

PriceSmart, Inc. [PSMT]
Fourth-Quarter Fiscal Year 2021 Earnings Call
Friday, October 22, 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 day, everyone, and welcome to PriceSmart, Incorporated's Earnings Release Conference Call for the fourth quarter of fiscal year of 2021, which ended on August 31, 2021.

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 22, 2021. A digital replay will be available following the conclusion of today's call through October 29, 2021, by dialing 1-877-344-7529 for domestic callers, or 1-412-317-0088 for international callers, and by entering the replay access code 10159925.

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 2021. We will be discussing the information that we provided in our earnings press release and our 10-K, which were both released yesterday afternoon, October 21, 2021. You can find these documents 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 22, 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. Good day, everyone. Thank you for joining us and for your interest in PriceSmart.

Fiscal 2021 was quite the year. Our team of more than 10,000 dedicated employees really excelled by working together as one team to innovate and respond to the fluid circumstances that we continue to experience throughout the 13 markets in which we operate. Driven by this commitment and hard work, we're pleased to report strong results for our fourth quarter of the fiscal year and we continue to see growth in sales and membership as we begin the first quarter of the new fiscal year.

Despite ongoing COVID-related restrictions in some form that has affected almost all of our clubs, for the fourth quarter of fiscal 2021 net merchandise sales grew 12.7% and comparable net merchandise sales grew 10.3% compared to the same quarter last year. Our membership has grown to an all-time high and our 12 months' trailing renewal rate is the highest it's ever been since we began reporting it 14 years ago. These fourth-quarter results were achieved through improved operational efficiencies, new digital capability, optionality for our inventory flow, our ecommerce platform pricesmart.com, data analytics, incremental member benefits and services, alternative sourcing of goods in response to global supply chain disruptions, expansion of our private label program and, most importantly, the resilience of our dedicated team that has become quite adept at assessing the rapidly changing dynamics brought on by the pandemic and its varying impact on our markets.

We continue to evolve into a more data-driven organization. Our membership model in and of itself differentiates us from other retailers and provides a competitive advantage because it provides a wealth of data that allows us to better serve the needs of our members. Knowledge is power and we are gaining valuable insights through the new analytics that allow us to use membership data effectively to improve member satisfaction and ultimately contribute to higher membership renewal rates.

We also believe that the early and comprehensive measures we've taken to protect and prioritize the wellbeing and safety of our employees and members has further strengthened our standing in our market. Additionally, we believe that our adherence to the fundamentals of our business, the Six Rights of Merchandising, which I've discussed on prior calls, has also contributed to positive results. For example, even when comparing our performance to the pre-pandemic period in FY2019, warehouse productivity has increased and in inventory management we've reduced markdowns, salvage, throwaway and demurrage. These key metrics have improved relative to the comparable time in 2019 despite the challenges we continue to experience as a result of the pandemic.

We believe our value proposition is really resonating with our members. I'm excited to report that our total number of membership accounts reached an all-time high of 1.67 million accounts as of August 31, 2021, even after we experienced a COVID-related dip at the end of fiscal 2020. That's a 7.2% increase when compared to the comparable prior-year period. Our trailing-12-month renewal rate was 89.6% for the period ended August 31, 2021, up from 80.5% for the period ending August 31, 2020 and up from 85.7% for the period ending August 31, 2019. This 12-month renewal rate of 89.6% is the highest since we've been publicly reporting this data and has increased 200 basis points from the end of the third quarter of fiscal 2021. This shows our business model is a real winner in our market. Our membership model is a key differentiator from our competitors and an important asset.

Our investments in technology and new talent that provide valuable data analytics which, by the way, are expensed, are helping us unlock greater value from our membership data. This provides us with the opportunity to provide better customer service and more quickly gain better insight into trends and preferences. It also enhances predictability, which is a great benefit to any business, especially in a rapidly evolving environment, whether it be the pandemic, global supply chain disruptions, cultural shifts or consumer behavior in an age of ecommerce.

Early indications are showing that so far members who engage with us online and in clubs, members who we consider to be true omnichannel members, tend to spend more with us than those who only engage

with us in clubs. Additionally, to date we're seeing that pricesmart.com transactions generally yield a higher spend per transaction than our average in-club transaction. During Q4, pricesmart.com, which allows our members to purchase online for curbside pickup or delivery through Click & Go -- that represented 3.5% of our net merchandise sales. Click & Go is currently available in all 47 of our clubs. Our delivery service is growing as a larger proportion of our pricesmart.com sales. Our experience with Click & Go has demonstrated a demand for the service and the data generated by pricesmart.com and online channels is another way technology has enabled us to enhance the value of the membership. We believe pricesmart.com is providing us a platform for significant, sustainable growth for our business and a valuable incremental benefit to our members.

We're also pleased to see members using pricesmart.com to sign up and renew their membership. Online member signups and renewals, which we refer to as digital membership, provide several advantages to us, including the opportunity for autorenewal and autopayments, which helps to sustain our renewal rate. Digital memberships also provide a more direct way of communicating with members and learning about their preferences. Our focus on converting our members to digital signups and renewals have helped us increase digital signups from 6% of all new signups in fiscal 2020 to 16% in fiscal 2021.

Another encouraging sign that our membership model resonates with members is the growth of our Platinum program, which offers annual rebates to members in exchange for a higher annual membership fee of approximately \$75 compared to approximately \$35 for a Diamond membership. Analytics and new communications channels with digital members have helped us better demonstrate the value of this program to our members. Platinum accounts in total have grown by 28% since the end of fiscal year 2020 and by 73% since the end of fiscal year 2019. Platinum accounts now represent 7% of our total member account base as of the end of fiscal year 2021. The advantage of Platinum members is they tend to show more loyalty and predictability as they renew their memberships at higher rates and have higher average spend than Diamond members. We finished rolling out the Platinum program to all of our markets during this past fiscal year 2021.

A commitment to the development of technology and analytics is reflected throughout the Company, including the leadership team. Accordingly, I'm very pleased to announce that effective September 1, 2021, Nicolas Maslowski was promoted to a newly created position for the Company, Executive Vice President, Member Experience and Strategic Analytics. Prior to this promotion, Mr. Maslowski served as Senior Vice President of PriceSmart Member Experience. Since joining PriceSmart he has expanded the capabilities of our leadership team, made great strides in helping us better understand members and he, along with his team, have devised strategies to grow sales by extracting valuable insights. In addition, Mr. Maslowski and his team have shown how the infusion of user-friendly data and reports positively impact business decision making throughout the Company.

Now, let's turn to sales by segment. During the fourth quarter we delivered significant sales growth in Central America versus the same period last year. All markets within this segment produced positive sales growth for both the quarter and the full fiscal year. Central America posted 18.9% sales growth in the fourth quarter compared to the prior-year period. In Guatemala we are looking forward to opening our fifth club next week, and that club is known as Aranda.

During the quarter, despite the strong performance of five clubs in the Dominican Republic, we saw a decrease in net merchandise sales in our Caribbean region. This was primarily driven by Trinidad, where we have four clubs and where they have been experiencing a high level of COVID infections and related restrictions. In the second half of the fiscal year 2021 the government of Trinidad responded with six lockdowns and significant restrictions that resulted in complete closures for a few weeks, followed by a reduction of our club capacity and our sales being limited to only groceries and essential goods. This, coupled with our decision earlier in the year to limit US imports to Trinidad because of the ongoing

challenge of converting currency, led to a significant decline in net merchandise sales in Trinidad for the quarter.

Colombia delivered an impressive 21.7% sales growth for the quarter, despite a negative FX impact and next month we will be opening Bucaramanga, our ninth club in this market.

In terms of merchandise we saw our nonfood category, comprised of both hard lines and soft lines, continue its impressive run with 16.3% sales growth compared to the same quarter in the prior year. Our merchandising team has done a great job of anticipating demand and working with our global suppliers to procure high-demand inventory that has been difficult for our competitors to secure. As a result, our soft line category grew approximately 40%, casual apparel grew 41% and basic apparel grew 48% versus the same quarter last year. We're seeing this shift in consumer behavior from the stockpiling and surge demand for essentials in the second half of fiscal year 2020 to an increased demand for discretionary items that is continuing into this fiscal year. Our hard line category experienced approximately 7% comparable sales growth compared to the prior-year quarter. Virtually all categories in that segment enjoyed growth, but the leaders were garden/patio, which grew 42%; sporting goods, which grew 29%; and small appliance sales grew 19%.

Due to the COVID stock-up in the prior period, as expected we experienced comp declines year over year in our canned food, grain and grocery categories, which were largely offset by a rebound in other categories, such as soda and beverages, pet supplies and oils and condiments. Overall, our food category remained steady and had a nearly 6% gain in the quarter. Our fresh category grew nearly 11% this quarter versus Q4 of last year, with poultry growing 26%, meats were up 23% and gourmet foods were up 12%.

We're seeing growth in our high-quality fresh products sourced through our Direct Farm program. Our Direct Farm program, to remind you, reduces cost and improves the quality of our fresh produce offerings while also supporting local farmers and industry in our markets. Our new produce distribution centers allow us to provide farm-to-table produce more cost effectively, allowing us to pass on a better value than if we were to purchase from distributors. We currently have two produce distribution centers in operation, located in Panama and Costa Rica. We expect our third produce distribution center in the Dominican Republic to be fully operational by the end of the current quarter. We intend to continue to expand this program with additional produce distribution centers in more of our markets going forward. We especially like this program because it is a win/win/win for our business, our members and our local communities. It also furthers our mission to be a socially responsible business.

A significant component of our merchandising strategy and another way we build brand loyalty and differentiate ourselves from our competitors is through our private label products. Our private label products only earn a private label if we believe the product is of the same or better quality as the leading brand and can be offered for a better price. We've increased our selection in all major areas versus the prior year. Our private label sales as a proportion of our total net merchandise sales for the 12 months ended August 31, 2021, was 22%. This is going to be an important part of our merchandising strategy as we move forward. Beyond the obvious benefits of quality, value and price, private label gives us greater opportunity to nearshore the sourcing and manufacturing on select items, gives us the opportunity to invest in local markets. It has potentially reduced the risk of supply chain disruption and it helps identify potential opportunities for vertical integration.

Our Other business category yielded 41% comparable net sales growth, led by our food courts, which grew by 46%, and bakery, which grew 31% for the quarter versus the prior year. We achieved these growth levels despite the fact that Trinidad's food courts were closed most of the quarter and were restricted to takeout for the rest of the quarter. Additionally, a few other markets also had some club closure days that negatively impacted sales in this category.

Turning to supply chain and inventories, just like many other businesses across the globe, we experienced several challenges during the quarter, including container shortages, port delays and truck and driver shortages. These disruptions and shortages are impacting the timing of deliveries and leading to higher freight, transportation and labor costs.

Despite all of these issues, we worked hard to hold down and mitigate the price increases passed on to the members, while maintaining sufficient inventory. Our expanded network of distribution centers and additional real-time data on a number of fronts has facilitated alternative routes of shipments, increased throughput and provided flexibility, all of which helped us keep good in-stocks and generate the sales for this quarter. We've also made strategic investments in inventory and worked with our local vendors to source alternative products to reduce potential future out-of-stocks on high-demand items that have been impacted by these disruptions or that have been affected by electronic part shortages.

In the last several months we've also experienced inflation because of significant increases in the prices of commodities that are inputs to our vendors' products. Despite these issues, our team has done a great job of holding, delaying or mitigating cost increases in their continued efforts to provide the best value for our members. However, supply chain disruptions and overall inflationary impact of sourcing and shipping merchandise are causing pressure on our ability to consistently source merchandise and will likely further impact our costs and the price of merchandise. We are closely monitoring our inventory and supply levels to continue to provide the best possible value in this inflationary environment while mitigating against the risk of declining demand.

Now, looking at real estate, we're excited about our plans to open our 48th club in Aranda, Guatemala next week, which will be our fifth club in Guatemala. We also expect to open a new smaller-format warehouse club in Bucaramanga, Colombia next month, which will be our ninth club in Colombia. Our technology and omnichannel capabilities enhance the value of our smaller-format club concept by allowing us to extend our reach and presence in regional or secondary city locations and represents a significant opportunity for growth for the Company. Following Bucaramanga, the next planned opening will be in Portmore, Jamaica, which is currently scheduled to open in spring of 2022, this fiscal year.

We have expanded our real estate team and have an active pipeline of additional potential club locations that we're working on in many of our markets, which we will announce as the level of certainty around the timing of these projects solidifies. We will evaluate the locations, sizes and investments required for these additional clubs in the context of the opportunities we now see to capture sales through the combination of our brick-and-mortar clubs, our pricesmart.com platform, enhanced delivery capabilities and potentially less costly, strategically located fulfillment and delivery hubs, which we are studying now.

Our member wellness initiatives remain a key focus of our growth strategy. As of August 31, 2021, we had 38 in-club optical centers in 9 of our markets. We plan to expand this service to almost all clubs by the end of fiscal 2022. As of the end of fiscal 2021, we had opened pharmacies in three of our clubs in Costa Rica and we expect to open pharmacies in the remaining five Costa Rica clubs during the current quarter, followed by other countries that we are planning for pharmacies as well. We recently opened our first two audiology service centers in Guatemala under our member wellness umbrella and will be opening our new club in Aranda with audiology and optical services included. We plan a full rollout of audiology to all clubs in Guatemala during this quarter. Initial indications from our audiology department are that our members are enjoying dramatic savings relative to the lowest-priced competitors, in addition to improving their quality of life.

In recognition of all the hard work, determination, flexibility and commitment to the Company during this pandemic, we paid all of our nonmanagement employees a special appreciation bonus, which in some

markets has a component that incentivizes our employees to get vaccinated. The total impact to the fourth quarter was approximately \$1.9 million. PriceSmart's people-first culture is embodied at every level of the organization and it is humbling to see the tireless efforts made by our employees to support the members, coworkers in our communities and ensure business continuation throughout all of these significant challenges that have been brought on by the COVID pandemic.

To bring you current, following the fourth quarter we sold the legacy Aeropost casillero and marketplace operations. The talent, technology and processes we gained from the acquired Aeropost in 2018 served as a springboard to launch our ecommerce platform, pricesmart.com, accelerated online sales for curbside pickup and delivery and generated online member signups, renewals and payments, and enhances our ability to better connect and serve our members. We've retained the requisite valuable talent and the technology that is directly applicable to PriceSmart's plans for the future growth of our omnichannel business, data analytics and information technology capabilities.

We meanwhile recouped a portion of our original investment in Aeropost, while dispensing of parts of the business that we believe are not core to PriceSmart's growth plan. Examples of the talent we've retained include our recently created EVP position of Chief Technology Officer and EVP position of Member Experience and Strategic Analytics. These key leadership roles have been filled by former Aeropost officers and continue to be supported by members of their teams. We believe the transaction itself will not have a material impact on our results of operations in fiscal year 2022, but will consolidate our efforts, sharpen our focus and will help accelerate our innovation going forward by freeing up resources that were previously shared with the Aeropost legacy businesses.

We finished the fiscal year with a strong fourth quarter, especially as we saw memberships rebound and foot traffic to our clubs increase in most markets. When looking to the future, including the longer term, we've embarked on a multiyear growth plan which includes building the internal infrastructure needed to support faster growth. These initiatives will be buoyed by further investing in talent and technology, much of which is expensed. We plan to grow by expanding our brick-and-mortar footprint and our ecommerce platform, growing both of these sales platforms with a diversified and expanded logistics and distribution system. We intend to continue our increased focus on our private label product offerings and identify additional opportunities for vertical integration. We will evaluate every element of our growth plan through the lens of the member and we will drive this growth by continually increasing the value proposition we represent to our members and by growing our member base.

To wrap it up, we're grateful for the trust that our members have placed in us to help improve their lives and businesses, especially during these trying times and I'm especially proud of our more than 10,000 employees across 13 countries. It has taken everyone's collective efforts, from frontline workers to remote and offsite workers, from club and country managers to corporate executives and our supportive Board of Directors. Thanks to each and every one of you. Together we're turning trials into triumphs. Our team is energized and motivated to grow and we believe the investments that we are making to lay the foundation and infrastructure for near- and medium-term growth will help us gain market share.

I want to thank you all for your time today 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 \$909.6 million and \$871.2 million, respectively, representing increases of 12.2% and 12.7% over the comparable prior-year period, respectively. Including the club we opened in Bogota, Colombia in December 2020, we ended this quarter with 47 warehouse clubs compared to 46 warehouse clubs at the end of the fourth quarter of fiscal 2020.

Our comparable net merchandise sales growth was 10.3% for the 13 weeks ended August 29, 2021. Foreign currency fluctuations had a negative impact on both merchandise sales and comparable net merchandise sales of approximately \$10 million, or 130 basis points, and \$9 million, or 110 basis points, respectively.

By segment, in Central America, where we had 26 clubs at year end -- at quarter end, excuse me -- net merchandise sales decreased 18.9%, with an 18.7% increase in comparable net merchandise sales. Most markets in this segment had double-digit comparable net merchandise sales growth, with only Costa Rica coming in strong, but in single digits.

In the Caribbean region, where we had 13 clubs at quarter end, total net merchandise sales declined 1.8% and comparable net merchandise sales declined 2.2%. The Dominican Republic continued its stellar sales performance during the COVID-19 pandemic, with double-digit sales growth. However, this gain was more than offset by weakness in Trinidad, where we have four clubs. In Trinidad, comparable net merchandise sales declined 21.3% in the fourth quarter due to COVID-related restrictions and our continued reductions of US inventory shipments to that market in response to the US dollar illiquidity situation. Of note, for most of the fourth quarter we were unable to sell nonessential merchandise in Trinidad. Thus, we further reduced our shipments of US inventory during that period. However, in mid-August this prohibition was rescinded and we were allowed to resume sales of these items. Therefore, we began increasing our merchandise shipments to Trinidad at the end of fiscal 2021.

In Colombia, where we had eight clubs open during the quarter, net merchandise sales increased 21.7% and comparable net merchandise sales increased 3%. The comparable net merchandise sales increase contributed 30 basis points of positive impact to total comparable merchandise sales for the quarter. Colombia is benefiting from the comparably improved COVID-19 situation from a year ago and from the opening of the eighth club in this market in December of 2020. The impact of currency on total and comparable net merchandise sales in Colombia was negative 2.6% and 2.3%, respectively, for the quarter. Currency fluctuations are a constant challenge in Colombia and we continue to take actions to try to mitigate the impact of any future devaluation, such as the sourcing of locally produced goods and actively managing our sales prices and foreign currency exposure.

Turning to gross margins, total gross margin on net merchandise sales came in at 15.9%, an 80 basis point improvement over the same quarter last year. The 80 basis point increase was primarily driven by approximately 60 basis points due to certain pricing actions we took to offset foreign currency exchange costs and COVID-related operating costs. And the remaining 20 basis points is primarily due to the effect of margins returning on our other business categories such as food services and optical compared to the prior-year period.

Total revenue margins increased to 17.7% of total revenues, an increase of 50 basis points versus the same period last year. This is the result of the higher gross margins of 80 basis points that I mentioned previously, partially offset by lower revenue margins from our casillero and marketplace business in the quarter of 20 basis points and 10 basis points of lower other revenue and income.

Selling, general and administrative expenses for the quarter were 14.1% of total revenues, an increase of 40 basis points versus the same period last year. In total, SG&A expense increased \$18 million compared to the prior year. Warehouse club and other operations expense contributed 30 basis points of the increase, primarily due to our new club in Colombia, which has not yet reached normalized sales levels. General and administrative expenses contributed the other 10 basis points of the increase, primarily due to investments to support our talent and technology development.

Operating income was \$32.5 million in the fourth quarter of fiscal 2021 compared to \$29 million in the prior year, or 3.6% of total revenue in both periods.

Net interest expense decreased \$1.2 million for the fourth quarter, primarily due to a short-term borrowing compared to -- sorry -- primarily due to lower short-term borrowing compared to the prior-year period when we drew down on short-term lines of credit as part of our efforts to secure adequate cash to cover contingencies arising from COVID-19-related risk. We repaid all of these borrowings by the end of the third quarter of fiscal 2021.

Other expenses of \$1.5 million were primarily related to the cost to convert Trinidad dollars into other tradable currencies. However, these costs were partially offset by unrealized currency gains related to our US-dollar-denominated cash position in Jamaica designated to fund the construction of our new Portmore club due to a devaluation during the period of the Jamaican dollar against the US dollar. In the prior year, we recorded a net gain in this line of \$1 million, primarily due to the devaluation of the Jamaican dollar and the Costa Rican colon against the US dollar in that period, resulting in a negative year-on-year pretax FX impact on earnings of \$2.5 million.

Our effective tax rate for the fourth quarter of fiscal 2021 came in higher than last year at 35.5% versus 28.2% a year ago, primarily related to recognition timing for the loss of benefit of the foreign tax credit, which are no longer deemed recoverable. It is important to remember that last year's Q4 effective tax rate was lower than normal, due to much stronger pretax results than those expected as of the end of our third quarter last year. Our full-year effective rates were fairly consistent between years, coming in at 33.3% in fiscal 2021 versus 32.5% in the prior year. On a go-forward basis, we continue to [estimate] an annualized effective tax rate of 33% to 34%.

Net income for the fourth quarter of fiscal 2021 was \$19.5 million, or \$0.63 per diluted share, compared to \$20.1 million, or \$0.65 per diluted share in the comparable prior-year period.

Now we would like to cover just a few brief highlights related to the full fiscal year and our strong balance sheet. In fiscal 2021 total revenues increased by 8.7%. Net merchandise sales increased by 8.6% and comparable net merchandise sales increased by 5.8%. Net tax fluctuations adversely impacted net merchandise sales and comparable net merchandise sales by 2.4% and 2.3%, respectively. Net income for fiscal year 2021 grew to \$98 million, or \$3.18 per share, compared to \$78.1 million, or \$2.55 per share, in fiscal year 2020.

Moving on to the balance sheet, we ended the quarter with cash, cash equivalents and restricted cash totaling \$215.5 million. While cash flow provided by operating activities decreased \$132.1 million versus the prior period, this decrease was primarily the result of the vastly different inventory financing strategy throughout the different stages of the pandemic between these two years. In the prior-year period we made a conscious decision to pull back on merchandise levels in nonfood areas, whereas in the current period we increased our position in these items to meet increased demand and to compensate for supply chain challenges.

Additionally, at the beginning of the pandemic we negotiated temporary extensions of vendor terms to assist in cash management activity. These temporary extensions have now elapsed. However, we have been able to secure permanently extended terms with a substantial portion of our vendors, especially for long-lead-time items.

Net cash used in investing activities decreased by \$14.5 million compared to the prior year, primarily due to a decrease in net proceeds from short- and long-term certificates of deposit related to management of our cash balances in Trinidad, partially offset by an increase in construction expenditures year over year.

With respect to Trinidad, as of the end of our fiscal fourth quarter our Trinidad subsidiary had committed dollar-denominated cash, cash equivalents and short- and long-term investments measured in US dollars of approximately \$52.9 million, a decrease of \$23.8 million from the end of our fiscal third quarter. This decrease was largely due to the fact that our ability to source US dollars remained relatively constant during the quarter, but our use of US dollars was dramatically decreased due to the COVID-related closures and limitations on sales, which had further decreased our imports. Following the full reopening of the clubs in the fourth quarter, we began a measured process of increasing our imports. We currently expect the operational sources and uses of US dollars in Trinidad to be [more] equalized on a go-forward basis.

A \$170.7 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 repayments of short-term borrowing. We continue to be vigilant about our cash position and are ready to adapt to sudden changes in circumstances. In the prior-year period we executed long-term loans primarily to finance purchase of land and construction of several of our warehouse clubs and increased our short-term borrowings as part of our cash management strategy in the early stages of the pandemic. However, as I mentioned previously, in Q3 we finished repaying all of our short-term borrowings. While some uncertainty and risks remain in our markets, we feel confident in our operations and our ability to generate and access sufficient cash for our needs while also continuing to invest in the future.

In closing, we are very pleased about the results of the current quarter and fiscal year. Investments we have made and are making in talent, data and technology and other capabilities, combined with our commitment to the Six Rights, have been the foundation to our past and recent success. We are looking forward to our growth opportunities for years to come and to your support and engagement in our journey.

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] Our first question today comes from Jon Braatz with Kansas City Capital.

Jon Braatz: Sherry and Michael, could you walk through the impact of the Aeropost disposition for me? The legacy business was sort of I guess doing maybe \$40 million, \$45 million in revenues at about a 60% gross margin. And obviously with the disposition you lose that -- I guess you lose most of that gross profit. But where's the offset? Because you had mentioned that it was sort of going to have a neutral impact on the business. What costs do you -- are going to go away with the disposition of AP?

Michael McCleary: Yes. Hi, Jon. Yes, so definitely they'll be a loss of revenue, but they'll also be a decrease in costs. We had some other operations expenses in our cost of goods sold area to support that activity and then we also have G&A expenses for that activity. So overall I think that we said that we're not expecting a material impact, but there will be probably a net decrease in overall costs in general, although not material.

Jon Braatz: Okay. And so with the sale, will there be any gain or loss on the sale?

Michael McCleary: Yes. We haven't disclosed that, but as Sherry said, we recovered a significant part of our -- a part of our initial investment. And if you remember the basic reasoning, the rationale behind the [real] investment was for us to acquire the talent and technology to support our omnichannel business, which is what we're basically keeping. So the values of the initial acquisition was largely allocated to that. So, as we said, we're not expecting a material impact either way. Between both the recurring revenue and expense net and also the transaction itself. We'll obviously disclose more about that in our Q1 earnings.

Jon Braatz: Right. Okay. And then, Sherry, you were talking about, like everybody else, the supply chain challenges, higher freight costs and all this other stuff that everybody else is seeing. As you look into 2022, obviously it looks like some of these things are going to continue. Do you think it's going to worsen a little bit, you're going to see some additional pressure on your margins from the inflationary costs and the supply chain challenges compared to what we've seen most recently?

Sherry Bahrambeyghi: Well, as everybody else is noting, the inflationary costs and the disruption to inventory flow as a result of supply chain challenges and container shortages is leading to higher costs. But we are planning ahead and we've been very engaged with identifying alternative routes for us to be able to flow the merchandise at the lowest possible cost. And this is where our investments in regional distribution centers is -- it comes in very handy. A lot of our long-lead items can be shipped directly into Costa Rica and bypass Miami. We also are mitigating some of this by identifying products that can be nearshored, as I mentioned earlier and sourced locally that reduces the risk of the disruption and also some of the higher costs of transportation. So we're in the same boat as everybody else, as they say, but I do feel that we are in a position to be able to mitigate much of this. But certainly as costs increase because of transportation, freight and other supply chain issues, that will ultimately have to be reflected in the pricing. But, again, we're not alone on this. We just feel that we've got a good infrastructure to be able to mitigate the impact and remain as cost effective and as efficient as possible.

Jon Braatz: Sherry, are there any specific inventory merchandise items that, when you look at it, you're short and obviously you'd like to have more? But is there anything in particular that you're short in stock?

Sherry Bahrambeyghi: At this very moment?

Jon Braatz: Yes.

Sherry Bahrambeyghi: No. At this time there are some very in-demand items that are hard to get a hold of and there are more of the discretionary items, the special items that have longer lead times. And we've noticed in some areas and that's why, as Michael mentioned, we've taken positions on certain categories and certain items that we predict are going to be in demand and there will be a shortage, for example, or a scarcity in our markets for some of those items. And we've taken positions on some of those things to be able to have the in-stocks available to generate the sales and also serve the members. So, and from time to time there are essentials that do all of a sudden experience a surge in local markets when COVID rates go up. So it's a very fluid situation. But we're very focused on anticipating those needs and demands and quickly try to solve, so making sure that we've got the product available as best we can.

Jon Braatz: Okay. Thank you, Sherry.

Operator: Our next question comes from Rodrigo Echagaray with Scotiabank.

Rodrigo Echagaray: Hi, Sherry and Michael. Just a question on margins. In Trinidad there's been positive impact from the price increases and all that has been happening there. Any sense of what to expect on the margin front as we hopefully will see some normalization in Trinidad?

Michael McCleary: Yes. At this point, Rodrigo, we're continuing with our pricing. I mean, we did see a kind of good news/bad news situation there in Q4. Obviously, we would have preferred the clubs to be open the whole quarter, but since they weren't we -- and some dollar liquidity kept flowing and we were able to actually decrease our TT dollar balance. But we're still seeing largely that we're not able to source the amount of dollars that we'd like to source and need to source, so. And there are costs associated with the sourcing we're able to do.

So at this point we're not intending to pull back on that as far as something we're monitoring, including our competitive umbrella, and doing the best we can to serve the members. But at this point we're not planning on pulling back. Obviously, as I've said I think pretty much on every call, that's not something that we would expect to hold permanently to the extent that the situation normalizes in the market. But at this point we don't have any plan to pull it back.

Sherry Bahrambeyghi: But, Rodrigo, that is something that we're monitoring on an ongoing basis and we're not being passive about it. We are -- there are other ways that we are pursuing to be able to source dollars, whether it may be through lines that are made available through an effort to develop manufacturing in the country and we're very closely engaged to seize on any opportunity we can to be able to convert those TTs to US dollars. So, as the situation improves, obviously the priority would be to reduce that extra margin because our goal ultimately is to provide the best value to the member, but also make sure that, to the extent there's an extra expense associated with converting the TTs to US dollars, that we're recapturing that.

Rodrigo Echagaray: Got it. And on your earlier remark, Sherry, you touched on the growth of the real estate team. I was just wondering if you could share more color on that, like where are they based. Are you restructuring how you think about your team in the region? Any changes that you can highlight on some of these initiatives?

Sherry Bahrambeyghi: Well, in order to accelerate our process with regards to our strategic plan for growth, we have increased staffing in that area and also support for analysis of real estate investments. And it's yielded for us a stronger pipeline at this point in time, nothing I could specifically point to in terms of when and which are going to be the ones that prove out to be the right investments for us. But there's definitely more going on right now in terms of our due diligence and activity in evaluating opportunity for additional clubs.

When you couple that with also the fact that we now have some history with our pricesmart.com, the receptiveness of our members, the growth of delivery, you know, the desire for more delivery as a growing proportion of our pricesmart.com activity. And there's some important takeaways for us from that that allow us to look at real estate in a manner that is more flexible than it has been in the past because with these additional capabilities, for example, we may not need the same amount of land. We may be able to build smaller formats. We may be able to support clubs in a different way when it comes to dotcom, or support the sales of pricesmart.com differently in terms of fulfillment.

These are all things we're looking at as a result of recent learnings that we have from the investments that we've made in technology and talent. And it's opening doors for us to consider alternatives and see opportunities that I think are -- there's more that we're looking at now in the pipeline than in recent history.

Rodrigo Echagaray: That makes a lot of sense and it's great to hear. Thanks for the color.

Operator: This concludes our question-and-answer session. I'd like to turn the call back over to Sherry Bahrambeyghi for any closing remarks.

Sherry Bahrambeyghi: I just want to thank everyone for your time and interest in PriceSmart. We really appreciate your support and are looking forward to the future. Our team's very excited about everything we have in the works and we're grateful for your interest. Take care and have a good Friday.

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