PriceSmart, Inc. [PSMT]
Q4 Fiscal 2018 Earnings Conference Call
Friday, October 26, 2018, 12:00 PM ET

Company Representatives:
Maarten Jager; Executive Vice President and Chief Financial Officer
Jose Luis Laparte; President and Chief Executive Officer
Sherry Bahrambeygui; Interim Chief Executive Officer
Robert Price; Executive Chairman of the Board of Directors

Analysts:
Jon Braatz; Kansas City Capital
Ronald Bookbinder; IFS Securities
Nicholas Alfonso; Compass Group Asset Management

Presentation:

Operator: Good day and welcome to PriceSmart, Incorporated's earnings release conference call for the fourth quarter of fiscal year 2018, ending on August 31, 2018. All participants are currently in a listen-only mode.

After remarks from our Company representatives, Robert Price, Executive Chairman of the Board of Directors; Sherry Bahrambeygui, Director; Jose Luis Laparte, President and Chief Executive Officer; and Maarten Jager, Executive Vice President and Chief Financial Officer, you will be given an opportunity to ask questions as time permits. (Operator Instructions)

As a reminder, this conference is being recorded on Friday, October 26, 2018. A digital replay will be available through November 2, 2018, following the conclusion of the call by dialing 1-877-344-7529 for domestic callers, or 1-412-317-0088 for international callers and entering replay access code 10123807.

I would now like to turn the conference over to Maarten Jager. Please go ahead, sir.

Maarten Jager: Thank you and welcome to our earnings call for the fourth quarter of fiscal year 2018. We will be discussing the information that we provided in our earnings press release and our 10-K, both of which we released yesterday, October 25, 2018. You can find both the press release and the 10-K filing on our website, www.pricesmart.com.

Please note that statements made during this call may contain forward-looking statements concerning the Company's anticipated future plans, revenues and related matters. These forward-looking statements include, but are not limited to, statements containing the words expect, believe, will, may, should, estimate and similar expressions. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including the risks detailed in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2018, filed with the Securities and Exchange Commission on October 25, 2018.

We assume no obligation and expressly disclaim any duty to update any forward-looking statement to reflect the occurrence of events or circumstances which may arise after the date of this call.

Now I will turn it over to Jose Luis Laparte, PriceSmart's President and Chief Executive Officer.

Jose Luis Laparte: Good morning, everyone, and thank you for joining us today.

As it was announced yesterday afternoon in our press release, after discussions with the Board regarding the need for a fresh perspective, on Wednesday this week I submitted my resignation as President and CEO and the Board accepted it.

This was not easy after spending the last 14 years working together with such a great team. After those 14 years I accomplished what I set out to do in this company. We were doing less than $500 million in sales when I joined this team and as we finished fiscal year 2018 our sales exceeded the $3 billion mark, a major milestone for our business. This journey with PriceSmart has been full of great experiences. I had the opportunity to meet and work with many people from each of our countries. PriceSmart has a great future ahead of it and a team well positioned for growth. I am proud of the almost 9,000 employees we have in the US and our 13 countries.

My resignation is effective November 16th. I have agreed to make myself available to Sherry Bahrambeygui, the new Interim CEO, until the end of the year to ensure a smooth transition. I know her well for many years and I am sure she will do a great job working with all the team on this transition.

This is my last earnings call and I want to thank all of you and all of the PriceSmart team for all your support. Thank you very much and I now turn you over to Sherry Bahrambeygui.

Sherry Bahrambeygui: Good morning, everyone. I'm Sherry Bahrambeygui and it's a pleasure to meet you by way of this call. I'm a Director of PriceSmart and the incoming Interim CEO.

First I'd like to thank Jose Luis for all of his contributions to the Company throughout the many years that he has served PriceSmart. He leaves the Company on very solid footing. We've got a very strong balance sheet, very strong cash position. We have very little leverage and we've got one of the best-in-class teams of over 8,000 employees.

Jose Luis was exactly the right person in the history of our company. He came to us at the right time and he was able to accomplish amazing things for us. But as the world of retailing is changing and the world of merchandising is rapidly changing, there is an agreement amongst us that it is time for a fresh perspective and a CEO, a leader, who can bring a different set of skills to the Company to help expedite our growth.

As the Interim CEO, I just want to briefly tell you my priorities will be to focus on the effort to identify a best-in-class CEO for the Company to take it forward in the future, to focus and invest on talent development amongst our management team and to really invest in those key players

who we feel have great gifts and talents to bring this company forward, and also to expedite our growth strategies, to move and accelerate our efforts in terms of our growth for the future, and to be responsive to the needs of the future and the needs of our members. Removing obstacles and accelerating those efforts will include embedding and integrating the assets that we acquired when we acquired Aeropost. Bringing that talent and that team and their capabilities closer in line with our core business is going to be a key feature of our growth strategy for the future.

So with that, I'd like to hand this off to our new Executive Chairman, Robert E. Price, who is the founder of our company and also one of the founders of the club's concept over 40 years ago. He's a thought leader in our organization and he is part of what will be a very smooth transition moving forward for the Company.

Robert Price: Thank you very much, Sherry. Good morning, everyone.

I'd like to comment a little bit about Sherry Bahrambeygui, who I have worked with for the past 13 years. I have the highest regard for Sherry, her integrity, her intelligence, her desire to be successful. Everything that Sherry has worked on and many of those things have been Company-related, Sherry has done successfully and has benefited the Company in many ways. She's the Chair of the Compensation Committee. She's on the Real Estate Committee. She attends Audit and Finance Committee meetings. She has an intimate knowledge of the Company and I have tremendous confidence in her to work through this period of transition in a way that will make sure that we come out successfully.

I'd also like to take this opportunity to thank Jose Luis, who I've worked with for 14 years. I hired Jose Luis and he was absolutely the right person at the right time. He was able to take a company that was really in trouble -- although we'd gotten the balance sheet right we still had a lot of operational issues. And Jose Luis did a remarkably fine job of bringing this company to the point that we're doing $3 billion today. So I thank you, Jose Luis, for everything you've done. And all of us, the Board of Directors and our investors and our employees, owe you a great, great gratitude.

My job as the Executive Chairperson really are two main functions. One is to set the strategic vision for the Company and the second is to make sure that the CEO succession is handled properly. Those are the two things that I will devote myself to in the next few months.

I do want to kind of leave it for now with -- and turn it back to Maarten. But we'll make additional remarks about the vision and some of our strategic considerations going forward once Maarten has completed his remarks. And then we'll be open for questions from all of you.

Maarten Jager: Thank you, Robert. Good morning, everyone, and thank you again for joining us today.

I also want to personally congratulate Jose Luis on leading this business to the $3 billion milestone, and I wish Jose Luis the very best in the future.

His achievement underscores the strength of our business model, which is predicated on delivering excellent merchandise at outstanding value in the most efficient manner possible to our members. By focusing on efficiency we are able to pass this value back to our members. Historically we've seen it manifested through an efficient supply chain, pallet-driven merchandising and large boxes with concrete floors and steels. That model remains strong and the guiding strategic principles remain the same as we continue to harness opportunities ahead of us now. And we are continuing to invent and innovate our model. Our Executive Chairman, Robert Price, as he just mentioned, will comment more on the vision for our company later.

Let me now turn to our results, first with an overview of Q4 and the fiscal year and then followed by some more color for the most recent quarter.

Total revenues were $777.9 million, an increase of 6.0% over the comparable prior-year period, which includes the contribution from the Aeropost business this quarter -- this year this quarter. Net merchandise sales were $741.3 million, an increase of 4.3% over the prior-year period. And comparable net merchandise sales grew by 0.2%.

As a reminder, we ended the fiscal year with 41 warehouse clubs compared to 39 clubs a year ago, with the addition of the Santa Ana club in Costa Rica in October of 2017 and the San Isidro club in the Dominican Republic in May of 2018.

Net income for the fourth quarter of fiscal year 2018 was $19.0 million, or $0.62 per share, compared to $19.8 million, or $0.64 per share, in the comparable period last year. This result includes a $0.15 per share impact of our investment in Aeropost and the talent and capabilities in technology and logistics that this acquisition will provide. The quarter also included a beneficial impact from updated tax reform estimates, which represented $0.06 per share. As such, these two factors combined had an EPS impact of negative $0.09 per share.

Now briefly to the full year before I expand further on the fourth quarter. Total revenues increased by 5.7%, net merchandise sales by 4.9% and comparable net merchandise sales by 2.3%. Net income for fiscal year 2018 was $74.3 million, or $2.44 per share, compared to $90.7 million, or $2.98 per share, in fiscal year 2017. However, again, for the full fiscal year the impact of our investment in Aeropost was $0.31 per share and net of tax reform was a negative $0.32 per share. As such, these two factors combined had a negative impact on EPS of $0.63 per share for the full year.

Returning now back to Q4 for some more detail, the Central American region had a 0.7% increase on total merchandise sales, but a decrease in comparable sales of 3.2%. The impact of transferred sales related to the opening of the Santa Ana club in Costa Rica negatively impacted comparable sales for Central America by approximately 100 basis points for the quarter. We have also seen a general softening of sales in Costa Rica during the last month of the quarter as a result of economic and political uncertainty. Panama continues to experience challenges as well, with sales in our warehouse clubs down by 5%.

And Nicaragua is facing challenges with its largest crisis since the end of the civil war in 1979. General uncertainty in Nicaragua as well as security concerns are leading to fewer visits in our

clubs and our members appear to be more conservative in their spending, especially within the nonfood areas, resulting in a drop of sales in Nicaragua of 18.6%. Honduras, El Salvador and Guatemala, however, all had positive comparable sales during the fourth quarter.

The Caribbean region had a total merchandise sales growth of 7.9% and comparable sales of 2.2%. Trinidad and Aruba reported single-digit comparable sales growth. The Dominican Republic had negative comparable sales as a result of sales transfers from existing clubs to the new San Isidro club, which opened in May 2018. The USVI had double-digit growth, continuing strongly in the wake of the September 2017 hurricane. Finally, Barbados ended the quarter with a 3.4% decrease in sales compared to the same quarter last year.

And last, in Columbia we finished with a double-digit comparable sales growth of 12.9%.

At a merchandise category level we saw positive comp growth within nonfood, select toys, electronics ex computers, sporting goods, fashion and basic apparel, and also domestics. In the food categories we had positive comps in candy, groceries, canned meat, pets, flowers and road shows. In total, the fresh areas finished with a positive comp of 3.8% compared to our comp for the company of 0.2%. Categories with negative comps in nonfoods include computers, major appliances, hardware, automotive, housewares, tires and business supplies. And in foods categories with negative comps were liquor, juices, sodas and vegetables.

Clearly, our results have been impacted by the unusual and simultaneous factors in Nicaragua, Costa Rica, Panama and also Barbados. But even with the challenges we face in these markets, it is our obligation to find ways to reduce prices for our members by becoming more efficient, as well as by buying better and passing those savings on.

Moving on to membership, we finished the quarter with approximately 1.6 million accounts. Membership income was up by 6.0%. The 12-month renewal rate at the end of August was 85%. Excluding Columbia the renewal rate was 87%. The renewal rate in Columbia finished at the end of August at 78%, the same level as a year ago.

Merchandise margins for the period came in at 14.7% versus 14.6% a year ago. And in Columbia margins have increased to 14.3% of warehouse sales versus 12.7% last year.

SG&A of our core business was 11.8% versus 11.7% a year ago, driven by G&A and a slight deleveraging effect from the opening of the two new clubs. SG&A of the total business was 12.7% versus 11.7% a year ago. The 90 basis point difference in SG&A of these two numbers is the impact of our investments in Aeropost and technology.

Operating income was $27.2 million versus $30.8 million a year ago. Operating income includes the impact again of the Aeropost acquisition and the ongoing investments we are making. Operating income for the core warehouse club business increased to $32.0 million versus $30.8 million a year ago. Again, the difference of $4.8 million is the impact of the Aeropost investment.

This quarter's effective tax rate declined to 27.5% and included a beneficial impact from updated tax reform estimates of 8.2%, or $0.06 per share. We expect the effective tax rate to settle at approximately 35% going forward. This is higher than the US marginal tax rate of 21% not only because most of our tax liabilities are in foreign countries bearing an approximate 30% rate, but also because we can no longer recover all of our foreign tax credits in the US as a result of the recent tax reform.

Foreign exchange transactions and the revaluation of monetary assets and liabilities resulted in a $211,000 currency gain during the quarter compared to $153,000 gain in Q4 of last year.

Moving on to the balance sheet, which is very strong, as Sherry mentioned, with a strong cash position as well as very low leverage, which all speak to the strength of our company, cash ended the fiscal year at $96.9 million, an increase of $6 million during the quarter.

Significant components of changes in cash include cash flow from operations of $28.7 million, $23.3 million in capital expenditures and payment of $10.6 million in dividends. While we continue to face liquidity challenges in Trinidad, the situation has improved with the sum total of cash and cash equivalents and short-term investments declining to $47.3 million versus $58.2 million a year ago.

To better understand the changes in our cash and cash equivalents and short-term investment balances, I refer you to the 4.02 8-K filed yesterday.

I will now hand it back over to our Executive Chairman, Robert Price, to speak further about our vision and strategy for the Company.

Robert Price: Thank you very much, Maarten.

I'd like to begin by stating that the Company's overall condition is excellent. We are serving our members well. We have a high renewal rate in our membership. We have a strong balance sheet, as Maarten just mentioned, and our underlying performance as to the basic business was sound last year, very good, except for the fact that the overlay of the tax and Aeropost factors created a general reduction in our earnings. But the underlying business is sound.

There's something I think is very important to emphasize to the investment community and that is the fact that during this last year we have significantly strengthened our management team. And I'd like to specifically mention the addition of our Chief Financial Officer, Maarten Jager, who we feel is a tremendously strong addition to the team.

I also want to mention Ana Luisa Bianchi, who is our new Chief Merchandising Officer. Ana Luisa began with the Company in Guatemala nearly 20 years ago and has occupied a number of very important merchandising positions in our company and I believe will have a very positive impact in the buying area.

In technology, one of the most important parts of the Aeropost acquisition is the team that is now a part of our PriceSmart organization. And that team, both in terms of marketing technology and

overall understanding of online business, we hope will be very significant as it plays out with respect to our entire operation for our members.

And then, as I mentioned earlier, the addition of Sherry as the new Interim CEO is very, very positive. I really -- I've worked with Sherry and I feel that the fact that we have worked together, worked together well, will serve the Company quite well.

I think the other thing to emphasize about our management team is that we have -- I've worked with some of the management group since The Price Club days and others would come later in terms of our working relationship. But I have a tremendous respect and regard for the quality of our management team and I think it's now a matter of bringing everybody together with a common vision.

I also feel very strongly that we have to do a better job of developing the management team, so that people have upward opportunities to grow in this company and to have career improvements for the future. And I think that applies to our back office people as well as to the people in operations.

I also want to mention, although it didn't happen this past year, but Francisco Velasco, who is our General Counsel, who has just been a tremendous support for the Company and very, very happy with his performance and what he's done for our organization.

Now I'd like to talk a bit about the vision, the strategic vision, and put it into maybe three buckets, one of which is the basic business. The second is what I would call an update of the format. And the third relates to new markets.

When we started Price Club over 40 years ago what we did that was different is we brought a more efficient model in terms of how we bring merchandise to customers. And that efficiency played out in terms of lower prices. And the basic consideration for our success is how do we get products from the manufacturer into the hands of customers in the most efficient manner, consistent with paying people who work in our organization proper wages and benefits. That model for us is challenging, because we are dealing in small countries from a distance. And up to this point we've really focused our entire distribution center -- I mean, distribution approach other than local buying out of Miami.

We have made a strategic decision to open 165,000 square foot regional distribution center in Costa Rica, to serve Costa Rica and a number of other Central American countries. We believe, based on our studies, that this distribution center will have a multiple benefit to efficiency. One is we think that we can get product to the market less expensively by shipping directly into the market rather than through Miami. The other is that we are going to be transferring many of the functions that are currently performed in the clubs themselves into the distribution center, where we think we can do them more efficiently. And third, and this relates to some geopolitical global financial considerations, particularly with tariffs, that we buy a considerable amount of merchandise from the Far East and we believe that this regional distribution center will allow us to ship directly into the market, into Costa Rica, and not have to deal with some of the tariff

problems that could be on the horizon in the United States. So efficiency in the distribution chain will hopefully translate into lower prices and ultimately more sales.

The second area of strengthening the basics is in the back office. We have many, many procedures that we are doing not only in San Diego but throughout our company that are very labor intensive. We need to apply technology in a much more aggressive way to making our back office more efficient. And that is a high priority for us.

And then the final part of the basics is the buying. We have identified that we need to strengthen the buying performance in certain areas, particularly in hard lines. As Maarten mentioned in his presentation, we have been seeing negative sales performance in many of our hard lines areas. We don't think that's acceptable. We think we can do better. And that's an area we've identified as a priority.

So one thing is strengthening the basics. The second is updating the format. We have a 40-year-old-plus format that is great. I have to say it's great because I kind of thought of it. But at the same time it needs to be spruced up a bit.

And the biggest change is related to technology and the way people are thinking about buying products today. And even in our markets Amazon is impacting us because of cross-border commerce. So we recognize that we have to figure out how that sweet spot between the traditional type of shopping that people are used to doing, and businesses are used to doing, frankly -- not just consumers but businesses because we sell to businesses as well -- and the way people want to use technology for shopping online.

And of course regarding the acquisition of the Aeropost team and their technology and logistics and marketing knowhow, they are going to hopefully play a very important role in helping us make that transition. And I would say even the best of them, and [you want to] consider Amazon the best, are struggling with the issue of how do you connect brick and mortar to online in a way that really works. And I don't think anybody has totally figured it out, but we think that's where the real issue is in terms of the future, is how you make it. Because people are still going to go into stores. They're not going to quit shopping in stores. But how do you connect it?

In our markets there are other factors that impact shopping behaviors, such as the fact that traffic is terrible. It's hard to get to locations. And the other thing is for us to find property in many of these highly urban cities is very, very challenging because of just the unavailability of it. So what we've done is we're now piloting two new clubs that will open when we're ready to open them. We've targeted springtime, but it may not be -- we may not make it by April or May. It depends when we're ready.

One is a -- and both of these clubs will be smaller, perhaps 60% of the size of our typical club. One is located in Santo Domingo and it's in a very high-income area of the city, very urban. And the other one is in Panama in a town, smaller town, which has surrounding towns, called Santiago. And it is quite rural. And they're very different. And we chose those two communities because we wanted to learn something about how we could function, how we would use a smaller format in an urban setting, particularly thinking about Bogota and Medellin, where it's so

challenging to get property, and in secondary cities in existing markets where we might be able to be successful in operating, but we have to determine how the small concept works.

The key is how we're going to combine what we sell in the clubs with the online. And the online -- these two clubs will not carry the full selection of products that we have everywhere else. Many of the larger items, major appliances, other hard goods items will be fulfilled from a distribution center, like the distribution center in Costa Rica. And we will use the space in the buildings to maximize the sale of more consumable products, so that the consumer will have the benefit of both the consumable products and the more durable hard goods. And the choice to get delivery on those online products either in their homes or in what they call click-and-collect, which has been used pretty successfully by Target and some other companies.

So that's what we're going to be piloting in that market. And we told our team that they need to think about these two locations almost like a new business. This is not PriceSmart light. This is something new and different that we're going to rethink cost structure of operations, the way we merchandise them, everything, soup to nuts, to determine whether or not we can come up with something that's going to respond properly to the new world in which we live. So that's one part of this future vision.

The second thing is that we've already in Costa Rica taken certain products out of our clubs that are big-ticket items like appliances and mattresses -- and actually, Costco's doing the same thing -- to make space for more consumable items. We're putting them in the regional distribution center and we will be selling those products, we think more efficiently, delivered to our customers and members than how we were selling them in the clubs. So we are gradually testing items with -- they're current selection items, but putting them into a online format.

The third thing that we're doing, and this has to do again with our regional distribution center, is that we will be selecting items that we don't sell in the clubs and actually stocking some of those items in the regional distribution center that will be able to be shipped directly to members or picked up in the club. And those would tend to be more [cube]-intensive items, on the durable or hard goods side.

And then finally -- and then the next thing we're doing is that we are looking at cross-border selection increase where out of Miami, through the Aeropost logistics, we would be able to ship products to our members that we don't currently sell in the clubs.

And finally, we are studying -- and each of these are big projects -- we are studying how we can offer our members home delivery or business delivery out of assortments that are in our clubs.

So those are the combined ideas that relate to how brick and mortar and technology, online shopping, can be coordinated in a way that moves this concept ahead and takes cognizance on the kind of world we're living in.

The third part of our strategy for growth has to do with new markets. And we're committed to making a more serious effort to try to enter new markets. Our constraints to now have been threefold. One has been the real estate issue that we face, even in Columbia, and concerns in

certain big South American countries as to the accessibility of getting the sites we need. The second is making sure that our management team is strong enough to handle what would be a major addition to current workloads. And the third has to do with our distribution system. And the tests we're doing in Dominican Republic and in Santiago are partially being done to test concepts that we hope could work in future markets, new markets that we're not in now.

So I think, to sum it all up, what we are going to be focusing on as our strategy is how do we continue to improve the delivery to our current members through better buying, better efficiencies, lower prices, and how do we take advantage of technology in conjunction with the traditional brick-and-mortar warehouse club business in order to have perhaps more opportunities to expand in existing markets as well as potentially to enter new markets.

So that's kind of the summary of the way I see it. And we're happy to take your questions.

Maarten Jager: Operator, we will now turn it over to Q&A.

Questions & Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions) Jon Braatz; Kansas City Hospital.

Jon Braatz: Kansas City Capital. First of all, Jose Luis, I wish you the best of luck. I enjoyed working with you and had the chance to meet with you in Barranquilla. I wish you the best of luck.

Jose Luis Laparte: Thank you.

Jon Braatz: Robert, a little bit on your strategy. You talked about -- you listed three or four points that you want to engage in. How much will all this cost? Can you give us an idea of what the capital investment might be to complete these tasks that you listed?

Robert Price: Well, many of the things I talked about I don't think are incremental costs at all. I think it has to do just getting back to basics and doing our business better.

Jon Braatz: Okay. All right. And then, secondly, one of the underlying concepts to PriceSmart has always been to when you generate cost savings you pass that on to the consumer in terms of lower prices. Are you going to deviate at all with that policy? Or will you continue to pass it all on to the consumer? Or are you maybe going to keep a little bit --

Robert Price: I'm going to explain to you why we have that policy. I want to tell you what business reason there is. When my dad started FedMark and then we started Price Club, we had one basic tenet, which is that we have a fiduciary responsibility to our shoppers, our members. And they have to trust us. So we want our members to develop a sense -- and this has happened,

certainly it happened to Price Club and Costco -- that anything we put out for sale is their -- they can trust the integrity of the pricing. We're not holding back.

And my father also said, and I really believe this, that if you're going to make a mistake in pricing, you always the mistake in favor of the customer, not in favor of yourself. And the third point is that we're in a competitive world. We're in a world with Amazon. Forget the local guys. We've got Walmart. But you have big players who are very fierce competitors. And one of the things that we do not want to do is create what we call an umbrella, so that we give them room to raise margins so that they can attack us on other products. Our strategy is to take everything we can in terms of efficiency in buying and keep the lid as tight as we can so it discourages competitors from coming into our market and for the competitors that are already there it makes their lives miserable. And that is the way we think about it.

Jon Braatz: Okay. Thank you, Robert. I appreciate that color. And Maarten, one question. In the third quarter your gross margin on Aeropost, the gross margins were about 78%, and in the fourth quarter they were about 45% or something like that. What changed in terms of the margin on your Aeropost sales in the fourth quarter?

Maarten Jager: Jon, let me take that off line and just make sure that I get all those numbers right. And we'll get back with you later today. Okay?

Jon Braatz: All right, no problem. Thank you.

Operator: Ronald Bookbinder; IFS Securities.

Ronald Bookbinder: First, yes, Jose Luis, congratulations on what a terrific job you have done over the years. The stock price really shows that from when you came on board.

My first question is, this is a pretty massive plan that you're shifting to. How many years do you think it is going to take to pretty much get to most of your vision?

Robert Price: Well, I'm 76 years old, you know. My dad used to say he doesn't buy green bananas anymore. And I guess when you talk about years it makes me nervous.

Ronald Bookbinder: So you're planning a pretty quick transition to the new focus and execution?

Robert Price: Well, yes. Why do you want to wait?

Ronald Bookbinder: Exactly. Are there competitors that are aggressively coming into your territories with a similar strategy that you're trying to fend off right now? Or is this more getting out really ahead of the competition?

Robert Price: This is not a reactive strategy. This is really doing -- assessing the world as it is today and trying to come up with proper answers to how you compete and how you serve your members.

Ronald Bookbinder: So as you look at investments going forward, store growth versus online, should we look for a real slowdown in store growth as you build out and sort of shift direction to more online and then later on look as to markets where you might need a store to help support your omnichannel vision in that market?

Robert Price: You can't disaggregate the stores from the online. They're really all part of a whole. And so the future is, how do you take both facets of retailing, and in our case some wholesaling, and put them together in a way that works? That's what all of us, all the people in the retail world are trying to figure out -- Costco, everybody. And even Alibaba is beginning to buy stores. So it's really a question of what is that sweet spot between -- and how do you make sure that you can integrate properly the technology, the benefits of technology, with the traditional ways in which people have been shopping.

Ronald Bookbinder: With the new greater emphasis on online, will you focus at any territories especially stronger than others? Like, will you focus mainly trying to build this out in Costa Rica, Panama, Columbia first before taking it to smaller markets?

Robert Price: Well, our two tests that we're working on, pilots I guess you'd call them, one is in Dominican Republic and one is in Panama. And I think it was just a matter of the fact that we were able to identify in each case a location that seemed to fit for doing the pilot.

Ronald Bookbinder: Yes. But the sort of smaller stores, I guess you could relate them to the old Sears catalog stores, what -- you'll be looking to --

Robert Price: Well, Sears, [unfortunately] Sears had a catalog and they blew it.

Ronald Bookbinder: Yes. (Laughter) Sears isn't doing too well these days, but --

Robert Price: You know, they've kind of lost their way.

Unidentified Speaker: Yes.

Ronald Bookbinder: They used to have those tiny little stores that really didn't have any merchandise in them, where they would have catalogs and you could come in, usually in small rural markets. And you'd pick out what you want and they ordered and, like you said, click and collect. And so it's just a great little point in these smaller markets.

But so when looking at Columbia, we used to look at Columbia and think you guys could have 17 stores in Columbia or somewhere up that when you compare the size of the economy of Columbia to Central America. But so does that change how you're going to be looking at the Columbian market?

Robert Price: No.

Ronald Bookbinder: Okay. All right. That's about all my questions. It's quite interesting to see the changes going on here. And good luck.

Jose Luis Laparte: Thank you, Ronald.

Operator: Nicholas Alfonso; Compass Group.

Nicholas Alfonso: Thank you for the presentation. My first question is about the exchange rate. Currently the economic [data] is [trading] up at 3,185. Will this have any effect on your following results? And the second question is about the applications for the online business that is developing here strongly currently during the -- it's very trending in Columbia. Do you have any view about this?

Maarten Jager: I think Nicholas -- this is Maarten. We had a lot of static on the phone. I think one of your questions was about FX rates and the other one was about the online trends in Columbia.

Jose Luis Laparte: Columbia.

Maarten Jager: Let's take the second question first, on the online trends in Columbia.

Jose Luis Laparte: Yes. Columbia -- this is Jose Luis, Nicholas. Columbia probably of all the countries is the one more developed in terms of online business. Obviously you have the (inaudible), you have (inaudible). You have other retailers that have been working on strategies for online, especially delivering food to homes, and some of the electronics. It is definitely more aggressive in that country. But we haven't seen a real effect. And I don't think it is at the level of the US competition. So hopefully that's what you were kind of asking about the online business.

Of the other countries there is a component of online, definitely not as developed, not in the Caribbean islands or not even in some of the bigger Central America countries, like Costa Rica or Panama, not bigger for us in terms of business. Columbia definitely would be the one more competitive.

Then the other question was (inaudible) --

Maarten Jager: Yes, this is Maarten again. In terms of FX rates, I quoted you the number of the Columbia comps. We look at it of course on a constant currency basis, although we're not very chatty about it. But even on a constant currency basis our Columbia comps were double digit, or 10% and change. So we're dealing quite well. Thank you.

Operator: Jon Braatz; Kansas City Capital.

Jon Braatz: Last quarter on the conference call you had mentioned that you ship products from Costa Rica through Nicaragua to Guatemala, Honduras, and so on. And there were some concerns about issues going on in Nicaragua. Did you have any issues in the quarter moving merchandise through Nicaragua to those other countries? And did you incur any additional costs to do so?

Jose Luis Laparte: Yes, Jon, there was. Obviously the last quarter of the year was pretty rough, because that's exactly when the events in Nicaragua started. So we had a little inconsistency in our shipments during that few weeks. It got more back to normal. We did incur a little bit of more expenses because we had to go around Nicaragua for some of the shipments. It seems that it's more back to normal. Obviously in Nicaragua it's not completely stabilized yet and it will probably take a little longer. But so far it hasn't been as difficult as it was in Q4. We don't foresee necessarily those challenges in Q1 of this year. Again, business is I would say normal, but not necessarily -- but not like what we would like to see in Nicaragua like it was before May. But hopefully we don't see more disruption.

Maarten Jager: Hey, Robert, just to follow-up to your -- sorry, Jon. I apologize. There was a question about Aeropost and the expense.

Jon Braatz: Yes.

Maarten Jager: The simple answer really is to look at it from a year-to-date basis, because as we disclosed in the notes, in F11 of the financials, Note 1, there was a minor reclass we made to cost of goods sold during the quarter of approximately $2 million. So you'll see that in the notes and we can walk you through that later to just clarify that.

Jon Braatz: Okay, thank you, Maarten.

Maarten Jager: Operator, I think that was the last of the questions. Over to the Operator.

Operator: This now concludes the answer-and-question session. This has also concluded the conference. Thank you for attending today's presentation and you may now disconnect.