

PriceSmart, Inc. [PSMT]
Third-Quarter of Fiscal Year 2020 Earnings Call
Friday, July 10, 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

Presentation:

Operator: Good day, everyone, and welcome to PriceSmart, Incorporated's earnings release conference call for the third quarter of fiscal year 2020, which ended on May 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, July 10, 2020. A digital replay will be available following the conclusion of today's call through July 17, 2020, by dialing 1-877-344-7529 for domestic callers or 1-412-317-0088 for international callers by entering replay access code 10143985.

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 third quarter of fiscal year 2020. We will be discussing the information that we provided in our earnings press release and our 10-Q, which were both released yesterday afternoon, July 9, 2020. You can find both documents on our Investor Relations website at investors.pricesmart.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, July 10, 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 annual report on Form 10-K for the fiscal year ended August 31, 2019, as filed with the Securities and Exchange Commission on October 29, 2019. The Company updated those risks in response to the coronavirus outbreak, as detailed in the Company's quarterly report on Form 10-Q for the quarter ended February 29, 2020, as filed with the Securities and Exchange Commission on April 8, 2020. These risks may be updated from time to time in 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: Thanks, Michael. Good day, everyone and thank you for joining us. I hope that you and your families are all safe and healthy in these challenging times.

During the third quarter of our fiscal year 2020 our company has traversed an extraordinary arc that started with rapidly responding to unexpected challenges created by the pandemic, to predicting the needs of our members and of our employees, and then swiftly moving to implement ideas and capabilities that we believe will position us well for the future.

As addressed on the last Q2 earnings call held on April 9th, we organized our focus around a number of major priorities. Those priorities remain the same today: people, supply, demand and cash management, in addition to seizing on opportunities for the future.

As to people: With our top priority firmly placed on the wellbeing of our employees and our members, the quarter began with rapid adaptation to remote work without compromising effectiveness. Since March we've successfully off-sited almost all office-based employees in the US and internationally. I believe this early move is a major reason why we can report today that we're aware of only 1 confirmed COVID case among our office-based employees throughout the Company.

At the beginning of this last quarter we identified a group of 16 executives who together oversee all aspects of the Company's operations. Until recently this leadership team has met for at least a couple of hours every single day, 7 days a week, via video conference. This has allowed us to create an efficient communication channel that enables us to nimbly respond to rapidly changing dynamics in our 13 different markets. Although we've now been able to dial back the frequency of these meetings to several times a week, we follow the same format setting many of the other previously routine meetings. This has proven to be effective in dealing real-time with the unexpected while providing a forum to quickly expedite new business initiatives.

We were also an early mover on preventative measures in our clubs. These include enhanced cleaning protocols; use of personal protective equipment; social distancing practices; installation of protective barriers for cashiers and other member-facing areas; elimination of food sampling; elimination or reduction of food service areas; assignment of exclusive shopping hours for members at high risk; a generous and liberal paid leave policy for sick or high-risk employees; off-siting employees whose functions could be performed remotely; the creation of cohorts with staggered schedules; development of reserve teams who are paid to self-quarantine preventatively and who are at the ready in the event of an outbreak; contract tracing, mapping and strict quarantining protocols; implementing procedures for temperature taking and health certification questionnaires when employees report to work; and many other measures.

We've implemented an education campaign for employees about the health risks and we've recently extended our efforts to provide education, masks and sanitizers to family members and cohabitants of our employees. We continue to follow all public health guidelines in each of our markets, with measures such as metering traffic inside of our clubs to promote social distancing; more stringent cleaning protocols; providing sanitizers and masks to members; mandating masks where permitted by law; and working closely with local health officials to report and track cases. And, given that we have over 9,000 employees with each market approaching the pandemic differently, we feel positive about the results so far from our efforts to minimize the risks to our employees and to our members.

And, second, we remain laser focused on supply. As to our supply chain, we prepared alternative distribution flows and shipping routes to minimize the risk of disruptions to the flow of merchandise. We've prepared backup sites to our Miami distribution facility within the US. We've increased the use of our regional distribution centers, such as the one in Costa Rica, and the use of ocean freight between Central American countries on the occasions that we've been faced with border closings to truck traffic. We've anticipated potential issues and worked closely with our vendors to protect the supply chain upstream, since the global nature of this pandemic has created significant risk of disruption at all links of

the supply chain.

As to inventory supply during the last few months, we have faced some volatility because of shifts in demand. Initially there was a big surge in demand for basic essential items and not as much interest in discretionary items. As the quarter progressed, we experienced a rather abrupt shift towards nonessential products, more oriented toward improving amenities at home, such as domestics, exercise equipment, small appliances and in-home office equipment. In response to this shifting trend, we've worked closely with our vendors to adjust -- who, by the way, have been extremely supportive because of our longstanding relationships and our reputation in our markets. We've developed alternative local sourcing of quality products that meet the standards of our six rights to reduce out-of-stocks. And, when warranted, we place limits on certain items to maximize access for those products most in demand.

With regard to demand, we've been paying close attention to how to meet our members where they are, and that really varies from market to market. For example, each of our markets has been responding differently at different times. Just as we've seen with the rest of the world, the trajectory of and reaction to the pandemic varies by geography. This creates such a dynamic situation. We monitor and adjust on a daily basis because sometimes we receive very little notice about new developments and restrictions. We've even experienced varying mandates within the same market.

You know, it's important to note here that, although we're considered an essential business, our markets generally don't provide the same latitude and predictability that essential businesses in the United States enjoy. For example, during the third quarter we faced temporary club closures, limitations on hours, the number of members in a club at any given time, restrictions on in-club dining and food service and restrictions on areas of our business like optical and tire service. Even though we've seen an increase in our average ticket, we have also seen a decrease in our in-club throughput capacity in terms of traffic, and we believe that is probably attributable to a combination of restrictions on the club, restrictions requiring people to stay at home or limiting their mobility and general concerns, or even fear, about going out in public because of the pandemic. I should note that these restrictions have also impacted us this quarter in terms of membership renewal rate and membership income, as well as reduction in margin because of limitations on food service and our other businesses that include optical, tires and bakery.

But, despite these challenges our team has rallied together to keep serving our members in the most efficient and effective ways possible, which leads to one of our most important achievements during this COVID period, the transformation of our online capabilities. We now have higher-quality direct communication with our members through online channels and can share important current information, thanks to our digital, tech and member experience teams. Our following online through social media is rapidly growing. This helps us better predict the needs and preferences of our members. Our digital platform now combines online membership signup and renewal, which started in FY 2019, with our companywide online catalog, which went live in Q2 this year, and then in Q3 with the launch of Click & Go.

Click & Go enables minimal-contact shopping for our members, who can now research and select merchandise on our website, order and pay online and then have their purchases placed directly into their cars. We rolled out Click & Go in about 3 months and it is now available in all 13 of our markets and in all but 1 of the clubs. This includes implementation of new operational procedures, as well as onboarding and teaching our frontline employees additional skills to support this new service. From what we're seeing, our members are embracing this service. In just June, the first month where we were operational in all of our markets, Click & Go represented 2.7% of net merchandise sales. We're now advancing into the next phase of combining our Click & Go program with home delivery options.

This could not have been implemented without tremendous collaboration, incredibly long hours, intense

coordination, teaching and the strong determination of our team to make it happen and to make it happen fast. Our team demonstrated a strong sense of united purpose to serve our members in a time of need. We also believe that these efforts strengthen our foundation for growth and offer sustainable benefits for our future. So I have to take a moment to call out and congratulate our team on this very important accomplishment.

Finally, we've been and remain focused on cash management and liquidity. At the beginning of the quarter we took appropriate steps to conserve cash. As the quarter progressed, our view evolved and we are striking a balance between ensuring we have access to sufficient liquidity to weather this storm of unknown duration while maintaining funds needed to take calculated risks to invest in opportunities that we believe will support the future of the Company. In addition, several of the capital projects that we initially suspended have been resumed. With regard to liquidity management, Michael will cover that in just a few minutes.

Before moving on to our quarterly results, I'd like to mention that we opened our 46th club, our smaller format, in Liberia, Costa Rica on June 17th of this year. The Liberia club is our 8th club in Costa Rica and is located in the Guanacaste province, approximately 130 miles from the nearest PriceSmart club and 3 hours from the capital city of San Jose. The opening of the Liberia club marked a special milestone for us. For the first time in the history of our company the US-based team remotely orchestrated, guided and participated in the opening of a new club. And our capable in-country team managed the process and executed flawlessly, showing that we can and will adapt and grow under the most challenging of circumstances. We're also looking forward to opening our third warehouse club in the greater metropolitan area of Bogota, our 8th club in Columbia, which we expect to open in the second quarter of fiscal year 2021.

We know we're navigating an unprecedented time, at least in our lifetimes, but I'm pleased with how we've come together and tackled these challenges. I applaud the team for the progress and performance we've made this past quarter. It's evident that this team is inspired, maybe more than ever, about the important purpose of our business, to improve the lives and businesses of our members.

Now I'd like to turn our attention to our results for the third quarter of fiscal 2020. Total revenues for the quarter were \$799.9 million, an increase of 1.4% over the comparable prior-year period. Net merchandise sales were \$768.4 million, an increase of 1.8% over the prior-year period. Currency fluctuations in our markets had a \$19.3 million, or 250 basis point, negative impact on net merchandise sales for the quarter. Comparable net merchandise sales decreased by 3.6% with currency fluctuations impacting comparable sales negatively by 2.5%.

By segment, in Central America where we had 25 clubs at quarter end, including 3 clubs opened since May 2019, net merchandise sales increased 1.2%, with a 6.4% decrease in comparable net merchandise sales. Our comparable net merchandise sales were negatively impacted by significant traffic reductions in our warehouse clubs due to the various local government travel restrictions I referenced earlier. Additionally, as expected, we've seen sales transfer from our existing warehouse clubs to our recently opened warehouse clubs.

In the Caribbean region where we had 13 clubs at quarter end, total net merchandise sales grew 9.6% with comparable net merchandise sales growth of 6.4%. Our Dominican Republic, Trinidad and Jamaica markets led the way in the segment with 21.4%, 16.4% and 11.8% growth for the third quarter ended May 31, 2020. In the Dominican Republic our net merchandise sales growth was primarily attributable to the opening of our fifth club in June 2019 and strong comparable sales growth. Jamaica and Trinidad comped strongly for the quarter with the same number of clubs as last year.

In Columbia where we currently have 7 clubs, net merchandise sales decreased 14.5% for the quarter and there was a decrease in comparable net merchandise sales of 14.8%. The impact of currency on total and comparable net merchandise sales in Columbia was significant, at negative 18.7% and 18.3% for the quarter, respectively.

Turning to merchandise, in terms of merchandising categories, we continue to experience strong growth in our foods and fresh categories, driven primarily by growth in health and beauty, groceries and produce departments. Due to shifting purchasing patterns during the pandemic, in early Q3 we experienced a shift compared to the same period last year away from nonessential categories such as apparel, housewares and hardware. However, as Q3 progressed and continuing into Q4, we've seen reversals of this trend. Additionally, due to safety protocols and restrictions in place, departments such as food services, tires and optical centers were negatively affected by the impact of the pandemic. Again, as Q3 progressed, we've seen some improvements in our food service, optical and tire departments because of easing of restrictions in some markets.

Now I'd like to turn to membership. Our total number of membership accounts decreased 2.2% when comparing the number of accounts as of May 31, 2020 versus May 31, 2019. Similarly, our trailing-12-months renewal rate was 82.5% and 85% for the periods ended May 31, 2020 and May 31, 2019, respectively. We believe the primary contributing factor to this overall decrease is the reduced warehouse club traffic from COVID-19 restrictions, as we previously mentioned. Historically, our members would primarily renew at or near the time of expiration while at the register in club, so reduction in traffic obviously can impact this practice.

Columbia had the largest decline, of 8.3%, followed by a decline in Central America of 1.4%. The Caribbean partially offset these declines with a 1.1% growth in membership accounts. To date, Columbia and Central America have been the hardest hit regions for the most part in terms of the severity and duration of the governmental restrictions. However, due to the notable increase of online traffic and the new visibility of inventory online and the opportunity to shop through our Click & Go program, membership signups and renewals completed online have also been steadily increasing.

Despite the decrease in membership accounts, membership income increased 3-point -- excuse me, 3% during the quarter. The growth in membership income during fiscal year 2020 in our Central America segment is primarily the result of the opening of 3 new warehouse clubs: Santiago de Veraguas and Metropark in Panama, and San Cristobal in Guatemala. During calendar 2019, Platinum Membership launched in 2 Central American markets, which also contributed to the increase in membership income. While it didn't have an impact in Q3, it's important to note that we launched the Platinum Membership program in Columbia during the month of June.

In our Caribbean market, membership income growth was primarily attributable to the opening of the new Bolivar warehouse club in the Dominican Republic in June 2019. In the past calendar year Platinum Membership launched in 3 Caribbean markets.

Membership income in Columbia declined in the third quarter due to the decline in total Columbia membership accounts, which we believe is primarily driven by the reduction in traffic caused by the pandemic. Johns Hopkins University data indicates within our operating market that currently Columbia has the highest reported COVID-19 cases, exceeding over 106,000 cases as of July 3, 2020.

Net income for the third quarter of fiscal year 2020 decreased 9.9% to \$12.7 million, or \$0.41 per diluted share compared to \$14.1 million, or \$0.46 per diluted share, in the comparable period last year. As a reminder, we ended this quarter with 45 warehouse clubs compared to 42 clubs at the end of the third quarter of fiscal year 2019. The new clubs include 1 in Panama, referred to as Metropark; 1 in the

Dominican Republic, the Bolivar club; and the San Cristobal club that opened in November of 2019 in Guatemala. Following the opening of the Liberia club in June we now operate 46 clubs with our 47th expected to open in Bogota, Columbia in Q2 of fiscal year 2021.

Now, turning to June sales, which we released just earlier this week, May and June improved sequentially versus April sales when compared to the prior year. Net merchandise sales were \$249.2 million, a decrease of 1.5% versus a year ago. FX fluctuations adversely impacted net merchandise sales by 3.1%. For the 4 weeks ended June 28, 2020, comparable net merchandise sales decreased 4.9% with a negative FX impact of 3.1%.

In closing, our commitment to our members, to our employees and to our values remains steadfast. The challenges brought on by the pandemic, as trying as it has been for everyone, has also provided us with great opportunities, and we're not going to waste it. We're prepared to respond to what is still a dynamic environment. We will continue to try to predict the best ways to meet the needs of our members and we will continue to implement new and improved initiatives as we champion this business for our employees, for our members and for our shareholders.

I want to thank all of our shareholders for their commitment and trust. We are grateful to our employees, especially those on the front line. You continue to inspire all of us in these everchanging times. I wish you all safety and good health.

I'll now turn the call over to Michael.

Michael McCleary: Thank you, Sherry. Good morning or afternoon to everyone and thanks for joining us today.

As Sherry mentioned, in many ways the pandemic has accelerated some of our plans, in addition to quickly evolving our adaptability to unforeseen market conditions. We shifted some of our priorities in the short term, never losing sight of the tenets of our business model and our long-term goals. While we do expect continued uncertainty in the economies of our 13 markets due to COVID-19 and will continue to proceed cautiously, we will do so with an eye on opportunities to solidify the Company and our market position for the future.

During the third quarter of fiscal 2020 total revenues were \$799.9 million, an increase of 1.4%, and net merchandise sales were \$768.4 million and grew 1.8%. The third-quarter increase in net merchandise sales was driven by a 21.7% increase in average ticket partially offset by a 16.4% decrease in transactions, largely due to capacity and other government restrictions as a result of the COVID-19 pandemic.

Comparable net merchandise sales were down 3.6%, which includes the impact of sales transfers to our newly opened clubs in existing markets. Currency negatively impacted both our net merchandise sales and our comparable net merchandise sales by 2.5%.

Total gross margin of net merchandise sales was in line with the same quarter last year at 13.9%, but was down during the quarter when compared to recent quarters. The decrease versus recent quarters was largely due to a significant drop-off in sales in our higher-margin areas of food service, bakery and optical, that were particularly impacted by the pandemic. Total revenue margins decreased 20 basis points to 15.9% compared to 16.1% in the third quarter of fiscal 2019. The slight decrease in total revenue margins is primarily due to lower margins in our [Casillero] business and a one-time reimbursement from one of our credit card vendors in the comparable period of the prior year.

SG&A expenses for the quarter were 12.9% of total revenues, a decrease of 40 basis points versus the same period last year. There are two main factors that contributed to our positive leverage of SG&A. First, we took corrective measures to control costs. These measures included furloughing some US employees, temporarily reducing compensation for higher-paid US employees and carefully managing warehouse expenses during these times of uncertainty. Second, we benefited from lower preopening expenses compared to the same period in the prior year. These savings were partially offset by incremental costs to implement additional safety measures in our clubs to protect and better serve our employees and members, as well as costs related to our Click & Go program and other omnichannel initiatives.

Operating income was \$24 million, or 3% of total revenue in Q3 of fiscal 2020 compared to \$22 million, or 2.8%, of total revenue for the same period last year.

Net interest expense increased for the quarter primarily due to higher average long-term loan balances to fund our capital projects and recent drawdowns on short-term lines of credit as part of our COVID-19-related efforts to secure cash.

Our effective tax rate for the third quarter of fiscal 2020 was 38% versus a rate of 34.7% a year ago. The unfavorable net impact is mainly driven by the loss of benefit of foreign tax credits which are no longer recoverable as a result of the US Tax Cuts and Jobs Act. However, we had a significant favorable impact from improvements on certain tax provisions, partially offset by the unfavorable impact from the tax treatment of changes in the value of foreign currency. While quarterly rates may vary due to specific events, based on our current trends and results we expect our full-year fiscal 2020 effective tax rate to be between 34% and 35%.

Net income decreased 9.9% to \$12.7 million, with diluted earnings per share of \$0.41 in the third quarter of fiscal 2020, compared to \$14.1 million, with diluted earnings per share of \$0.46 in the third quarter of last year.

Moving on to our balance sheet, we ended the quarter with a strong position of cash, cash equivalents and restricted cash totaling \$266 million, an increase of \$152 million versus the same period a year ago. Cash provided by operating activities increased \$61.2 million versus the same period last year, primarily due to significantly lower merchandise levels as we adjusted to dramatic shifts in demand throughout the third quarter.

Inventory per club was \$6 million at quarter end versus \$7.9 million in the prior period. Assuming that sales do not vary significantly from current levels, we would expect inventories to shift back toward historical norms beginning in Q4.

Net cash used in investing activities increased by \$43 million, primarily due to the increase in investments and certificates of deposit of Trinidad dollars we have on hand, while we work actively to convert those Trinidad dollars into US dollars as availability allows.

A \$123.1 million increase in cash provided by financing activities is primarily the result of the net increase of proceeds from long-term borrowings of \$59.8 million compared to a year ago to finance our warehouse club construction projects and a net \$61.5 million increase in cash provided by short-term borrowings.

As I mentioned in our last call, we have increased our short-term borrowings to increase available cash on hand and secure cash for any future potential operational cash needs because of COVID-19. As Sherry mentioned, one of our main priorities during the COVID-19 pandemic has been liquidity management.

While some uncertainty remains in our markets due to the pandemic, we have confidence in our ability to continue our operations successfully while managing our cash position.

In response to the adverse impact imposed by the pandemic, we proactively made the following adjustments to mitigate further risks. First of all, in addition to the drawdown on lines of credit that I mentioned previously, we have negotiated extended terms with many of our vendors and have taken advantage of tax deferral arrangements where available. Second, we continue to target inventory management by focusing on shifts in consumption patterns and by adjusting merchandise, buying accordingly, in addition to focusing on supply chain efficiencies. Third, we initially furloughed approximately 80 employees in the United States and implemented temporary salary reductions for US employees and executives on a tiered basis, increasing from 10% to 30% based on compensation level, in addition to our board members voluntarily waiving their next quarter's cash compensation. Finally, shortly after the onset of the pandemic we put a halt to almost all of our capital projects. However, as we have gained better understanding of the climate we are operating in, we are gradually restarting certain of our previously postponed capital expenditures such as construction of our third club in Bogota, Columbia, which we expect to open in Q2 of fiscal 2021.

Although it has been a challenging time over the past few months, we believe that we are emerging as a stronger company. Thank you all for your support during these times of uncertainty. We believe that we are on the right path for continued growth.

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

Questions & Answers:

Operator: [Operator Instructions] Our first question comes from Jon Braatz of Kansas City Capital.

Jon Braatz: Sherry, just wanted to touch base with you on gross margins. I know they came down sequentially to 13.9%. And you talked a little bit about the changing merchandise mix driving that. Can you give us a sense as to the proportionality of that -- the change in the margin as a result of the changing merchandise mix, how significant it was and maybe how quickly you can envision it rebuilding again from the third-quarter level?

Sherry Bahrambeygui: Well, our total gross margins of 13.9% was flat with Q3 of last year, but down from where we -- what we've been achieving in FY20. But we attribute this in large part to areas of our business, which is not so much the merchandise as it is the fact that we had restrictions on tire service, optical, the type of things that would require more physical contact. Our OBs, including bakery, just the environment is such that you wouldn't have as much gathering and people having -- ordering the cakes as much. And those kind of things that are generated that would impact those margins significantly, those areas were most affected. Demos, for example, is another example. Demo income was reduced.

But in terms of the margin for our merchandise and the merchandise margin, those have been holding pretty firm and in line with our pricing strategy and consistent with our value proposition and our discipline with the Six Rights.

So there has been some shift in emphasis from imports to domestic to make sure that we're covering out-of-stocks, but that's about as much color as I think I can give you on the reason for the margins being at 13.9%.

Jon Braatz: When you look at those higher value-added services like optical and bakery, maybe compared to where you were a month ago are those services beginning to incrementally improve? Are you seeing some gains in that area versus maybe -- like I said, maybe a month ago?

Sherry Bahrambeygui: The short answer is yes, but it is a dynamic situation.

Jon Braatz: Okay.

Sherry Bahrambeygui: Because it's highly correlated with the kind of restrictions that we're seeing in the market. And that's why, because those are the types of services that require more physical contact and as a [result] it [can] be more impacted by what the more global environment is.

Jon Braatz: Okay. Do you see -- obviously you operate in a lot of different countries and a lot of different variables. Are you seeing any sense that maybe if there's a resurgence of COVID cases or continuing high case -- high level of cases that there might be additional restrictions placed on people in your markets and maybe on your operating hours and so on?

Sherry Bahrambeygui: You know, the best answer I can give you is just like we've handled this entire process over the last 3 months, is that we are getting prepared for all sorts of scenarios. And we think that's the most responsible thing to do and it puts us in best position to maximize sales and meet the needs of our members. If I were to ask you in the United States what you think is going to happen with the pandemic it would be a tough question to answer. I think the same holds true in our markets. But we're clearly seeing that there is a cause and effect. As cases go up the restrictions tend to be greater. And we don't have a crystal ball, so the best we can do is prepare our business to be ready and at the ready to be able to best serve our members, given any kinds of restrictions that are thrown our way.

Jon Braatz: Okay. One last question. From a competitive standpoint, your Click & Go, are you as advanced or more advanced maybe than some of your competitors? Have you dealt with this do you think from a -- in a better way than -- in a quick way than some of your competitors?

Sherry Bahrambeygui: I don't really spend a lot of time comparing us to our competitors in that regard. All I can tell you is that we've launched, expedited, rolled out in a way that I haven't seen elsewhere. And we're getting very positive reception from our members. We still have a lot of work to do and a lot of upside potential in terms of creating greater efficiencies. And we're learning and we're implementing new ideas to get better and better. We're going to be layering on the delivery aspect to this program, which I think is also going to be well received by our members.

So all I can tell you is that, given the numbers that we saw in June, that there seems to be a good response from our members and that there's more potential there.

Jon Braatz: Okay. Thank you, Sherry.

Operator: This concludes the question-and-answer session. I would now like to turn the conference back over to the management team for any closing remarks.

Sherry Bahrambeygui: Well, I'd just like to say thank you to everyone, and thank you for the support and for the understanding. We're all in this together. We're learning a lot from this process and we, as I said earlier, plan to put it to good use going forward. And I'd like to most especially recognize our employees.

Michael?

Michael McCleary: Yes. Thank you very much, everybody, and have a good weekend. Take care.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.