

PriceSmart, Inc. [PSMT]
Second-Quarter Fiscal Year 2021 Earnings Call
Friday, April 9, 2021, 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 afternoon, everyone, and welcome to PriceSmart, Incorporated's Earnings Release Conference Call for the second quarter of fiscal year of 2021, which ended on February 28th 2021.

After remarks from our company's representatives, Ms. 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, April 9, 2021.

A digital replay will be available following the conclusion of today's call through April 16th 2021, by dialing 1-877-344-7529 for domestic callers, or 1-412-317-0088 for international callers, also by entering the replay access code of 10152415.

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 second quarter of fiscal year 2021. We will be discussing the information that we provided in our earnings press release and our 10-Q, which were both released yesterday afternoon, April 8, 2021. Additionally, we will be talking about our March sales, which we released this morning. You can find all three documents on our Investor Relations website at investors.pricessmart.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, April 9, 2021. 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 and other filings with the SEC, which are accessible on the SEC's website at www.sec.gov. These risks may be updated from time to time. 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, and good day, everyone. We hope you are all healthy and

safe. Thanks for joining us today and for your interest in our company. We will be sharing the strong results from our fiscal second quarter and how we're continuing to build on the momentum we've developed as we cross the midpoint of fiscal 2021.

Our adherence to the founding principles of this company is carried out through a myriad of continuing challenges brought on by COVID and its related effects. We remain vigilant in our unwavering commitment to the safety of our members and employees. The extensive protocols we implemented to provide a safe and healthy environment continue. For instance, we're providing global employees with paid time off for vaccines where and when available. Additionally, we continue to support our employees with bonus opportunities, benefits and enhanced safety measures.

Over the past year, the pandemic has challenged us in many ways. However, I believe it's only strengthened us as a team. It's incredible to watch our team address the short-term challenges while at the same time remaining focused on the long-term objectives we've set for ourselves. We believe we're starting to see the results of some of the changes and enhancements we've made over the past couple of years. Our commitment to The Six Rights of Merchandising continues to be at the core of our business. Our members trust that we're going to have the right merchandise in the right place at the right time in the right quantity in the right condition and at the right price.

Thanks to the dedication of our team and the trust of our members, net merchandise sales grew 3.1% and comparable net merchandise sales grew 1.1% compared to the same 3-month period a year ago. Currency fluctuations negatively impacted net merchandise sales and comparable net merchandise sales by 3.2% and 3%, respectively, for the quarter. Note that we had one less shopping day due to the leap year in February of the prior year.

During the second quarter we saw an uptick of COVID-related restrictions which led to more club days lost compared to the prior sequential quarter. We had 142 club days closed during this holiday quarter versus 51 in the prior sequential quarter. To give you more perspective, we had 225 club days closed in the third quarter of fiscal year 2020, which is from March to May.

Similar to what we saw in the United States, infection rates have risen dramatically in our markets. This brought the return of weekend club closures, restricted hours and reduced traffic, primarily in Panama, which has 7 clubs. But we also experienced similar restrictions in Colombia, where we have 8 clubs, and in some of our Caribbean markets as well.

In addition, we faced sales headwinds due to our decision to reduce the importation of US-sourced merchandise to our Trinidad market, where we have 4 clubs, as a result of the continued US-dollar illiquidity. As expected, this contributed to a decline in sales and membership in that market during the second quarter. Michael will discuss more about that in a few minutes.

Despite these challenges, we continue to provide our members with a great inventory mix and reasons to visit the club. Our hard lines team has built on the momentum we gained from the first quarter and extended that streak into the second quarter. They've done a tremendous job meeting demand and working with our global suppliers to secure inventory. As a result, our hard lines category experienced approximately 8.5% comparable sales growth during the period compared to the prior-year quarter. Leading this growth were business machines, major appliances and electronic departments that grew 183%, 84% and 27%, respectively. Our seafood, produce, cleaning and grocery departments also performed well, with 11%, 7%, 5% and 4% growth, respectively.

As mentioned on previous calls, we continue to make investments in our Direct Farm Program to enhance our offerings of healthier food options for our members. And we're starting to see these investments pay

off. Our produce distribution centers allow us to provide high-quality, farm-to-people produce quicker and more efficiently and to support our local commerce and farming communities. We currently offer a produce distribution center in 3 markets and are actively seeking to expand to other markets as well.

Although our fresh and produce departments did well, we did have challenges during the quarter with our candy, snacks and juices departments in our food category. Also, sales of our housewares and toys categories decreased due to our decision to scale back on long lead time orders based on anticipated shifts in demand because of the pandemic.

Our Click & Go curbside and delivery service represented 3.1% of our net merchandise sales during the quarter. Curbside pickup and delivery is available in all of our clubs and in all markets. During the quarter we introduced the option for our members to select specific dates and windows of time for curbside pickup and delivery, which allows us to operate more efficiently and improve our service and offer greater convenience to our members.

Over the past several months we've seen delivery continue to become a larger portion of our total Click & Go sales. Our grocery, health and beauty and cleaning departments are currently our best performers on the e-commerce platform.

We also continue to expand our mobile app capability. For instance, we recently added the capability for a member to scan our products from their place of work or at home to view availability at surrounding clubs and plan to expand that functionality to enable members to add to their cart.

Our members also continue to respond favorably to our online platform for their membership transactions. 14% of all new signups in the second quarter were completed online. That's up from 11% at the end of the first quarter. Now, some of the important benefits of online signups and renewals is that it provides the opportunity for autorenewal, like a subscription, and auto payment, in addition to capturing high quality, accurate and valuable member information.

Turning to supply chain and inventory, our merchandising team continues to do a great job sourcing inventories, despite continuing shipping container shortages at the point of origin out of Asia. This has caused some time delays with certain departments such as outdoor patio, sporting goods, home furniture, apparel and domestics.

We did a great job optimizing our inventory for the holiday season and, as a result, markdowns and spoilage were significantly less this quarter compared to the same prior-year period. Similar to Q1, there was a higher demand in our non-food categories, particularly electronics. A competitive advantage is that we've been able to source electronics at excellent prices and had good on-hand inventory, while others struggled in this area. We see this as a great opportunity and we've made strategic inventory investments in various non-food departments. So, as a result, our average inventory per club increased slightly versus comparable prior-year quarters.

Our total number of membership accounts decreased 3.6% during the second quarter of fiscal year 2021 when compared to the comparable prior-year period. We attribute that primarily to the restrictions on mobility. However, we saw a 2.4% increase in our membership accounts since August 31, 2020, and in-club traffic continues to improve. Our trailing-12-month renewal rate was 81.5% and 86.2% for the periods ended February 28, 2021 and February 29, 2020, respectively. Colombia experienced the largest percentage decline, followed by Central America and the Caribbean. However, our 81.5% trailing-12-month renewal rate has improved from the low of 80.5% at the end of August as restrictions eased and, as noted previously, we've recently seen an encouraging increase in membership signups and renewals completed online.

We're continuing to enhance the value of our membership through our focus on member wellness. This offering includes healthy foods; our optical centers, with 28 locations open at the end of the quarter and we expect to have over 40 in operation by the end of this fiscal year, up from 17 at the end of fiscal 2020. We also recently opened our first 2 PriceSmart Pharmacies during this calendar year. We'll begin piloting in-club audiology centers as well this year.

Now I'd like to give you a brief update about our real estate and construction activities. We recently began construction of a new warehouse club in Bucaramanga, Colombia that is expected to open in the fall of 2021. This will be our 9th club in Colombia and follows the successful opening of our 8th club, Usaquen, just a few months ago. It will be a smaller-format club. We believe the smaller-format club, coupled with our omnichannel capability, extends our reach and presence in these regional or secondary-city locations and represents a significant way for the Company to grow. Once this club is opened, along with the new club, we expect to open another club in Guatemala and another one in Jamaica this fall and next spring, respectively.

At that point, we will have reached a new Company milestone of 50 warehouse clubs. As I have noted before, new club openings are likely, at least initially, to adversely impact our comparable net merchandise sales. However, we will move forward with new club openings and we believe that, in the long run, such expansion leads to growth by way of incremental membership, growth in net merchandise sales and services, greater leverage and a better shopping experience for our members.

I'd like to spend a moment on our March sales that we released earlier today. March marks the 1-year anniversary from when we began to experience the impact of the COVID-19 pandemic, as well as the month our members began stocking up on merchandise ahead of the uncertainty surrounding the global pandemic. We saw significant sales growth in the month of March last year, with a surge in net sales growth of 17.1% and comparable net merchandise sales growth of 15.7%. As a result, we are competing against a COVID-related stock-up phenomena driving high sales growth in March of last year.

Despite the COVID-driven surge in buying in March 2020, our net merchandise sales for March 2021 were up versus last year's sales, coming in at \$307.6 million, an increase of 0.5% versus a year ago, with a negative FX impact of 1.5%, or \$4.4 million. For the 4 weeks ended March 28, 2021, comparable net merchandise sales decreased 5.9%, with a negative FX impact of 1.4%. We were very pleased with our total sales results in March, which were a historic record for the Company, outside of our holiday-driven December sales.

For us, COVID has illuminated the fact that our fundamental business model, prior investments and commitment to becoming a more critical part of our members' lives is a great value proposition. We will continue to expand our services and continue to provide the best curated selection of merchandise all under one roof. The retail industry is constantly evolving and our members have made it clear that we are among the most responsive. That can make us the retailer of choice in all of our markets. We believe that taking care of our members, our team, our communities and continuing to expand our business in a responsible manner will set us on a continued path for success.

So, to wrap it up, I'm proud of our entire team of over 10,000 employees, whether those working from home or remotely, or our frontline workers in our clubs and distribution centers. We all look forward to continuing to working together to build on the future and expand on what it means to be a PriceSmart member.

Thank you, and 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.

Total revenues and net merchandise sales for the quarter were \$937.6 million and \$898.4 million, respectively, representing increases of 3.4% and 3.1% over the comparable prior-year period, respectively. As a reminder, including the clubs we opened in Liberia, Costa Rica in June 2020 and Bogota, Colombia in December, 2020, we ended this quarter with 47 warehouse clubs compared to 45 clubs at the end of the second quarter of fiscal 2020. Our comparable net merchandise sales growth was 1.1% for the 13 weeks ended February 28, 2021. Foreign currency fluctuations had a negative impact on both net merchandise and comparable net merchandise sales of approximately \$27 million, or 320 basis points, and \$26 million, or 300 basis points, respectively.

By segment, in Central America where we had 26 clubs at quarter end, net merchandise sales increased 3.6%, with a 2.4% increase in comparable net merchandise sales. Our Honduras, El Salvador, Guatemala and Nicaragua markets contributed approximately 300 basis points of positive impact to total comparable net merchandise sales. This contribution was partially offset by 140 basis points decrease coming from Panama and Costa Rica, where club closures and currency devaluation contributed to the decreases in sales, respectively.

In the Caribbean region, where we had 13 clubs at quarter end, total net merchandise sales declined 0.6%, but comparable net merchandise sales increased 0.8%. The Dominican Republic continued its stellar sales performance during the COVID-19 pandemic, with double-digit sales growth despite a significant foreign currency devaluation compared to the prior-year period.

In Trinidad, as mentioned on our previous earnings call, we began limiting, temporarily, and in line with our ability to source tradable currencies, U.S. shipments to that market during the first quarter because of the ongoing U.S. dollar illiquidity situation. Our reduction of U.S. shipments has adversely impacted sales in Trinidad but, in line with expectations, comparable net merchandise sales declined 10.7% in the second quarter. We were able to source a modest increase in tradable currencies during the second quarter compared to the first quarter and are working on multiple projects to increase sources of US dollars, such as by exporting goods produced in Trinidad. Therefore, we began increasing our levels of imported merchandise in Trinidad towards the end of our second fiscal quarter. However, we expect similar, albeit slightly moderated, declines in sales in this market going forward until we are able to establish more reliable sources of tradable currencies and, subsequently, more imported goods. While we are in the process of implementing more sustainable sources of US dollars in Trinidad, our exposure to a potential devaluation of the Trinidad dollar may grow.

Moving back to segment sales, in Colombia, where we had 8 clubs open during the quarter, net merchandise sales increased 9.7% and comparable net merchandise sales decreased 4.5%, positively contributing 120 basis points to total net merchandise sales, but negatively impacting total comparable net merchandise sales by approximately 50 basis points. This comparable sales decline in Colombia is primarily attributable to sales transfers from our newly opened warehouse club in Bogota in December of 2020. The impact of currency on total and comparable net merchandise sales in Colombia was significant, at negative 4.3% and 3.8%, respectively, for the quarter. Currency devaluation continues to be a challenge in Colombia, but we are employing different approaches in an effort to mitigate the impacts, such as sourcing of locally produced goods and actively managing our sales prices and foreign currency exposure there.

Turning to gross margins, total gross margin on net merchandise sales came in at 16%, a 130 basis point improvement over the same quarter last year. The 130 basis point increase was primarily driven by the liquidity premium we have priced into our imported merchandise in Trinidad and a result of more focused merchandising strategies and inventory management, resulting in fewer markdowns. Total revenue

margins increased to 17.8% of total revenues, an increase of 120 basis points versus the same period last year. This is the result of the higher gross margins of 130 basis points that I mentioned previously, partially offset by lower revenue margins from our Casillero and marketplace business in the quarter of 10 basis points.

Selling, general and administrative expenses for the quarter were 13% of total revenue, an increase of 70 basis points versus the same period last year. In total, SG&A expenses increased \$10.1 million compared to the prior year. Warehouse club and other operations expenses contributed 40 basis points of the increase, primarily due to the fact that our new clubs in Colombia and Costa Rica have not yet reached normalized sales levels and a special bonus to all nonmanagement employees for phenomenal performance. General and administrative expenses contributed the other 30 basis points of the increase, primarily due to investments to support our technology and talent development.

Operating income was \$45 million, or 4.8% of total revenue in the second quarter of fiscal 2021 compared to \$38.8 million, or 4.3%, of total revenue, for the same period last year. This reflects the increase in total revenue margin primarily from net merchandise sales of 120 basis points, partially offset by the 70 basis point decrease due to deleveraging of SG&A expenses over the comparable prior-year period.

Net interest expense increased \$0.5 million for the second quarter, primarily due to higher average long-term loan balances to fund our capital projects and drawdowns on our short-term lines of credits as part of our COVID-19-related efforts to secure cash.

Other expenses of \$0.3 million are primarily from the cost to convert Trinidad dollars into other tradable currencies, partially offset by gains from devaluation of the Jamaican dollar due to our US-dollar-denominated cash reserves designated to fund the construction of our net Portmore club.

Our effective tax rate for the second quarter of fiscal 2021 came in slightly higher than last year at 33.9% versus 33.1% a year ago, primarily related to changes in our uncertain income tax positions. In our Q1 fiscal 2021 earnings call we estimated that our full year fiscal 2021 effective tax rate would be 34%; however, due to our strong results in the first half of fiscal 2021, we now expect the full fiscal year 2021 effective tax rate to be in the range of 33 to 34%.

Net income for the second quarter of fiscal year 2021 was \$28.2 million, or \$0.92 per diluted share, compared to \$25.6 million, or \$0.85 per diluted share, in the pre-COVID comparable prior-year period.

Our balance sheet remains very strong. We ended the quarter with cash, cash equivalents and restricted cash totaling \$187.8 million, an increase of \$51 million versus the same period a year ago. From a cash flow perspective, the \$59.3 million decrease in net cash provided by operating activities was primarily due to decreases in working capital, as our temporary extension of vendor terms negotiated as part of our initial response to the COVID-19 pandemic began expiring during the first half of the fiscal year. It is important to note that many of these extended vendor terms have, or will continue, to revert to pre-COVID terms through the third quarter of fiscal year 2021. However, as I have previously mentioned, we do expect to end the third quarter with longer average vendor terms than we had pre-COVID, which will carry forward indefinitely. Also, as Sherry mentioned, we are increasing our inventory position, particularly in the non-foods category, such as electronics, to meet increased demand and prepare for potential supply challenges in this area.

Net cash used in investing activities increased by \$3.4 million compared to the prior year, primarily due to the increase in investments in certificates of deposit of Trinidad dollars that we have on hand while we work actively to divert these Trinidad dollars into US dollars as availability allows, offset by fewer

construction expenditures. The \$85.2 million change from cash provided by to cash used in financing activities is primarily the result of a net decrease in proceeds from long-term debt and net repayment of short-term borrowings.

We continue to be vigilant about our cash position and ready to adapt to sudden changes in circumstances. While some uncertainty remains in our markets about the extent and duration of the pandemic, we have confidence in our ability to continue our operations successfully, while also continuing to invest in the future. During Q3 of this fiscal year, we have finished paying down the remaining short-term lines of credit which we had accessed as part of our initial COVID-19 response in Q3 of last year.

In closing, we are very pleased with where we stand half way through the fiscal year. I am confident that the investments we are making in our future capabilities, combined with our ongoing commitment to the principles of The Six Rights of Merchandising, will propel us into the future.

I want to express my complete confidence in our team and that these investments in talent, real estate and our digitally enabled omnichannel platform have positioned us well for continued growth. Thank you all for your support and engagement in our journey and your long-term investment in a growth horizon we believe will be strong for years to come.

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: We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Jon Braatz with Kansas City Capital.

Jon Braatz: Just want to touch on a couple items. First of all, your G&A expenses were a little bit -- they were sort of a step up in spending in that area. Was there a new initiative or something new that generated that increase? It was rather significant, but was some new programs implemented in the quarter?

Michael McCleary: Jon, no, it's -- basically we've been talking all along about how we're ramping up our spending and our technology in support of the business in general above and beyond just the omnichannel initiatives. And then we're also investing in talent. But there's nothing specific. I think as we see the sales start to increase, as a percentage of sales we would expect that that would stabilize. But as far as dollar values, we're obviously continuing to invest in the organization and future growth.

Jon Braatz: Okay.

Sherry Bahrambeygui: And, Jon, in terms of materiality it may not be so much, but you did ask the question about new initiatives. And I'm not sure if it came through clearly that we have started with pharmacy --

Jon Braatz: Yes.

Sherry Bahrambeygui: -- in our in-club as well. And we're investing in additional services.

Jon Braatz: Okay. Michael, on the gross margin front, the pricing actions in Trinidad I think in the 10-Q drove a 90 basis point improvement in your gross margins, in the consolidated gross margins. As you go forward do you think you will still have that similar type of impact as a result of the pricing actions in Trinidad?

Michael McCleary: Well, I think we said that was primarily from Trinidad. But, yes, I mean at this point nothing's really changed on the ground and we're maintaining that. And I think I mentioned last quarter that the hope would be that eventually things stabilize and the US dollars start to flow again. And that would not be something that we would want to continue for the long term. But at this point there's nothing that's changed that would allow us to change that.

Jon Braatz: Okay. Thank you. And then, Sherry, on the March sales, which I thought were very, very good, Easter was one week earlier this year than last year. Did that have any impact? Do you think that had any impact on the March sales this year?

Sherry Bahrambeygui: Yes, I do. But there's also closures that go with the holidays as well. So it's difficult to evaluate exactly how that's going to shift in terms of April. But we are looking forward to April comps. Just as we are lapping against a very aggressive March of last year, we'll be lapping against an April where there were significant closures. And so timing is distorting things when it comes to comps.

Jon Braatz: Yes. Okay. And then lastly, Sherry, you talked a little bit about supply chain issues and I think that's going to be a recurring theme we hear from a lot of companies this quarter. Are you seeing any improvement, any easing of some of those issues? Or is it sort of steady as you go, so to speak?

Sherry Bahrambeygui: Well, the shortage of containers from Asia is a global issue and that is ongoing. But what we have done is we've become much stronger in our ability to source from alternative sources regionally. And we've done a really good job of being able to shorten the lead times and make sure that we are maintaining good in-stocks of those categories that we think our members are most seeking at this time. So we are really vigilant about it. We're aware of the risk, whether the pandemic has surges that are unexpected. And we know there are externalities that we can't control. But internally we've been finding ways to be able to mitigate that risk to be able to source from alternative resources or sources and also increase our efficiencies using the Costa Rica regional distribution center.

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

Operator: The next question will come from Rodrigo Echagaray with Scotiabank.

Rodrigo Echagaray: Thanks for the call. A couple of questions on my side. The first one is related to the smaller format. It sounds like you are increasingly perhaps [at] the margin more optimistic around that format. Is there anything in particular that you could share in terms of the terms, sales per square meter, anything that can help us understand a little bit more the financial metrics of that format? And then I'll make a follow-up question after.

Sherry Bahrambeygui: Okay. So I don't believe that we share our sales per square footage of our clubs. And although we've had some small formats that have now exceeded a year, the fact that we continue to want to build on that approach should be a strong indication about our confidence in our ability to have a profitable and positive return on those investments. The smaller format has applications for us and the company in both metropolitan areas because of the shortage of land and the expense, as well as more outlying areas where we can broaden our reaches to members where land is far less expensive. And so the threshold for our internal metric, our internal benchmarking, is easier to achieve. So we look at each one on a case-by-case basis and we have internal standards in terms of what we'd like to see by way of a

return and what we expect to see before we greenlight any one of those projects.

So we believe the small format has good application for our company, but everything is worked out on a case-by-case basis.

Rodrigo Echagaray: Got it. And now that you have an online offering in all stores including, I'm guessing, the smaller format, does that mean that -- or is it too early to tell whether having that additional extended catalog offering makes those smaller stores even more appealing, because now perhaps you don't need to have as much space for a lot of big-ticket items?

Sherry Bahrambeygui: That is clearly one of the opportunities that we have by virtue of having built up our omnichannel capabilities to allow for strategic selection of what is carried on the shelves versus what is offered online. In addition to the strategic implementation of [domestic] distribution centers and regional distribution centers that allow us to continue to evaluate the best way to post merchandise and to get merchandise into the hands of our members at the lowest possible price.

So the smaller format, supported by omnichannel and supported by the right distribution system, is an opportunity for us to be able to satisfy the needs of the members with less real estate costs, which is basically one of our greatest areas of expense in terms of capital commitments.

Rodrigo Echagaray: Got it. And on that subject, how do you charge for the delivery, how much on average or what's the strategy there? And are you outsourcing the delivery, like other retailers in the region, to third-party logistic companies that are in charge of the last mile? And I guess perhaps, as you learn about customer behavior and what other retailers charge for delivery, especially in places like Colombia where there's more competition, do you foresee investments on the subsidy of those shipping fees at some point?

Sherry Bahrambeygui: With regard to delivery, we are seeing an increase of delivery as a proportion of our Click & Go business, which offers the alternative of curbside pickup versus delivery. At this time we do not charge separately for delivery. We do outsource significantly the delivery services that are directly charged and paid for by the member by the third party, but we have huge variability amongst our different markets in terms of consumer demand and expectations. So, as you said, for example in Colombia, that is a market that behaves in a manner that expects delivery, that uses delivery, that's willing to pay for delivery. And, whatever the delivery charge is is passed on directly to the member.

We don't independently charge for delivery. But we are also looking for ways to be able to see if we can provide delivery in a manner that's even more efficient than what's currently offered by third parties. But we're looking at that on a case-by-case, country-by-country basis depending on what we see the demand of the members are.

Rodrigo Echagaray: Got it. And just on the P&L, last question -- on the P&L, where would we see the expenses related to the shipping and delivery?

Michael McCleary: That would be in the cost of goods sold, Rodrigo. Like an offset -- with an offset through revenue for anything that we're passing on. But as Sherry said, we're passing on 100%. We're not subsidizing any delivery right now.

Rodrigo Echagaray: Got it. All right. That's my last question. Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Sherry Bahrambeygui for any closing remarks. Please go ahead, ma'am.

Sherry Bahrambeygui: I'd just like to thank all of our investors and our dedicated employees for their work. They've done a tremendous job dealing with externalities that are beyond our control and taking control of important aspects of our business to make sure that we're continuing to perform well. And our top priority remains keeping our members and our employees safe so that we can continue to be an important resource for our PriceSmart members in the communities in which we operate.

So thank you all and I wish you good health and safety until next quarter and beyond.

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