's early days, of course, but so far, we've been pleased by the member response. And then, sorry, what's the second part of the question?

Ron Vachris

The price gaps versus comparison.

Gary Millerchip

Yes. So really, this is something that we tend to look at it. We really tend to view ourselves as our own biggest competitor. We have -- every period, we have our budget meetings and we look at our prices, and our goal at every meeting is to find, where can we find ways to lower cost and lower prices for our members? So I would say we feel really good about our price gaps.

We -- generally, the price changes that we're making are proactive versus reactive to others. But if we do find any area in those meetings where we believe we need to adjust typically, the operators in those markets have adjusted those prices before we've even gotten to the meeting. So overall, we believe that the focus on delivering the best value and quality and pushing ourselves to always get better is what's important, and we think that certainly reflects in our overall value that we're offering today.

Ron Vachris

And we hope to see you next week in Sharon, Mike.

Michael Baker

I will be there. I'll see you. I'll say hello.

Ron Vachris

All right.

Gary Millerchip

Thanks, Mike.

Operator

And ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.