

PriceSmart, Inc. [PSMT]
Fourth Quarter of Fiscal Year 2020 Earnings Call
Friday, October 30, 2020, 12:00 PM ET

Company Participants:

Michael McCleary, Executive Vice President and Chief Financial Officer
Sherry Bahrambeygui, Chief Executive Officer

Analysts:

Jon Braatz, Kansas City Capital
Rodrigo Echagaray, Scotiabank

Presentation:

Operator: Good morning or afternoon, everyone, and welcome to PriceSmart, Incorporated's earnings release conference call for the fourth quarter of fiscal year 2020, which ended on August 31, 2020.

After remarks from our company's representatives, Sherry Bahrambeygui, Chief Executive Officer, and Michael McCleary, Chief Financial Officer, you will be given an opportunity to ask questions as time permits.

As a reminder, this conference call is limited to one hour and is being recorded today, Friday, October 30, 2020. A digital replay will be available following the conclusion of today's call through November 6, 2020, by dialing 1-877-344-7529 for domestic callers or 1-412-317-0088 for international callers by entering replay access code 10147692.

For opening remarks, I would like to turn the call over to PriceSmart's Chief Financial Officer, Michael McCleary. Please proceed, sir.

Michael McCleary: Thank you, and welcome to the PriceSmart earnings call for the fourth quarter of fiscal year 2020. We will be elaborating on the information that we provided in our fourth quarter earnings press release, which we released yesterday afternoon, October 29, 2020. You can find this document on our Investor Relations website at investors.pricemart.com, where you can also sign up for email alerts.

As a reminder, all statements made on this conference call, other than statements of historical fact, are forward-looking statements concerning the Company's anticipated plans, revenues and related matters. Forward-looking statements include, but are not limited to, statements containing the words "expect, believe, will, may, should, estimate" and similar expressions.

All forward-looking statements are based on current expectations and assumptions as of today,

October 30, 2020. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including the risks detailed in the Company's most recent annual report on Form 10-K. These risks may be updated from time to time, and other filings with the SEC, which are accessible on the SEC's website at www.SEC.gov. The company undertakes no obligation to update forward-looking statements made during this call.

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

Sherry Bahrambeygui: Thank you, Michael. Good day, everyone, and thank you for joining us. I hope that you and your families are all safe and healthy. Many people and businesses worldwide are struggling as the pandemic continues to take its toll, and our thoughts are with all those impacted by Covid-19. And as a company, we're committed to working through these challenges to do our part to improve the circumstances.

Turning to our results, we were off to a strong start at the beginning of fiscal year 2020 as we began to see the impact of many new practices, modifications and improvements that we had set into motion during the prior year. These actions were largely driven by our recommitment to vigilantly executing on the Six Rights of merchandising. As our fiscal year continued, like everyone else, we were faced with the impact of the pandemic, and without delay, we pivoted to anticipate and implement the changes and interventions required to protect our people and our business. Improved productivity, new thinking and additional capabilities have grown out of that process, which has allowed us to now share with you solid results for the fiscal fourth quarter and full year.

I'm pleased to report that we wrapped up the fiscal year stronger than originally anticipated, despite significant and shifting headwinds which continually varied amongst our 3 markets. As mentioned in previous calls, our priorities at the beginning of the pandemic remains the same today. We're focused on people, supply, supply chain demand and cash management. But as we've adapted to this continuing crisis with creative solutions, we're now focused on our opportunities for the future of our company and the post-Covid world.

As to people, plans for a return to work continue to evolve, but one thing I can tell you for sure, it will not be the same. We're working on plans to develop greater flexibility, fortified security, enhanced productivity, enriched quality of life and potentially save on inefficient travel and real estate expenses. Emphasis continues on leading in our markets on safety protocols, so our members can trust that we remain vigilant and transparent.

We continue with our frequent action task force team meetings comprised of top executives responsible for overseeing all aspects of our business. And we found this format enables us to react and act proactively with unprecedented speed and efficiency.

I'm very pleased to announce a newly-created significant leadership role for the company. Juan Ignacio Biehl, effective September 1, 2020, was named Executive Vice President of Digital Experience and Chief Technology Officer. He reports directly to me. Juan has been an entrepreneur in the technology sector for over 25 years, working in diverse areas of information systems with companies such as Apple, Inter-America and Navsat.

Juan joined PriceSmart as part of the Aeropost acquisition, and has since led a talented team that

expedited the continued development of PriceSmart.com, our omnichannel effort, and along with other team members, developed the crucial technology capabilities that make Click & Go fully functional within weeks, all during Covid. Juan's expertise is an important component of our overall digital transformation process.

One of the distinctive features of our business is that we have a membership format, and our membership data has value. We now have a more user-friendly infrastructure to make use of this data in real time to more efficiently operate all aspects of our business. We're also developing technology that provides strong outbound and inbound communication with our members, so that we can better tailor sales and services for them. The application of technology and enhancements of our systems and software allow us ease of use and timely reporting, so that we can make the optimal business decisions.

On the last earnings call, we announced measures taken to preserve PriceSmart's cash liquidity due to the pandemic's unknown impact. One of those precautionary measures included temporary wage and salary reductions for those employees in our U.S. headquarters in Miami and San Diego. Due to our strong fourth quarter results, we were able to pay a special bonus to senior vice presidents and below to offset the foregone wages for the months in which the reduction was taken. The decision to restore our employees' wages is aligned with one of our core principles, recognizing that our employees are our most important resource.

As to supply, the team has done a tremendous job in securing alternatives, including quality local sourcing and distribution flow to minimize out-of-stock on key items. Due to PriceSmart's longstanding and strong relationships with our suppliers, we believe that we benefited from that trusted relationship, and as a result, we were highly accommodated during the crisis. This allowed us to continue to provide great values and merchandise for our members that abruptly came into high demand, such as electronics, computers, garden and patio, home furnishings and entertainments and small appliances. SKU discipline continued and fewer markdowns were taken in the fourth quarter.

Also, we've increased our focus on inventory management and our average inventory per club declined in the fourth quarter by an average of approximately \$1 million versus the comparable prior-year quarter. In the fourth quarter and into the new fiscal year's opening weeks, we are seeing continued improvements in the global parts of our supply chain, as most of our suppliers are now operating at pre-Covid levels.

However, there still are challenges our vendors and suppliers are facing that may limit access to certain categories, including cleaning supplies, outdoor merchandise and electronics. We're also monitoring very closely and taking appropriate actions to address ongoing disruptions to the flow of container traffic from Asia.

We've developed alternative local sourcing options for quality products that meet the standards of our Six Rights. One example of this strategy during this last fiscal year was the opening of our second in-country produce distribution center located in Costa Rica. We expect to open additional produce distribution centers in other countries in fiscal 2021. We believe that our farmers' selection program reduces expenses, waste and prices on higher-quality items, while also supporting local farmers and industry. Our produce distribution centers also allow us to get

high-quality produce from farm to table quicker and more efficiently. The produce DCs have also allowed us to get high-volume categories, such as fresh, into the clubs faster with fewer out-of-stocks.

Our 17 optical departments, while initially closed at the onset of Covid, are being reopened and we're on track for adding at least a dozen more in fiscal 2021. The membership includes free vision exams for up to 4 family members and excellent prices on optical products.

With regard to demand, it's important to note that although we may be considered an essential business, our markets generally do not provide the same latitude and predictability that essential businesses in the United States enjoy. We estimate that in the fourth quarter, we had approximately 260 club days lost in markets where in-club shopping was not permitted as a result of the varying limitations put in place to mitigate the spread of Covid-19.

In addition, to complete closures, there were curfews and limitations on hours or the numbers of people permitted in-club at any given time, depending on the market. As a result, we saw a decrease in our in-club throughput. However, we also saw an increase in our average ticket, especially on Click & Go transactions.

It should be noted that in-club circulation and local restrictions have most significantly impacted our other businesses' sales, such as food services and optical, and those typically carry higher margins, as well as our membership renewal rate and membership income.

Currently, we are experiencing an easing of restrictions. For example, in September, we only lost 30 club days and in October, the closures have been declining. Of course, this can change at any time in any market.

During the last week of FY2020, we launched our first membership appreciation week, which was very well received. During this event, we partnered with our vendors to offer more compelling prices on certain items. We also invited existing and new members to sign up and/or order online and begin to familiarize themselves with our Click & Go service, while promoting our expanded offering of high quality, high value private label member selection products.

I'd like to recap some recent achievements. Online membership sign-up and renewal is now fully functional, a robust online platform for pricesmart.com, which includes a company-wide catalog of inventories available for our clubs. We launched and completed the rollout of our Click & Go contactless service, which allows ordering online, including fresh and groceries, with curbside pickup. Although we're still in the early phases of this new program, in our fourth quarter of fiscal year 2020, Click & Go represented 3.6% of net merchandise sales. Extension of our Click & Go service now includes delivery in 9 markets, and we expect the delivery service to be available in all markets by the end of fiscal year 2021.

Expansion of our farmer selection program and produce distribution centers, expansion of our private label merchandise offering, our company-wide process of digital transformation, which provides valuable tools for inbound and outbound channels to better align our business with our members' needs and expectations --excuse me a moment here.

We executed a safe and successful opening with remote oversight of our new club in Liberia,

Costa Rica, which has a significant expat population and is our 8th club in that country. And we're preparing for the opening of our 47th club in Usaquen, a metropolitan area of Bogota, Colombia, in early December, which will be our 8th club in Colombia. We are also evaluating the construction of additional clubs where we have already secured the property, as we also look for additional locations.

We recently formalized a Department of Social and Environmental Responsibility, and have tasked an Executive Vice President and Vice President to focus on our commitment to grow responsibly and evaluate our business decisions in the context of our impact on the environment and the communities in which we operate.

Finally, we're focused on cash management and liquidity. At the beginning of the pandemic, we took appropriate steps to conserve cash. Due to the uncertainty created from the outbreak of Covid-19, we continue to closely monitor our operating results and cash flow to ensure optimal timing of future investments in warehouse club openings. With regard to liquidity management, Michael will cover that in just a few minutes.

So now I'd like to turn to our business results for fiscal fourth quarter. Total revenues for the quarter were \$810.6 million, an increase of 1.2% over the comparable prior-year period. Net merchandise sales were \$772.9 million, an increase of 0.5% over the prior-year period.

Currency fluctuations in our markets had a \$27.6 million or 360-basis point negative impact on our net merchandise sales for the quarter. By segment, in Central America, where we had 26 clubs at quarter-end, including 4 clubs opened since May 2019, net merchandise sales decreased 1.2% with an 8.6% decrease in comparable net merchandise sales. Our comparable net merchandise sales were negatively impacted by significant traffic reductions. And additionally, as expected, we have seen sales transfer from our existing warehouse clubs to our recently-opened warehouse clubs, which impacted comparable sales growth.

In the Caribbean region where we had 13 clubs at quarter-end, total net merchandise sales grew 6.8% with comparable net merchandise sales growth of 6%. Our Dominican Republic, Barbados and Jamaica markets led the way in the segment with 22.1%, 8.9% and 6.6% growth respectively. In the DR, our net merchandise sales growth was primarily attributable to the opening of our 5th club in June 2019 and strong comparable sales growth. Barbados and Jamaica comp'ed strongly for the quarter, with the same number of clubs as last year.

It should be noted that in Trinidad, those sales are very strong. We are experiencing challenges in converting TDs to U.S. dollars, and are exploring alternatives to mitigate the impact of a potential devaluation. Michael will speak more to this later. In Colombia, where we have 7 clubs, net merchandise sales decreased 6.6% for the quarter, and there was a decrease in comparable net merchandise sales of 5.6%.

The impact of currency on total and comparable net merchandise sales in Colombia was significant at negative 12.1% and 12.2% for the quarter, respectively. Currency devaluation continues to be a challenge in Colombia, but we are employing different approaches in an effort to mitigate the impact such as sourcing of locally-produced goods.

Turning to merchandise, we continued to experience strong growth in our grocery and produce

departments. It is also important to note that during the fourth quarter of fiscal 2020, and continuing into early fiscal 2021, we've seen a significant shift back to non-food categories, in some cases, even exceeding prior-year mix penetrations for those areas. Also as local restrictions have eased, we've seen a slow, but steady, increase in our other business categories, which include food service, bakery and optical services.

Now I'd like to turn to membership. Our total number of membership accounts at fiscal year-end decreased 4.7% when compared to the prior year-end period. Our trailing-12 month renewal rate was 80.5% and 85.7% for the periods ended August 30, 2020 and August 31, 2019 respectively. We believe this is because historically, members would renew their membership at the register and due to the pandemic, traffic has slowed down. So the opportunity to renew at the registers decreased. Colombia had the largest membership decline, followed by Central America and the Caribbean.

To date, Colombia and Central America have been the hardest-hit regions in terms of the severity and duration of the government-imposed restrictions. However, due to the notable increase in online traffic, the new visibility of inventory online, the opportunity to shop through our Click & Go program and the added convenience, membership sign-ups and renewals completed online have been steadily increasing. And we are seeing very encouraging signs of membership renewal through this channel and now in clubs as restrictions ease.

Membership income decreased 2.2% during the quarter, but increased 4.5% over the full fiscal year. We continue to expand our Platinum Membership program and we are seeing positive results.

Net income for the fourth quarter of fiscal year 2020 was \$20.1 million or \$0.65 per diluted share compared to \$20.7 million or \$0.67 per diluted share in the comparable period last year.

As a reminder, we ended this quarter with 46 warehouse clubs, compared to 43 clubs at the end of the fourth quarter of fiscal year 2019. The new clubs include one in Panama, one in Guatemala, one in Costa Rica. And as mentioned earlier, our 47th club is expected to open in Bogota, Colombia in December 2020.

We had strong performance for the full year of fiscal 2020, considering the challenges we faced. Total revenues increased by 3.3%. Net merchandise sales increased by 3.2% and comparable net merchandise sales decreased by 1.5%. FX fluctuations adversely impacted net merchandise sales and comparable net merchandise sales by 2.1% and 1.9% respectively. Net income for fiscal year 2020 grew to \$78.1 million or \$2.55 per share compared to \$73.2 million or \$2.40 per share in fiscal year 2019.

Now turning to September sales and looking forward to FY2021, we released those sales earlier this month. Net merchandise sales were \$258.1 million, an increase of 4.6% versus a year ago. FX fluctuations adversely impacted net merchandise sales by 3.5%.

For the 4 weeks ended September 27, 2020, comparable net merchandise sales increased 0.3% with a negative FX impact of 3.5%. We were very pleased to see this positive U.S. dollar comparable sales increase for the first time since March of 2020.

Easing of restrictions, and numbers of days closed, appear to directly correlate with our ability to increase in-club traffic and the corresponding positive impact on sales and membership.

Looking ahead to the upcoming holiday shopping season, due to the unpredictability of the impacts from the Covid pandemic, we initially pulled back on long lead-time merchandise orders for some of our more traditional seasonal programs. However, based on evolving member demand, the ability for us to better analyze extensive data and the quick and extraordinary efforts of our team, we expect a successful holiday season with an exciting selection of curated merchandise.

In closing, we met this past fiscal year with courage, focus and relentless work. We never lost sight of our priorities, which are informed by our values, first taking care of our employees and focusing on the well-being of our members. We will continue to maintain our flexibility on how we operate our daily business as well as move forward with our future investments, particularly related to omnichannel.

The results we are experiencing today would not have been possible without our frontline employees' commitment, as well as our dedicated employees in our distribution centers and throughout our corporate offices. This new fiscal year that started on September 1 will no doubt continue to have a new set of challenges, but we believe that our team is well positioned to turn those challenges into opportunities to drive growth.

Thank you. And I will now turn the call over to Michael.

Michael McCleary: Thank you, Sherry. Good morning or afternoon to everyone and thanks for joining us today. Sherry has already covered many of the financial highlights of the last quarter, but I would like to add some additional commentary on a few specific areas.

Despite all of the challenges during the quarter of operating through the pandemic, total gross margin on net merchandise sales came in at 15.1%, which was within 10 basis points of the same quarter last year. The 10-basis point decline was driven by a 70-basis point shortfall in our other business departments, which consists primarily of food service, bakery and optical, and typically have higher margins, together with lost demo-sampling income that were all impacted by Covid restrictions.

It is important to note that while our other business departments improved marginally in the fourth quarter versus the third quarter, we began seeing significant improvement in these areas in the first quarter of fiscal 2021, as Covid-related restrictions have continued to ease. This Q4 margin shortfall was partially offset by a 60-basis point contribution from pure markdowns, additional local merchandise volume rebates and improvements in our base margins.

Total revenue margins remained flat at 17.2% of total revenues in both the current quarter and the comparable quarter of fiscal year 2019, as the decrease in total gross margins on net merchandise sales was offset by an improvement in Aeropost margins from a combination of increased sales volume and margin rate.

SG&A expenses for the quarter were 13.7% of total revenues, an increase of 50 basis points versus the same period last year. The primary drivers of the increase were our continued

investments in talent and omnichannel initiatives. We also incurred \$1.2 million of severance costs in the fourth quarter, primarily related to structural realignment of certain corporate functions.

Operating income was \$29 million or 3.6% of total revenue in the fourth quarter of fiscal 2020 compared to \$32 million or 4% of total revenue for the same period last year, with the decrease being primarily attributable to increased G&A expenses.

Net interest expense increased \$1.5 million for the fourth quarter primarily due to higher average long-term loan balances to fund our capital projects, and higher average balances on our short-term lines of credit as part of our Covid-19 related efforts to secure cash.

Our effective tax rate for the fourth quarter of fiscal 2020 was 28.2% versus a rate of 34.1% a year ago. The decrease in the effective tax rate during the quarter is primarily due to the fact that Q4 pretax results were stronger than expected at the end of Q3, which reduced the quarterly impact of the valuation allowance for U.S. foreign tax credits during Q4. For the full fiscal year, the effective tax rate was 32.5% versus 33.8% for the previous fiscal year.

While fiscal 2020 and fiscal 2019 were favorably impacted by the reversal of previously-recorded liabilities for uncertain tax positions, following the expiration of the respective statutes of limitations. Due to the potential variability of quarterly effective tax rates because of specific events in each quarter, we believe the full year rate is more indicative of our trends. Based on our current trends and forecasted result, we anticipate our full year fiscal 2021 effective tax rate to be approximately 35%.

All in all, diluted earnings per share came in at \$0.65 in the fourth quarter versus \$0.67 in the same quarter of last year.

Moving on, our balance sheet remains very strong. We ended the quarter with a strong position of cash, cash equivalents and restricted cash totaling \$303.8 million, an increase of \$197.5 million versus the same period a year ago.

Cash provided by operating activities increased \$89 million versus the same period last year, primarily due to focused merchandising strategies and inventory management, along with the extension of vendor terms, primarily on our merchandise payables.

It is important to note that many of the extended vendor terms began to revert back to pre-Covid terms in the first quarter of fiscal 2021. And many more extended vendor terms are currently scheduled to continue reverting back towards pre-Covid terms through the third quarter of fiscal 2021. However, we are taking advantage of lessons learned during the pandemic to revisit terms with major suppliers across our geographic locations and product categories in order to make permanent, more appropriate extended payment terms, especially on our longer lead-time merchandise.

Net cash used in investing activities increased by \$6.5 million, primarily due to the increase in investments in certificates of deposit of Trinidad dollars we have on hand. The increase in certificates of deposit were offset by fewer capital expenditures. Although Trinidad is a market that has performed very well in the current year, with mid-single-digit comparable net

merchandise sales growth, we continue to experience a very illiquid market with respect to sourcing U.S. dollars and other tradable currencies in Trinidad. As a result, as of August 31, 2020, our Trinidad subsidiary had Trinidad dollar-denominated cash, cash equivalents and short and long-term investments, measured in U.S. dollars, of approximately \$79.6 million.

In August, the liquidity situation began deteriorating further, and as a result of not being able to source enough U.S. dollars to pay for our imports into Trinidad, we recently began to restrict shipments into this country in line with the amount of U.S. dollars we are able to source. This situation is dynamic, and we are making all reasonable efforts to source tradable currencies with our banks, as well as taking actions to convert to locally-sourced products where feasible, and looking for alternatives to export merchandise from Trinidad to generate more tradable currencies. If this situation does not improve rapidly, it is likely that sales and our profitability in Trinidad will be negatively impacted as soon as our fiscal second quarter.

Returning to our cash flow activities, the \$107.6 million increase in cash provided by financing activities is primarily the result of the net increase of proceeds from long-term borrowings of \$55.7 million compared to a year ago to finance our warehouse club construction projects, and a net \$50.6 million increase in cash provided by short-term borrowings, which we accessed as a precautionary measure at the beginning of the Covid-19 pandemic.

As conditions evolve during fiscal 2021, we continue to monitor our cash position closely. However, based on current trends and forecasts, we currently expect to have fully paid down these lines of credit by the end of our fiscal third quarter.

Despite the challenges we faced during the second half of the fiscal year, we believe that we are emerging as a stronger company. We will continue to focus on the Six Rights of Merchandising with the goal of driving same-store sales, continuing to expand our Click & Go service and developing and growing our digitally-enabled omnichannel platform.

Our balance sheet, liquidity and cash flow remain strong, which provides a solid foundation for driving same-store sales and future growth, and we believe will benefit our members and stockholders alike.

Thank you all for your support during these times of uncertainty. We believe that we are on the right path for continued success.

I will now turn the call over to the operator to take your questions. Operator, you may now start taking our callers' questions.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Jon Braatz of Kansas City Capital.

Jon Braatz: Sherry, what are your thoughts on opening new stores, additional stores, beyond Bogota in 2021? I know you had some plans and obviously, there's still some uncertainty, but they seem to be easing little bit. Do you think we'll see some additional stores in 2121?

Sherry Bahrambeygui: I can't give you a definitive answer at this point, other than the fact that we already have 3 locations that we've secured the property, and we are in a good position to move on them depending on the totality of the circumstances. Really what's happening is that the unpredictability and volatility of the pandemic does influence our thinking on an ongoing basis. So I don't want to go out on a limb at this point, but I can tell you that we're well positioned to be able to move quickly on additional clubs the moment we decide it's the right time.

Jon Braatz: Are they the full-size stores in the 3 locations?

Sherry Bahrambeygui: It's a mix.

Jon Braatz: Okay. Okay. Okay. All right. And Michael, you mentioned that in the fourth quarter, the SG&A costs, I think you said \$1.2 million in severance costs. But Sherry, you mentioned that there were also -- you also paid some one-time bonuses or sort of recaptured what -- or repaid what was forgiven in the first 2 quarters, first 3 quarters.

Sherry Bahrambeygui: Yes.

Jon Braatz: What was that sort of net impact of all that on your SG&A costs in the fourth quarter?

Michael McCleary: So Jon, it's kind of a wash. The waiver was from May 1 to the end of July, so you only got 1 month in Q3 and 2 months in Q4, and then we just did a catch-up payment in Q4. So it's really a wash for that quarter.

Jon Braatz: Okay. But there was an impact and the catch-up was in the fourth quarter?

Michael McCleary: Right, of which two-thirds would have been in the fourth quarter anyway. So yes, it really gets lost in the rounding.

Jon Braatz: Okay. And what was the \$1.2 million in severance costs?

Michael McCleary: Just --

Sherry Bahrambeygui: The departure of executives, and also there were some furloughed employees who did not return. And that was a part of our process in sort of reforming the appropriate staffing to meet the needs that the company required at the time.

Jon Braatz: Okay. Okay. And Sherry, you mentioned that the Aeropost margins were better in the quarter compared to where they have been. What's behind that?

Sherry Bahrambeygui: Volume.

Jon Braatz: Volume? Okay.

Sherry Bahrambeygui: Yes.

Jon Braatz: All right. Is that the traditional volume that Aeropost that was doing?

Sherry Bahrambeygui: I don't have in front of me historically, but I can tell you that the demand for online, as we saw, has increased everywhere as a result of the pandemic.

Jon Braatz: Okay.

Sherry Bahrambeygui: So I do believe that those people that were in a position to be able to acquire things or purchase things through Aeropost, and import them into in-country, took advantage of that channel. And so there was a big surge in activity there.

Jon Braatz: Okay. One last question, Michael and Sherry. You've got a lot of cash on the balance sheet, and Michael, you mentioned that the vendor terms will be changing and so on, and that might even eat a little bit in the cash, but you still have a lot of cash. What are your intentions with that cash?

Michael McCleary: Well, Jon, I think I mentioned also that we have quite a bit of lines of credit that we've drawn down on. So between the two -- between the lines of credit and the vendor terms, assuming they revert to kind of pre-Covid terms -- we hope they won't -- but that will take a big chunk out of that cash. But obviously, certainly feel comfortable having that cash during these challenging times. And obviously, Sherry mentioned before, we've got 3 properties that we've already closed on and we hope to build on, and obviously, looking aggressively at other options in other countries. So ideally, we'd like to redeploy it.

Jon Braatz: Okay. Internally?

Michael McCleary: Yes.

Jon Braatz: Okay. All right. Thank you very much.

Operator: Rodrigo Echagaray from Scotiabank.

Rodrigo Echagaray: On the one hand, I'd like to get your thoughts on the delivery strategy as you rolled that out. Is that being done in-house? Are you relying on third-party aggregators? How does that work in the different markets? And I guess related to that, just curious as to how each market is behaving differently on the online front. Which market are you seeing the highest engagement? And I guess related to that, where do you see the biggest opportunities as you continue to roll out delivery and all that? Thank you.

Sherry Bahrambeygui: You're welcome. The delivery solution and the last mile solution varies from market to market. As you know, one of our strengths of the company is our ability to tailor the appropriate solution for each of our markets, given the fact that our markets have varying characteristics. In some markets, there are third-party delivery services where it makes sense to contract with them; in some markets, we actually are doing some of it ourselves in-house. And in some markets, it's through third parties that are purchasing PriceSmart merchandise through their own platforms so -- or it's a combination of those things.

I can tell you generally as to your second question, that there has been a strong adoption in Central America of the delivery -- Colombia as well. The Caribbean, I believe, lags a bit, and it may have something to do with the -- I think there's a relationship with how those markets and how those governments are reacting to the threat of the pandemic. And I also believe that it has somewhat to do with timing because, as you know, we rolled these markets out sequentially. We didn't open up Click & Go all at once. And the Caribbean was one of the later areas that we rolled out Click & Go. And by the way, if I earlier said about delivery, I'm speaking more generally about Click & Go overall in terms of the adoption, which would include the curbside contactless pickup.

Rodrigo Echagaray: Got it. And I guess if we adjust for the nearly 300 days of disruption from restrictions and if we also adjust for FX, it sounds like sales would be doing well. Is that how you look at it as well, or do you see something else besides that?

Sherry Bahrambeygui: We feel good about what we put out in September, I'll tell you that much.

Rodrigo Echagaray: Right.

Sherry Bahrambeygui: There's no question -- again, and I can't emphasize this enough -- you look at similar businesses in the United States that are considered essential businesses. And generally speaking, they do not experience the same type of challenges that we do in our markets, which are more vulnerable markets. And they don't have -- in those markets, most of the markets we operate in did not have stimulus packages like we have in the United States, where people had additional funds that they were able to then go spend on essential items.

So the markets that we are in tend to be more vulnerable and different governments respond differently to that. Some are extremely conservative and shut things down; some basically continue as though business -- there's nothing going on. We have to be quick and nimble and adapt and figure out the best way. The bottom line is we need to earn and maintain the trust of our members, and that's how we're going to continue to grow sales, is that when they know that they're safe shopping with us, whether it's in-club or it's through delivery or Click & Go, and that we're taking every precaution that we can reasonably think of, I believe that we are going to continue to be the trusted leaders in our markets because that's what our members are needing and looking for right now.

Rodrigo Echagaray: Got it. That's clear. And just one final question from my end. It sounds like the local sourcing had been highlighted for a few quarters now. But it sounds like this is becoming potentially a structural mid-term or long-term shift, but clearly, it sounds like it's becoming a bigger and bigger opportunity for you. Is there any context that you can share in terms of where you are in that evolution, and if I'm looking at this the right way in terms of a pretty big opportunity?

Sherry Bahrambeygui: Well, we certainly see it as a great opportunity, but it's one that we only take when we truly believe that we are able to source those products in a manner that aligns with the Six Rights and meets our high standards, especially for our private label, that the product has to be as good, if not better, than the leading branded product.

And yes, indeed, there are opportunities, especially, for example, in Colombia, that has a more

mature market and industry in certain areas of manufacturing, in produce and other areas as well. There are several advantages in terms of lead times, in terms of reduction of supply chain disruption threats, in terms of cost, in terms of natural hedging. And so we are carefully studying that area to see where those opportunities exist without compromising the uniqueness of our product offering as a company, and the fact that we provide curated merchandise that come from places that are not readily accessible to our members in those markets.

So it's a balance, and there are some areas where it makes sense for us to do it and there are other areas where we stick to the core of providing the U.S. membership-style club experience with the wow items. But we certainly are seeing great opportunities with local sourcing as well.

Rodrigo Echagaray: Got it, very clear. Thank you, Sherry. Thank you, Michael.

Operator: Ladies and gentlemen, this will conclude our question-and-answer session. And at this time also concludes PriceSmart Incorporated's fourth quarter 2020 earnings conference call. We thank you for attending today's presentation, and you may now disconnect your lines.