[PSMT] - PriceSmart, Inc., Q2 2019 Earnings Release Conference Call
Wednesday, April 10, 2019, 12:00 Noon Eastern

Officers
Maarten Jager; EVP, CFO
Sherry Bahrambeygui; CEO

Analysts
Jon Braatz; Kansas City Capital
Ronald Bookbinder; IFS Securities
Donatus Shukerelis; LGM Investments

Presentation

Operator: Good day, and welcome to PriceSmart, Incorporated's earnings release conference call for the second quarter of fiscal year 2019, the three- and six-month period ending on February 28th, 2019. (Operator Instructions)

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

And as a reminder, this conference is being recorded today, Wednesday, April 10th, 2019. A digital replay will be available through April 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 10129327.

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

Maarten Jager: Thank you, Anita. And thank you and welcome to our earnings call for the second 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, April 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 Chief Executive Officer.

Sherry Bahrambeygui: Good morning, everyone, and thank you for joining us today. Since our last call, I've continued immersing myself in the business and have been able to start making some changes in areas of importance and where there's been good opportunity for improvement.

As you might recall, in Q1 of this fiscal year, I visited our clubs and operations in most major markets throughout Central America, Panama, and Colombia. And since our last call, along with my senior management team, we've traveled to our Caribbean markets and had pretty comprehensive visits of most of our clubs and related operations in the DR, Trinidad, Jamaica, and the USVI.

We thoroughly explored all aspects of our clubs, our operations, and distribution centers and the competition in those markets. I had the pleasure spending time with many dynamic and entrepreneurial members of our local management team and associates. We also engaged directly with members on the sales force to get a better understanding of how we could bring better value to their lives and their businesses.

I'm excited to say that we've got a quite robust business in the Caribbean, and many of our locations do warrant further investment to increase capacity, capacity that would make it easier for our members to shop and, as a result, drive same-store sales. We also found many opportunities to increase efficiencies.

Similar to the impression that I had after visiting Colombia and our Central American markets, in many cases our business will benefit from getting back to basics. As you've heard before, I've referred to The Six Rights of Merchandising that were originally introduced by Sol and Robert Price, our founders. And as a reminder, the six rights are, having the right merchandise in the right place at the right time in the right quantity in the right condition and at the right price.

Just as important as getting back to basics is that we recognize we need to meanwhile increase our capabilities with technology that's available today, so that we can better know our members and we can deliver greater value to them today and in the future.

Recognizing these principles, our goals and priorities are to, number one, drive same-store sales growth by increasing our vigilance about the six rights. Second is to drive long-term growth, both through our new format concept, which, by the way, is scheduled to launch this summer, and the opening of additional clubs. Third, we need to leverage

the technology and the talent we've acquired through what has been referred to as Aeropost, the company we bought last year. And that is in order to create closer connectivity with our members. And we need to accelerate our digital and omnichannel transformation to also drive growth.

I'm in the process of continuing to assess talent, identify gaps, and make changes where appropriate in key areas such as merchandising and member experience, and to continue to build on the strength of our team.

Finally, our goal is to continue to re-energize a culture of performance and accountability.

We are making progress. I'll share with you some specific examples. With regard to real estate, as I mentioned, our new club format is scheduled to open this summer in the Dominican Republic. We refer to this club as [Bolivar]. This club's physical sales floor will be smaller than our traditional format, but it's effectively augmented by the fact that our members can purchase for delivery at good value, a significant number of items, including white goods and major appliances that will be displayed but not stocked in the clubs. We are finding ways to do this so that we can meanwhile enhance the value proposition for the members, both in terms of price and in terms of convenience. We believe that this new format concept which incorporates omnichannel and an ecommerce platform will open up additional real estate and growth opportunities for us in the future.

I'd like to invite you all to join us in a few weeks for the opening of another club in Santiago, Panama which we referred to as Veraguas. In addition, two more clubs are in the process of being built, one in Panama City and the other in San Cristobal, Guatemala. In total these four clubs represent about 10% club growth by the end of this calendar year, bringing us to a total of 45 clubs.

Not like to talk a little bit about another area of priority, and that is the integration of the company that we've been referring to as Aeropost into PriceSmart. It's going well. We've launched online membership capability. We've begun cross marketing between Aeropost customers and PriceSmart members. The team is working closely to launch an ecommerce website as part of the new format launch in the Dominican Republic. And we expect that to expand as sales are beginning to be generated from online, although it's small at this time.

Another significant development is that we've moved a key executive with Aeropost into a newly created role responsible for member experience. This is a role that is embedded in the core of our company and will now report directly to me. This position is entirely committed to strengthening our bond with our member by helping us better understand and anticipate our members' expectations. This new SVP of Member Experience brings with him expertise in digital marketing, which will be applied to smartly use our data, one of our most valuable resources, and that will enable us to deliver greater value, which should then drive sales.

Our commitment to digital transformation is also reflected in the fact that we've established a Digital Transformation Committee of the Board of Directors to support at the highest levels of the company our efforts to increase opportunities that technology will bring so that we can effectively execute on the six rights.

With respect to merchandise and buying, a core area of our business, we've made numerous recent talent moves throughout the company and we're strengthening the buying leadership in our San Diego office for both U.S. foods and non-foods. We're also creating a senior executive position focused on building and serving the specific needs of our business membership, to develop that area further. These additions and moves will lead to improvements in our merchandise and our ability to deliver on the six rights.

We also continue to innovate and increase options for last mile delivery. This is not necessarily focus specifically on ecommerce, but so much as being responsive. It's more about being responsive to what our members, what we're understanding from our members as an expectation in terms of their shopping experience. And by way of example, we're contracting with third parties in markets in Colombia to be able to provide cost-effective delivery. We are engaging in other initiatives in our other markets to facilitate direct vendor deliveries, and, in many of those cases, it's resulting in better pricing for our members. So there's a focus on, again, addressing what we are hearing from our members as an additional expectation in terms of facilitating the ability to have merchandise delivered to them directly.

So now let me turn to our results with an overview of Q2. Total revenues were $854.4 million, an increase of 1.8% over the comparable prior year period, which includes a $9.9 million contribution from the business that we acquired in March of last year.

Net merchandising sales were $820.3 million, an increase of 0.5% over the prior year period. Currency fluctuations had a negative 3.6% impact on net merchandise sales. Comparable net merchandise sales decreased by 0.9%, with currency fluctuations impacting comparable sales negatively by 3.7%.

Just as a side note here, the FX fluctuations and the number of markets in which we've been experiencing external forces, whether economic or geopolitical, is probably more prominent than I can recall in recent quarters, and it definitely is having an impact on our overall performance.

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

Net income for the second quarter fiscal year 2019 was $23.8 million or $0.79 per share compared to $14.1 million or $0.47 per share in the comparable period last year. This result includes a $0.14 per share impact from a combination of our ongoing investments in the development of our omnichannel platform, the costs associated with the acquisition we made in March 2018, and the operations of that business. The quarter also includes a

$0.05 per share positive impact from a payment from one of our credit card vendors. As such, these two factors combined had an EPS impact of a negative $0.09 per share.

The Central American region where we have 12 clubs, had a 2.5% decrease on total merchandise sales and in comparable sales. General weakness in these economies, including Costa Rica, Panama, Guatemala, and Nicaragua, contributed approximately 1.7% of the total comparable sales decrease. The impact of currency on total and comparable sales to the Central American segment were each negative 3.6%.

Turning now to the Caribbean. The Caribbean region where we have 22 clubs, had a total merchandise sales growth of 6.5%, with a comparable sales growth of 1.7%. The USVI again reported strong sales growth of approximately 7%, and that was, in part, resulting from the prior year's hurricanes impacts on our competitors.

Jamaica performed well, while the Dominican Republic was cannibalized by the San Isidro store opening, which had a negative impact on net comparable sales of approximately 70 basis points. The impact of currency, once again on total and comparable sales to the Caribbean segment, was negative 1.5% and negative 1.4%, respectively.

And last, in Colombia, where we now have seven clubs, we finished with 0.9% growth year-over-year, with comparable sales growth of 1.1%. The impact of currency on total and comparable sales in Colombia was significant at negative 8.9% and negative 9.9%, respectively.

In terms of merchandise categories, we saw good comps growth in our overall softlines category, which increased 2.2%, driven primarily by 14.1% growth in our fashion apparel department. We also saw positive comps within our foods and fresh categories and several other departments, with good U.S. dollar comps, including soda and beverages, pet supplies, seafood, and meat.

Please note that in total, the foreign currency fluctuation negatively impacted our sales growth by 3.6%. However, we still have room for improvement in several other categories that include juices and drinks and snacks, cookies and foods, as well as electronics within hardlines.

Now I'd like to move to membership. I think membership shows a very positive message and one that I'd like us to be focused on in terms of the future potential. We finished the quarter with approximately 1.6 million accounts, which is a 3.2% increase fiscal year to date. Membership income was up by 1.1% during the quarter. The 12-month renewal rate, notwithstanding all of these challenges, at the end of February was 85%. Of note, the Platinum program grew 37% year-over-year and has now been rolled out in Panama, Costa Rica, the Dominican Republic, USVI, and Honduras. The Platinum membership represents only about 2.5% of our total membership base. And as you can tell from that, there is significant potential for expanding this program.

Turning quickly to March sales which were released last week, net merchandise sales were $261.5 million, an increase of 0.1% versus a year ago. FX fluctuations negatively impacted net merchandise sales by 3.3%. For the four weeks ended March 31, 2019, comparable net merchandise sales decreased exactly 1%, with a negative FX impact of 3.3%. Unlike last year, this four-week period did not include Semana Santa, which boosted sales a year ago.

In closing, this is a business model that's succeeded for over 40 years. The core principles and discipline of the business, the six rights, are just as relevant today as they were 40 years ago. The best way to execute on that discipline, however, has evolved. With the digital capabilities that exist today, we have access to better tools, better tools to execute more effectively on our core business strategy. We have an incredible and committed team of almost 9,000 employees. And I've seen firsthand how much we're valued in the communities where we operate.

I'm confident with our renewed focus on the basics, the increased efficiencies, the incorporation of technology, and the related talent to support that in our core business, we will be able to deliver greater member value and drive significant growth to in-store sales over time, adding new sources of growth from new clubs and new formats in conjunction with our digital omnichannel capability.

I will now hand it over to Maarten Jager.

Maarten Jager: Thank you, Sherry. Let me provide some additional financial details. As you heard from Sherry, our top line continues to be impacted by currency, this quarter by 3.6%, continuing the trend that we began reporting in the first quarter when it was 2.6%.

Our headline EPS number of $0.79 per share versus $0.47 per share a year ago is impacted by the $0.14 per share impact from the cost bundled under the Aeropost heading, along with $0.05 positive impact from a payment from a credit card vendor. These two factors together represent $0.09 per share in this quarter, as Sherry mentioned. Last year's EPS reflected an impact of $0.42 per share due to tax reform.

Now on merchandise margins, they came in at 14% versus 14.4% a year ago. Total gross margins increased to 16.1% from 15.7% a year ago, mainly due to higher margins on non-merchandise revenue from our Aeropost marketplace in Casillero legacy business units contributing 60 basis points.

In addition, the payment and reclassification of shared income generated from co-branded credit cards contributed approximately 40 basis points to our total gross margins.

SG&A of the total business was 11.8% versus 11.2% a year ago. SG&A accounted for as Aeropost represented $9.4 million of that, or 110 basis points of the increase, which was offset by impairment and acquisition deal charges in the prior period.

Operating income was $36.5 million or 4.3% of total revenue versus $37.3 million a year ago. Operating income for the core warehouse club business increased to $40.8 million versus $37.3 million a year ago, largely due to asset impairment and acquisition deal costs in the prior year and the credit card vendor payment in the current quarter, offset by lower margins.

Moving on to tax, for the quarter the effective tax rate was 32.9%. The decrease versus the 61.6% in the same quarter last year was driven by several factors. U.S. tax reform helped by 35.2% but it was partially offset by the impact of the Aeropost businesses on the tax rate, which represented 3.2%.

Consistent with our estimates in the first quarter, we currently expect the full year tax rate to be approximately 37%. This is higher than our first two quarters primarily due to the timing of the effects from U.S. tax reform.

Recall from the last earnings call that Aeropost consists of both the legacy business and our investment into the pricesmart.com digital platform, which will drive member value in coordination with our warehouse clubs and distribution footprint. The legacy business represented $1.7 million of net income impact for the quarter. The investments into our digital platform during the past quarter represented $1.3 million of net income impact.

Finally, there are the acquisition-related accounting impacts, which represented $1.2 million of net income impact for this quarter. The total of these three buckets is $4.2 million or $0.14 per share as mentioned earlier.

Moving on to the balance sheet, which remains very strong. The company ended the quarter with cash and cash equivalents of $98.1 million, an increase of $1.2 million during the quarter. We used $70 million less of cash in the quarter versus a year ago, principally due to timing differences in CapEx projects versus a year ago. During the first six months, cash provided by operating activities was $76.3 million versus $59.1 million in the same quarter last year, for a favorable swing of $17.2 million. This was primarily due to improved working capital.

Net cash used in investing activities declined by $51 million, again, primarily due to differences of construction timing in last quarter, along with fewer purchases of short-term investments. Investing activities in Q2 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 U.S. dollar-reported sales, which were largely impacted by a continuation of foreign currency devaluation as well as some of the geopolitical and economic impacts that Sherry mentioned.

The fundamentals of our business, as evidenced by our membership counts and renewal rates, our constant currency sales overall, especially in Colombia, reinforce that we have a strong business model and significant growth opportunities. We will continue to focus

on the six rights, driving same-store sales, delivering on our announced real estate pipeline, and launching and continuing to develop our digitally enabled omnichannel platform. Our balance sheet liquidity and cash flow remain strong, which provides a solid foundation for driving those same-store sales and future growth that will benefit our members and shareholders alike.

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

Questions and Answers

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

Jon Braatz: Sherry, Maarten, in your 10-Q you talk about pricing actions to drive sales. Two questions. Is this in response to some new competitive pressures? And can you talk a little bit about the pace of that going forward? Will it be similar to what we're seeing now or might ease up a little bit? A few thoughts on the future.

Maarten Jager: Yes. I mean, we have taken some pricing actions as we released mentioned in the 10-Q, in part because of market factors. As we've talked about, we've had economic and geopolitical influences. Yes, competitors, of course, are always active. But we maintain a very strong vigilance about our pricing umbrella versus competitors. And we have also worked to take some actions on inventory, which represented some incremental markdowns on our inventory.

Jon Braatz: Okay. And then secondly, Maarten. I know you don't want to starve Aeropost. You want to continue to grow that business. How do you see the spending on Aeropost going forward from the second quarter level and a loss per share of $0.14?

Sherry Bahrambeygui: Yes. I think I'd like to take that, Jon, because with Aeropost, we've got, as it was envisioned, sort of a basket of different components. And really, the vision for Aeropost was that over time, as we got a deeper understanding of their capabilities and what and how they would be able to be a driver for PriceSmart's core business, the lines have become blurred. And as a result, a good chunk of what you may be seeing as part of Aeropost, there are three components. There's the acquisition cost. There's the -- or actually four components. There's the cost associated with the ongoing operations of Casillero, which was not a primary driver for us to acquire the company, but, nonetheless, came to us with some components that have value, like logistics, infrastructure, post-order transaction know-how, reverse logistics opportunities, and various other outposts in markets where we exist and other locations. And then there's the marketplace portion that Aeropost has, which has been sort of a resource of information for us that has helped us better inform our planning, and with a deliberate approach of trying to minimize mistakes when we build on our pricesmart.com site. And then there's the investment in pricesmart.com as well as merging and blending the technology and the talent into the core of our business, which is what I referred to earlier with regard to the senior executive from Aeropost who's now responsible for member experience in our company.

So the categories, in terms of trying to decide how you characterize some of those expenses, they're not clear lines. And we're right now still in the process of trying to figure that out and move, for example, some of the overhead that existed with Aeropost operation of this business, is now getting shifted over to PriceSmart itself, because we're investing in member experience and getting to know our members better.

Some of the technology talent that was part of the Aeropost overhead is now incorporated into the core of PriceSmart's business to increase our efficiencies and to increase our technology, which is something that as a retail company in today's world we need to be doing.

So I don't know if that exactly answers your question. But we are in process right now of trying to identify how to make the most of that investment and what should become part of our ongoing just responsible management of our company and our growth plan and what of it is really just sort of one-time expenses or things that are tangential to our business that we will make decisions on going forward about what we want to do with those aspects of Aeropost.

Jon Braatz: So it sounds like it's just going to be very difficult to evaluate this investment solely by looking at the results you give us on Aeropost, because, as you said, the lines are being blurred and you just can't look at the Aeropost numbers in isolation. It's just not going to give us a true picture of what's really going on. Is that a fair assessment?

Sherry Bahrambeygui: It may not be the answer you wanted to hear, but I couldn't think of a better summation of it. Because, frankly, we're doing what's right for the business. We're taking our time and we're looking at where can we make the most of what we've acquired? And we're learning about the individuals involved. We're learning more about the technology. And we're strategically pulling those and applying them where we're going to get the best return, in our view, to drive the core PriceSmart business. And it's not a neat and tidy analysis that we can just sort of lay out numbers for you.

I do expect, though, in the future, that this will clear up more and we'll be able to categorize better, that this chunk of, for example, the expenses associated with Aeropost have now been incorporated into the very core business of PriceSmart, this aspect of it is more directly related to, for example, Casillero. And we are working on building that kind of an explanation. We don't have it done yet. And in part, it's because some of it is overlapping and those lines are blurred.

Jon Braatz: Okay. Thank you very much.

Maarten Jager: This is Maarten Jager. I'd just like to make an important clarification on the number of clubs in our markets. We have in the Caribbean 12. In Central America, we have 22, and in Colombia 7.

Sherry Bahrambeygui: I reversed the club numbers in my portion of the comments at the beginning. So we wanted to make that correction.

Operator: (Operator Instructions) Ronald Bookbinder with IFS Securities.

Ronald Bookbinder: Thank you for taking my questions. First, Colombia comps seem to be slowing. Is that simply because of currency? Or is there something else going on there, just the tough comparisons versus last year?

Sherry Bahrambeygui: Our interpretation is different, frankly. Yes, I guess if you were to look at it strictly in terms of U.S. dollars, the comps have been negatively impacted to a significant degree. I think I gave you specifics in the range of 9%. But if you were to look at it in terms of local currency, you would see a very different picture in terms of the comps.

Ronald Bookbinder: Okay. So it is currency. And then foods seem to be one of your stronger categories. And you source that locally, and so currency shouldn't be having an impact on that as much as the products that get brought in from Miami. Is that why that seems to be doing better? Or how would you look at that in a constant currency basis?

Sherry Bahrambeygui: I think that it's a mixed bag. I mean, I think on the one hand you're right. But we still have significant foods that are imported. But the bottom line is that people are buying in local currency. And when we have to translate that back to U.S. dollars, there is an impact as a result of the FX, because we report our comps on U.S. dollars.

Ronald Bookbinder: Correct. Okay. Central America, its performance was consistent with the prior two quarters. Should we expect it to stay negative in the back half of this year as these political problems and sort of a bit of a slowing economy there just continues?

Sherry Bahrambeygui: That's something I think we're all watching the news almost daily to try to get our arms around. We are definitely experiencing, in multiple markets, extraordinary external pressures. Nicaragua, it's all over the news, Trump's proclamations about cutting aid off to some of the countries, El Salvador, Guatemala, Honduras, where we have clubs. These external pressures are just, it's a matter of common knowledge. And so we have to be prepared for that.

But it's no secret that we operate in challenging markets and we have for quite some time. But these are markets where we feel we also have tremendous opportunity and we bring to the table a very valuable concept and we bring a business with tremendous value proposition for members and for the markets and also for the shareholders.

But we've got to weather these storms. And we've got to be smart and nimble about how we handle those things that are beyond our control, how we respond to them in an effective way. And I think predicting the political future in these markets and the

socioeconomic future, we do do our homework, but it's by no means something guaranteed in terms of how it's going to play out. So I can't give you any more intelligence on that than what we all are seeing in the news.

Maarten Jager: Two things to add, if I can. On Colombia, I just went back to the last kind of five quarters, Ron, of constant currency sales and they've all been double digits, north of 10%. So as Sherry said, we're not seeing a dip.

And then in terms of not predicting, obviously, we can't predict, we're not in the business of predicting the geopolitical issues and outcomes. But it is true that in Nicaragua, we will be anniversarying the Nicaragua riots. Starting in kind of late spring, early summer, we'll start to anniversary those numbers.

Ronald Bookbinder: Okay. And lastly, the new regional DC, could you give us some additional color as to when you expect that to be fully operational and the benefits that we could see as that really starts to roll out?

Sherry Bahrambeygui: The Costa Rica regional distribution center is a major area of focus for our management team right now and we are already starting to see some benefits of that by way of concessions that vendors are providing. But it is a large undertaking. It's a very strategic investment for us, and we can continue to evaluate and reevaluate how to make the most of that.

Obviously, when you're able to plan for inventory flow for seven clubs and have a regional distribution center that can make better judgment calls as to what to float and pulse to the specific clubs, that can allow for some significant improvement as well in terms of our inventory flow. But we're right in the depth of figuring out the very best ways to create savings, create efficiencies, and be able to pass that value on to the member in the context of improving the overall operations and supply chain of our business.

Ronald Bookbinder: So I'm a bit surprised you're getting vendor concessions by, I guess shipping directly there to the regional DC. Shouldn't that be able to provide extra gross margin that you'll be able to cut prices to provide better value for your members to drive more revenue to leverage more SG&A and continue to drive profitability?

Sherry Bahrambeygui: Have you been studying our cycle of [success]?

Ronald Bookbinder: Just want to make that clear.

Sherry Bahrambeygui: Well, when you've got vendors who don't have to make seven different stops for seven different clubs and they can go to one location, I mean, there's a basic -- at least there's a starting point for a discussion there as to whether or not we can partner with our vendors, make business easier on them, motivate them to share some of their savings with us, so that we can, in turn, provide better value to our members. So I think you've nailed it.

Ronald Bookbinder: Okay, great. Thank you for taking my questions and good luck in the back half of the year.

Operator: [Donatus Shukerelis] with LGM Investments.

Donatus Shukerelis: Thank you very much for the call, and I have a number of questions. Let's start with the four new clubs planned for this calendar year. Could you give us some color on pre-opening expenses? How much have you booked, let's say in this quarter? And how much we should expect in the next few quarters? Also, can you talk a little bit about kind of cannibalization expectations on those clubs?

Also, four new clubs is almost 10%, as you mentioned, to the total club number. How should we think about the financial year 2020, from that perspective? Is there a chance you to add more clubs even in addition to the four planned for that year?

And also, can you talk a little bit about your margin? Your operating margin has been -- it was lower year-on-year, but it's been better than the last two quarters, as far as I can see. How should we think about it going forward? Should we see more pressure in it or some improvement? That's it for now. Thank you.

Maarten Jager: Sorry. The third question was unclear to us. The first one was about the clubs and pre-opening expenses. The second one was about cannibalization expectations.

Donatus Shukerelis: Yes.

Sherry Bahrambeygui: There were four. What were the third and fourth?

Donatus Shukerelis: New openings for 2020. And also, how should we think about your margins going forward?

Sherry Bahrambeygui: All right. Well, I'll start with some general comments. And I'm sure Maarten's going to have some more in-depth insights for you on this.

Basically, we don't share that level of detail on our expenses in terms of the planned expenses for pre-opening of the four clubs. I can tell you that we have a very well established approach for handling the pre-opening and for new member signups and for getting the word out and building membership to attract them to the clubs.

And with regard to Veraguas, I can see -- I'm sorry. Not Veraguas, but Bolivar, given that we are promoting a club that is an enhanced or different, depending on how you look at it, concept from what we've traditionally done, I could see a little bit more expense there and investment there. It may not all be our expense. It could include vendors who are excited about what we're doing and wanting to participate. So we are looking at doing slightly more there to inform and educate our membership about the additional value and opportunities from this new concept.

But generally speaking, I don't see our pre-opening expenses to be anything outside the norm, again with the slight exception of what we talked about on Bolivar. And I think that's about all the color I can give you on that, generally.

Maarten Jager: And what we booked in the current quarter is in the 10-Q.

Sherry Bahrambeygui: Right. With regard to cannibalization, I mean, our efforts are to try to identify locations where we think are going to be additive. And Veraguas is the next club to open up. It's the smaller format. It's in a more remote location relative to where we are in our other locations in Panama City. And it's intended to draw upon a slightly different demographic with a more targeted merchandise plan that's responsive to that area. So it's been planned for thoughtfully to minimize cannibalization. But nonetheless, it's hard to predict exactly what the cannibalization will be.

Let's see. What did you talk about? Going forward for 2020, the new openings, we do not announce new openings, at least, that's not our current practice, until we have a signed contract and secured a location and have a legal commitment basically to go forward. So I can't give you any more color on that at this point. But as soon as we have -- and there are others that we are exploring and negotiating and actively working on that are in the pipeline. And as we're able to release those, we will release them to the market.

With regard to more pressure -- what was last one?

Donatus Shukerelis: On margins.

Sherry Bahrambeygui: With regard to margins, again, our business model is to try to reduce margins through better efficiencies while generating a reasonable profit. And this is the core discipline for our company and one that's different from what you might see with traditional retailers. This is a key differentiator between us as a club model and your standard retailer. So again, we do have to respond from time to time due to competitive factors, due to external factors, due to currency fluctuations, and that causes us to adjust margins where appropriate.

But I do want to get across clearly that our goal is to be successful in being able to reduce margins. So that's about as much color as I can provide. And Maarten, if you would like to fill anything out, please do.

Maarten Jager: No, I think everything is well said. I did mention on the pre-opening expenses for the quarter, we booked $97,000 as is in the 10-Q. And on cannibalization, we do very detailed models, market studies, traffic flows, demographics, household income demographics, and we look, of course, at the impact of the new club on the other clubs and look at the business case of an incremental economic value creation basis, as you would expect us to do. But other than that, I have nothing else to add.

Operator, thank you very much. I will now turn it over to you.

Operator: Thank you. This concludes our question-and-answer session and also concludes our conference. Thank you for attending today, and you can now disconnect.