[PSMT] - PriceSmart, Inc., Q1 2019 Earnings Release Conference Call
Thursday, January 10, 2019, 12:00 Noon Eastern

Officers
Maarten Jager; EVP, CFO
Sherry Bahrambeygui; Interim CEO

Analysts
Jon Braatz; Kansas City Capital
Pedro Leduc; Newfoundland Capital Management
Ronald Bookbinder; IFS Securities
Thomas Vester; LGM Investments

Presentation

Operator: Good day, everyone, and welcome to PriceSmart, Incorporated's earnings release conference call for the first quarter of fiscal year 2019, ending on November 30th, 2018. (Operator Instructions)

After remarks from our company representatives, Sherry Bahrambeygui, Interim Chief Executive Office, and Maarten Jager, Executive Vice President and Chief Financial Officer, you will be given an opportunity to ask questions as time permits. (Operator Instructions)

And as a reminder, this conference is being recorded today, Thursday, January 10th, 2019. A digital replay will be available through January 17th, 2019, 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 10126894.

And 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 first quarter of fiscal year 2019. We will be discussing the information that we provided in our earnings press release and our 10-Q, both of which we released yesterday, January 9th, 2019. You can find both the press release and the 10-Q 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 31st, 2018, filed with the Securities and Exchange Commission on October 25th, 2018.

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

Now I will turn it over to Sherry Bahrambeygui, PriceSmart's Interim Chief Executive Officer.

Sherry Bahrambeygui: Good morning, everyone, and thank you for joining us today. This is my first official earnings call since I accepted the responsibility of Interim CEO on November 16th.

First I'd like to share with you some of my activities over the last seven weeks along with some high-level observations and then turned to the Q1 results.

During these last seven weeks, I've immersed myself in a broad range of the company's operations. My priorities have been, first, to broaden my knowledge base of all aspects of the business as quickly as I can. Second, to evaluate talent and identify potential gaps and opportunities to fortify our talent. Third, to determine the best way to execute on the right growth strategy supported by that talent. And fourth, to properly assess risk both in terms of avoidance and positive opportunities to expedite our growth.

Since November, I visited our corporate offices in Miami to meet with the rest of our executive team and our offices in Bogota, Panama, and Guatemala, to meet with many members of senior management and staff as well as support functions in finance, legal, and IT.

I've seen our distribution center in Miami and visited our newest 166,000 square-foot state-of-the-art regional distribution center in Costa Rica, which we believe will be an important part of how we improve on our efficiencies in the supply chain and also gain greater vendor support for better pricing.

I spent time at the offices and operations in Costa Rica of the company that we acquired in March, which we've been referring to as Aeropost. And I've met with that leadership team to advance our efforts to integrate the best capabilities to support and help grow our business.

I've walked the clubs in Pereira, Medellin, Chia, and Bogota, Columbia, as well as our clubs in Panama, Costa Rica, and Guatemala, and some of them with our company's founder, Robert Price. I intend to do a similar trip to our Caribbean markets next month.

And I've listened carefully to buyers, assistant buyers, inventory control clerks, team members in logistics and operations to familiarize myself with their challenges and their opportunities.

I've traveled with country managers and club managers, and I've spoken with stockers and cashiers. I've engaged directly with our members to hear firsthand how we can improve the lives and businesses of our members.

During these visits and meetings, I was consistently impressed with the strong dedication and commitment of our employees. It reinforced for me what I always sensed while I've been serving on the company's board, exactly how much we mean to our employees, to our members, and to the communities where we operate. I'm proud to see we matter in our markets. We play a very important role and are a model of business in the communities where we operate.

Now, in walking the clubs, I saw clubs that were exemplary, a model of our club concept, beautiful clubs buzzing with activities, presentations, merchandise that was exciting and displayed well. I had the opportunity to see our seasonal sets and our mix of local and imported products. But I also observed in some clubs certain areas that were just not up to standard, things, frankly, that we aren't doing enough of or that we can do better, things that can be easily improved simply by more closely adhering to the six rights, the basic tenets of our merchandising philosophy.

And for those of you who may not be familiar, these tenets have withstood the test of time ever since when Sol Price first laid them out. It is our responsibility to have the right merchandise at the right time in the right quantity, in the right condition, at the right price.

That's one of the benefits of coming up with a fresh pair of eyes. I can revisit how we do things and ask, is there a better way? Is there a more efficient way? Where does greater collaboration make sense? Where should we be investing more resources? Are we making the most of one of our greatest points of distinction from other retailers and one of our main assets, our membership data? What kind of corporate citizen do we want to be in our markets?

In collaboration with our team members and our executive chairmen, we can revisit how we buy, how we negotiate, how we remain exciting. How do we exceed the needs of our members?

I've also spent a good deal of time communicating with the executive chairmen and other members of the board about my observations.

I also want to thank our team members for all the time they spent sharing their ideas and insights with me. As a result, I've also developed a clearer perspective on key strategic operational and organizational imperatives for PriceSmart and what is our responsibility to deliver to our shareholders.

Our key priorities are to, first, drive same-store sales growth by significantly improving our core business. We need to be vigilant about the six rights of merchandising, and this

will impact all of the core areas of our business from buying and operations through supply chain.

We need to develop and build talent both internally and externally, and optimize our organizational structure. We need to drive growth by accelerating our digital transformation so as to better position PriceSmart in a rapidly evolving omni-channel digital-competitive environment.

We're in retail. Our members today expect certain things in how they shop. We need to address that. We need to drive longer term growth with our new format concept which is currently underway, and continue to evaluate opportunities to enter new markets. We need to re-energize a culture of performance and accountability.

Now let me turn to our results with an overview of Q1. Total revenues were $779.6 million, an increase of 1.6% over the comparable prior year period, which includes a $9.2 million contribution from the business that we acquired in March, which has been referenced as Aeropost.

Net merchandising sales were $747.4 million, an increase of 0.3% over the prior year period.

Currency fluctuations had a negative 2.6% impact on net merchandise sales. Comparable net merchandise sales decreased by 2.1%, with currency fluctuations impacting comparable sales negatively by 2.5%.

As a reminder, we ended this quarter with 41 warehouse clubs compared to 40 clubs at the end of the first quarter of fiscal year 2018.

Net income for the first quarter of fiscal year 2019 was $14.6 million or $0.48 per share compared to $22.5 million or $0.74 per share in the comparable period last year. This result includes a $0.13 per share impact from a combination of costs associated with the acquisition we made in March, the operations of that business, and our ongoing investments in our development in our omni-channel platform.

The quarter also includes a $0.13 per share impact from charges related to the separation package for our previous CEO. As such, these two factors combined had an EPS impact of negative $0.26 per share.

The Central American region had a 3% decrease on total merchandise sales and a decrease in comparable sales of 4.5%. 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 50 basis points for the quarter.

General weakness in the economies in Costa Rica, Panama, Guatemala, and Nicaragua contributed approximately 2.6% of the comparable sales decrease.

The impact of currency on total and comparable sales to the Central American segment were each negative 2.7%.

Now turning to the Caribbean. The Caribbean region had a total merchandise sales growth of 4.8%, while comparable sales were slightly negative at negative 0.2%. The USVI again reported very strong sales growth of approximately 30%, and this was largely the result of the prior year's hurricane impact on competitors.

Jamaica performed well, while the Dominican Republic was impacted by the Santiago Isidro store opening, which had a negative impact on net comparable sales of approximately 40 basis points.

The impact of currency on total and comparable sales to the Caribbean segment was negative 1.4% and negative 1.2%, respectively.

And last, in Colombia, we finished with 5.8% growth year-over-year, with a comparable sales growth of 5.4%. The impact of currency on total and comparable sales in Colombia was negative 4.7% and negative 5%, respectively.

In terms of merchandise categories, we saw good results in the fresh and softlines areas, with departments such as seafood posting a 6.8% growth and fashion apparel growing 5.7%, canned foods grew 2.6%, flower and plants grew 4.7%.

Now moving to membership. We finished the quarter with approximately 1.6 million accounts, up 3.4%. Membership income was up by 2.9%. The 12 month renewal rate at the end of November was 85%. Excluding Colombia, the renewal rate was a healthy 87%. The renewal rate in Colombia finished at the end of November at 79%, which is a 1% increase over a year ago.

The Platinum program grew 47% year-over-year and has now been rolled out in Panama, Costa Rica, the Dominican Republic, Trinidad, and the USVI.

On the distribution and logistics side, our Costa Rica RDC continues to ramp up and we're in the process of streamlining our merchandise flows through this new 166,000 square-foot building which I referenced earlier, and that should allow us to drive efficiencies that we can pass on to our members.

In addition, in both Panama and Costa Rica, we've initiated direct-from-farm produce purchasing, which allows us to better control quality as well as realize substantial savings in the cost of goods.

Our first quarter results continue to be impacted by challenging external factors in several of our markets at once, including economic, social, and political stressors as well as by currency fluctuations. Notwithstanding those challenges, we have many opportunities to improve member value by buying better and being smart about how we get that merchandise from the vendor to our members at the best value.

Now for December, as I mentioned, I traveled to multiple markets including Colombia, Costa Rica, Guatemala, and Panama, and also had the opportunity to see how we executed for the holiday season. As released earlier this week, net merchandise sales were $347.1 million, an increase of 0.9% versus a year ago, representing the highest monthly sales in the history of our company with 3.9 million transactions. FX fluctuations impacted net merchandise sales by 3.3%.

For the four weeks ended December 30, 2018, comparable net merchandise sales increased 0.4%, with a negative FX impact of 3.3%. Unlike last year, this four-week period did not include New Year's Eve which boosted sales a year ago and was mentioned on last year's conference call.

I want to thank you for the opportunity to share this information with you. I want to thank our almost 9,000 employees for their commitment to moving us to a bright future. And after Maarten's remarks, we will take your questions. Thank you very much.

Maarten Jager: Thank you, Sherry. Let me provide some additional financial details. I will attempt here to bring as much clarity on the impacts of costs related to the departure of our former CEO as well as the impacts of the financials related to the activities we have previously bundled underneath the heading of Aeropost. The key message that I hope to land with is that the performance of our core business is solid, notwithstanding significant external headwinds that Sherry has already addressed.

Our headline EPS number of $0.48 versus $0.74 a year ago is impacted by the $0.13 per share from CEO departure cost as well as another $0.13 per share impact from the cost bundled under the Aeropost heading. These two factors together represent $0.26 per share, as Sherry mentioned. This quarter also had a beneficial impact of $0.05 per share from tax reform. I will come back to Aeropost a bit later.

Merchandise margins for the period came in at 14.2% versus 14.5% a year ago. Total gross margins increased to 16.2% from 15.9% a year ago, mainly due to higher margins on non-merchandise revenue, from our Aeropost subsidiary contributing 60 basis points.

In addition, the reclassification of shared income generated from co-branded credit cards contributed approximately 20 basis points to our total gross margins.

And in Colombia, merchandise margins have increased to 13.0% of warehouse sales versus 12.7% last year.

SG&A of the total business was 13.1% versus 11.6% a year ago. SG&A accounted for as Aeropost represented $9.5 million of that, or 120 basis points of the increase. The separation and other related termination costs for our former CEO represented $3.8 million or 50 basis points. The core business warehouse operations and other expenses leveraged by 10 basis points.

Operating income was $24.7 million versus $33.2 million a year ago. Again, operating income includes the impact of CEO departure-related costs, $3.8 million, and Aeropost, $4.5 million.

Operating income for the core warehouse club business declined to $29.3 million versus $33.2 million a year ago, largely due to lower sales and gross margin rate offset by lower warehouse expenses.

Moving on to net interest expenses which decreased marginally by $220,000. Other income decreased $2.1 million as a result of $1.8 million of foreign exchange losses. This included a $1.5 million FX loss in Jamaica resulting from a somewhat unusual 7.1% appreciation in the Jamaican dollar where we have a net U.S. dollar asset position.

In Costa Rica, we experienced a weakening of the local currency relative to the dollar. And in Costa Rica, we have a net U.S. liability position.

Moving on to tax. For the quarter, the effective tax rate was 33.9%. The increase versus the 31.0% in the same quarter last year was driven by several factors. U.S. tax reform and export-related tax incentives helped by 7.5%. Colombia's improved results also helped by 1.8%. But they were offset by the recognition of more income in higher tax jurisdictions, a negative impact of 1.8%, the impact of Aeropost on the tax rate, 4.5%, the impact of our former CEO departure cost 3.8%, and the impact of changes in FX value 0.9%.

Our prior fiscal year guidance was for an effective tax rate of 35%. Looking forward, we now estimate that to be 37%, primarily due to the CEO departure impact and the timing of effects from U.S. tax reform.

Now let me come back, as promised, to Aeropost. I would ask you keep in mind three buckets as it relates to Aeropost, because we have historically bundled them into one number, which I will now unpack for you a little bit more. Those three buckets are a legacy business, the pricesmart.com-enabled omni-channel business, and, third, acquisition-related accounting.

As you know, we acquired Aeropost a little under a year ago. The purpose, of course, is to allow PriceSmart to accelerate its efforts in digital commerce, also known as the new pricesmart.com business. This includes investments similar to those we were making in other ways prior to our acquisition of Aeropost. You may recall we refer to those investments as investment in innovation, which were targeted to deliver an omni-channel shopping experience like is done by so many other retailers in the U.S. and around the world. The investments into this business during the past quarter represented $1.6 million of net income impact.

With the acquisition, we also acquired the original Aeropost business, which consists of a package forwarding business known as the Casillero business as well as a marketplace business. These businesses have know-how, customers, assets, distribution, and logistics

capabilities in reach.

We have made several investments into the legacy business as well. The legacy business represented also $1.6 million of net income impact for the quarter.

Finally, there are the acquisition-related accounting impacts which we have discussed on past calls. These represent $0.7 million of net income impact for the quarter. And as I know you're keeping track, the total of these three buckets is $3.9 million of net income impact, or $0.13 per share.

Moving on to the balance sheet which remains very strong. The company ended the quarter with cash and cash equivalents of $88.4 million, a decrease of $8.5 million during the quarter. We used $64 million less of cash in the quarter versus a year ago.

During the quarter, cash provided by operating activities was $25.7 million versus a use of $10.2 million in the same quarter last year, for a favorable swing of $35.9 million. This was primarily due to improved working capital.

Net cash used in investing activities declined by $29.7 million due to differences of our construction timing in this quarter versus construction timing in last year's quarter.

Investing activities in Q1 this year were associated with the construction of our four new warehouse clubs in Panama, the Dominican Republic, and Guatemala.

In summary, we have seen headwinds in sales and margin flow through to our core business. We were able to offset that in part with good expense management. We also had CEO departure costs with an impact of $0.13 a share. And we continued our investment in Aeropost.

I shared with you the three main buckets which combined for a $0.13 per share impact. Our balance sheet and liquidity remain strong, and we are continuing to work simultaneously on improving our core business basics while investing in an exciting future that will benefit our members and shareholders alike.

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

Questions and Answers

Operator: Thank you. (Operator Instructions) Jon Braatz with Kansas City Capital.

Jon Braatz: Returning to Aeropost. I know you've only had it for a while. But have you seen any traction yet, let's say in the month of December, in terms of your online activities and what you're trying to promote in terms of online? Did you see anything in the month of December?

Sherry Bahrambeygui: Actually, Jon, we have. First, I'd like to say that it really is early

on in the process as we're trying to understand where the greatest value is to be unlocked from this acquisition and how to best apply it and integrate those technological capabilities and the talent into the very core of our business at PriceSmart.

One thing through aeropost.com that we've been able to do is test certain things and get kinks out, so that as we transfer capabilities over to pricesmart.com there's a much smoother transition and a better experience for the members. And we started to see sales on pricesmart.com in December.

We also have some basic functionalities, the ability to -- we're starting to have the ability for people to renew their membership or sign up for membership online. But this is really very early in the process. But we have a plan. Aeropost.com gives us the opportunity to gain intel on what consumers are buying, expose us to customers that are not currently PriceSmart members, see what trends are, and help us make intelligent decisions about how to have an effective platform.

Jon Braatz: Sherry, do you think going forward that you might disclose in Aeropost revenues what might be facilitated revenue versus online transaction revenues?

Sherry Bahrambeygui: I don't know that I can answer that question quite yet. It's really more complex than that. A lot of what we're doing with Aeropost is allowing for transactions that may occur, for example, in the club that are fulfilled directly with the member. And whether you count that as part of pricesmart.com or aero, you know, so it's not as simple as looking at it that way.

If you wouldn't mind, I'm sure were going to be able to articulate it in a much clearer fashion, if you give us a little bit more time.

Jon Braatz: Okay. And then when you look at the pace of investments that you're making in Aeropost, would you anticipate that pace to level off here or ratchet up, decline a little bit? How would you view Aeropost spending going forward?

Sherry Bahrambeygui: Well, let me share with you an observation. If you look at what retailers are doing to meet the expectations of shoppers and what they're investing in e-commerce and omni-channel and digital transformation, I think we're taking a very measured approach. We certainly saw value in Aeropost, which is the reason why we acquired them. But that doesn't mean that it was just a plug-and-play that was going to be the answer to all of our e-commerce and omni-channel needs.

And as we're going through this process, we're making those decisions about where to invest. Yes, do I anticipate additional investments? Absolutely. At this point, it's difficult for me to quantify because we're in this stage of trying to make those evaluations. But I can tell you, we're being very measured. We are looking for opportunities just as we do with our business philosophy to take no-frills approach and make sure that the results are going to be closely aligned with the investments that we'll be making.

Jon Braatz: Okay. One last question. On some of your visits to the stores, you mentioned that there were some disappointments and so on. Were they more things that should be done locally? Or is it more of going back to the corporate, sort of the corporate position? Or is it just a local thing that has to be corrected?

Sherry Bahrambeygui: I think there was equal opportunity, to be honest with you. Based on what I saw, there were things that all aspects of our company could contribute to improvements in making all of our clubs look as good as what many of our clubs do.

Maarten Jager: Back to the six rights you mentioned.

Sherry Bahrambeygui: Yes. I mean the six rights, really it was -- I had learned -- and by the way, I think I left out one of the six rights as I was going through, which is the right place.

But it really came back to fundamentals. When we were walking through, a lot of the things that we saw that were just suboptimal. We were like, this correlates directly back to the six rights and a reminder and a refresher. And maybe that's why I took the time to lay it out on this call, that it's good for us to go back to our basics and make sure that we're applying that discipline stringently. And so, but the good news is, I saw a lot of opportunity that wouldn't take a tremendous amount of effort to improve those things.

Jon Braatz: Okay. One last question. Anything new on the CEO search?

Sherry Bahrambeygui: Well, the CEO search is something that's being handled by the board. And I'm not in a position to answer any questions about that, other than the fact that it's something that the board is taking responsibility for.

Jon Braatz: Thank you.

Operator: (Operator Instructions) Pedro Leduc with JP Morgan.

Pedro Leduc: It's actually Newfoundland Capital Management. Pedro Leduc, yes. First on Colombia specifically, we saw recent measures there by the government trying to limit the payable base for small, midsize suppliers. Just wondering how that would impact you if you do source locally. And if yes, they have, I'd imagine, many small suppliers. But just want to make sure the average size there how it works out.

And then second, off the market factors that you mentioned were impacting activity, be it macro and then social, et cetera, have these any reverted, have gotten any better? Any particular markets that you would highlight? Thank you.

Maarten Jager: Hi, Pedro. And thanks for being on the call, and we got the two questions. I think that on the first question, honestly, I'm going to have to follow up with you with some more details on that.

On the second question, I'm sure that Sherry can add to my perspective, which is that we still see continued challenges in the markets that we've been calling out in the past quarters, and I'm sure that you also are reading about and seeing. And we are managing through those, particularly in Nicaragua, in Costa Rica, in Panama, even in Barbados we see some pressures.

Now, the good thing is that we do operate a portfolio of markets and we do have markets that are strong. But as has been said before on the prior call and on this call, right now it feels like we have somewhat more markets simultaneously representing headwinds to our business than in the past.

Sherry, would you like to add a little bit from your trips?

Sherry Bahrambeygui: I think that's a good summary of market that I did not visit, which is, obviously, an area that we're focused on is Nicaragua, and we're monitoring that very closely. The political and economic climate there is obviously challenging. The NICA Act was signed by President Trump on December 20th. That includes sanctions. So that is a market that we're watching closely. Our first priority is to keep our members and our employees safe, and for a while early on when there was some violence and strikes in the markets, we curtailed hours, we increased security. Those things abated. But it is a fluid and dynamic situation. And now with the signing of the NICA Act, is something that we're paying close attention to.

Maarten Jager: And I will add, Sherry, to that, that in Costa Rica, Pedro, the tax reform has passed, which, hopefully, will set the stage for recovery. But of course, it remains to be seen. But at least that has passed.

Pedro Leduc: Interesting. Okay. Thank you, Sherry and Maarten. Now just a follow-up on the gross margins. You mentioned they've been expanding from non-merchandise revenues, the merchandise [rough flat's five down]. From the visits, Sherry, that you've made, how do you feel your price points are at this point? Should we maybe consider reinvesting part of the non-merchandise margin gains into the merchandise business, trying to maybe increase the renewal rate? Just thinking how you guys are going to balance this one. Thank you.

Sherry Bahrambeygui: That is certainly one of the areas that we are focused on. We have our routine comp shopping and analysis of how we compare to our competitors in the market. But as you know and since you're familiar, that our model is to try to maximize efficiencies and buy as best we can so that we can reinvest that in lowering prices and being as competitive as possible to drive volumes to give our members the best value. So that is an area that we're looking into.

It's not a one-size-fits-all answer, though. It's a very involved process where products, imports, locals, everything has to be looked at and analyzed on a very detailed basis to see what makes sense and what's right to do.

Pedro Leduc: Great. Thank you very much.

Operator: Ronald Bookbinder with IFS Securities.

Ronald Bookbinder: First, I was wondering, you mentioned what categories were doing well. What were the weaker categories? And what is being done to help improve those or edit those categories going forward to help drive comp?

Sherry Bahrambeygui: I think the category that we probably are most focused on in terms -- is hardlines. It's a very challenging category. We haven't been doing as well as we'd like to be doing in that area. And we are addressing that in terms of looking at all aspects of our vendor relations, our buying, logistics. And again, I'm going to refer back to the six rights and applying those with great discipline with regard to hardlines.

Ronald Bookbinder: Okay. And you've got a new buying team. What adjustments have they been making --

Sherry Bahrambeygui: Excuse me for interrupting. I want to make sure I understood what you just said, because I don't know if it's what I said.

Ronald Bookbinder: No. You have a new chief buyer and they've brought in some people. And so I was just wondering, what are they seeing as areas of opportunity and adjustments that they're making, which could help drive comp?

Sherry Bahrambeygui: Again, well, there's a few things we're doing. One is in terms of the vendor relations, and going back to the vendors and negotiating for the best possible value. We are looking for ways that we can partner with our vendors so as to make their life easier in their ability to deliver more efficiently improve on that. That's part of why we're investing in these regional distribution centers, because we see an opportunity there, and product selection. So, and also we're reviewing margins.

Ronald Bookbinder: Okay. And moving over to Jamaica, was the foreign exchange loss there, was that primarily a non-cash loss?

Maarten Jager: Yes, it's unrealized, but it just has to do with our net US dollar asset position there. And as you know, Jamaica historically has typically devalued and it just all of a sudden took an appreciation turn. So it represented some exposure, but it's unrealized. And to the extent that the currency would go back to its historical pattern of devaluing, that would then represent a favorable impact for us going forward. But that remains to be seen, obviously. We don't know how currencies will fluctuate.

Ronald Bookbinder: Okay. And on the new smaller clubs in Panama and the Dominican, they're not opening until the spring. But I was wondering, are you getting that feedback from the community that they're excited about it? Or how they're going to

end up differing whether they're rural or urban compared to your sort of legacy stores.

Sherry Bahrambeygui: Well, the format that we're opening in Panama is one that we know that there's a strong support in terms of members wanting to be able to access PriceSmart in an area that's more convenient for them. So the new format that we're looking at in terms of the DR that's going to be more of an urban concept, we have not gone out with any big announcements quite yet because we are working on making sure that this is going to be a concept that we're proud to introduce in terms of the capabilities and the ways we expect our members should be able to shop in a smaller physical setting and still realize the value and the benefits and the treasure hunt and the excitement that our clubs, traditional clubs offer. And that's one that has more unknowns to it in terms of how we're going to be executing on these new concepts.

And so until we get everything pinned down, we're not going to be getting ahead of ourselves. So there will be an advanced time where we will market for new memberships. And at that time we'll be announcing more of the specifics of the attributes.

Ronald Bookbinder: Okay. And lastly, on Aeropost, I would think that their business has seasonality just like any other retailer, such that during holiday or Christmas or Semana Santa -- I don't know if Semana Santa -- I would imagine it's still a sizable impact for them.

Should we see seasonality in net revenue as we go through this? And sort of what magnitude of seasonality should we expect?

Sherry Bahrambeygui: When you talk about that business, it's a loaded question, because, as Maarten explained, Aeropost has the Casillero, what we refer to as the Casillero business, which is the freight forwarding business and packages that are being sent. And that obviously, I think it's logical that that would have seasonality to it. There's the aeropost.com site, which like is basically a retail source. And I would imagine that also has seasonality to it.

But again, the business that we acquired is primarily for us to build our business for pricesmart.com and omni-channel capabilities to be able to sell PriceSmart merchandise to our members in the most efficient way. I don't think that has seasonality to it.

Ronald Bookbinder: Okay. Well, great. Thank you for taking my questions and good luck in the new year.

Operator: Thomas Vester with LGM Investments.

Thomas Vester: Just first, I notice in the 10-Q that you now showing club openings for the next two years instead of just one year. Can you say anything since management change, has there been any evidence on, let's say steepening the curve on the club opening front, so being slightly more aggressive in sourcing new sites? And perhaps also

on that, the two 2020 number of two new openings, do you think that's final, or do you still hope you can squeeze one or two more into that?

Maarten Jager: Thomas, thank you for the question. I don't think that we've really changed the way that we report. What we do is we announce new clubs when we have closed on the purchase or on the lease. And it just so happens that the four that we've announced right now, two of those fall in this fiscal year, right, which ends August 31st, and the other two, number 3 and number 4, fall into the subsequent fiscal year, fiscal year 2020, which starts on September 1st. So that's why maybe -- maybe you notice that. It's not necessarily a deliberate change in how we want to provide our outlook.

Although we recognize that you and others are interested kind of in what our forward-looking approach is and stance is in terms of buildings. We look at our markets. We evaluate opportunities as they come. We go through that very diligently to make sure that the growth opportunity is there, but also that the bottom line return opportunity is there. And we are continuing to do that. So by no means do these four represent all we are looking at. We are actively looking at others, but we are not prepared at this point to discuss those or to disclose those because we haven't closed on any of those. And I would like to turn this to Sherry to add some more color.

Sherry Bahrambeygui: Yes. I would like to express that generally, as I mentioned earlier, talking about driving growth with our new format concept is a major area of focus for me and for management and the company. As has been discussed in the past, one of the major obstacles or deterrents to being able to expand quicker has been real estate. And identifying appropriate properties in the size that our traditional clubs required in the markets where we think we would be successful has been a challenge both in terms of locating them and the cost.

So part of the whole strategy behind the new format concept is this is a way for us to, we believe, create shopping opportunity for our members that requires less real estate, less of an upfront investment in real estate, would open up more opportunities for locations that are appropriate. And assuming this works, that will give us a great deal of momentum in being able to expand quicker. And that's a goal that we have and we're very focused on.

Thomas Vester: And can you give anything on the timeframe for what you see today when you think you are at the place where you can pull the trigger on that and ramp it up? I mean, I don't expect any precise dates. But is this one quarter out, two quarter out, or is it multiple years out? I mean, just anything in that direction would be great.

Sherry Bahrambeygui: Well, I'll give you some facts. We're currently looking at this new concept as opening in perhaps late spring. And as we've said in the past, we're going to open when we're ready because it's very important to us to do it right.

I've been in this seat for seven weeks. So if you wouldn't mind giving me a little bit more time and also allowing us to see how this new format is accepted and received, I think we can give you a much better answer on a subsequent call.

Thomas Vester: Okay. And just on Aeropost, I'm not sure I read the numbers correctly here. So forgive me if I'm doing it wrong. But sales in Aeropost was down quite substantially from Q4 to Q1, is that correct?

Maarten Jager: We'll follow up with you on that.

Thomas Vester: Okay. Okay. And then on the management, I appreciate your comment earlier, Sherry, that that's a board issue, which I fully understand. But again, can any light be shared on the timeframe here to when (indiscernible) is expected?

Sherry Bahrambeygui: As to what's expected?

Thomas Vester: On management structure for PriceSmart going forward.

Sherry Bahrambeygui: Really, I can't shed any more light other than the fact that it is top of mind for the board and that really this is a board question, especially for me being in this position that I'm in right now. So I don't think it would be appropriate for me to give any further information on that.

Thomas Vester: Fully understand that. So thank you so much for your great [input] in the last seven weeks and best of luck.

Maarten Jager: Okay. Operator, I don't think there any more questions in the queue.

Operator: Thank you. Yes. And this will conclude our question-and-answer session and also today's conference call. Thank you all for attending today's presentation, and you may now disconnect your lines.