

PriceSmart Inc.
Second Quarter 2022 Conference Call
Friday, April 8, 2022 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, Inc.'s, earnings release conference call for the second quarter of fiscal year 2022, which ended on February 28, 2022.

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 8, 2022. A digital replay will be available following the conclusion of today's conference call through April 15, 2022 by dialing 1-877-344-7529 for domestic callers or 1-412-317-0088 for international callers and by entering the replay access code 5341114.

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 2022. 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 7, 2022. You can find these documents on our Investor Relations website at investors.pricemart.com, where you can also sign up for e-mail 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, plan, will, may, should, estimate and some other expressions. All forward-looking statements are based on current expectations and assumptions as of today, April 8, 2022. 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, and welcome to our second-quarter fiscal 2022 earnings call. We had quite a quarter and with net merchandise sales surpassing \$1 billion for the first time and membership setting historical records, we're feeling very positive about our results.

During the second quarter our total membership base has grown to more than 1.7 million accounts. That represents growth of 7.3% versus last year. Our membership 12-month renewal rate was 89.8%, reaching our highest renewal rate ever. Membership income was \$15.1 million, an increase of 9.2% over the same period last year.

Our headline numbers all grew over the prior comparable period. In terms of the bigger picture, I think it's also worth noting that the results for this quarter are being compared to a quarter last year in which significant growth was achieved relative to the same quarter in FY20. Versus the same period last year, net merchandise sales increased by 12.6%. Comparable net merchandise sales increased by 10.3%. Operating income grew 7.4% and that despite currency headwinds which impacted total and comparable net merchandise sales by 3% and 2.7%, respectively.

Earnings grew 11.4% to \$31.5 million versus \$28.2 million for the same quarter last year. Driven by strong sales, the team at PriceSmart has delivered record earnings per share of \$1.03 during the second quarter. This is versus \$0.92 in Q2 of last year.

So now let's look forward a little bit into Q3 ending on March 31, 2022. Total net merchandise sales were \$338 million, an increase of 9.9% over the same period in the prior year and comparable net merchandise sales for the 4-week period ended March 27, 2022 week period increased over 9.8% compared to the comparable period last year. We're pleased with the results and believe that our investments in the business and our focus on our pillars of growth are supporting these results and the momentum that we continue to build.

Our cash flow is robust. It enables us to accelerate plans and investments to continue to drive growth. And, importantly, it enables us to improve how we engage with, how we serve and how we learn from our members, especially during the most challenging of times, which include the impacts of the pandemic, which continue; the significant supply chain disruptions which are faced by many of us in this industry and others; the effects of the war in Ukraine; and the challenges of an inflationary environment that we haven't seen in decades.

Our cash position also ensures that our employees are properly cared for, that they have the opportunity to grow professionally, that they receive competitive wages and excellent benefits. As a result of many of these factors and the performance of the Company, in the second quarter our Board of Directors increased the annual dividend by 22.9% to \$0.86 per share, up from \$0.70 per share last year.

So now I'd like to turn to our growth drivers. On our last earnings call I spoke to you about the three major drivers for growth for our company. The first -- real estate, which includes opening new clubs, making investments in our distribution network, making sure that we're strategically located in the right places with the right facilities and equipment so that we can maximize efficiencies in the supply chain. The second driver of growth is continually developing new, and improving on old, ways to enhance the value of the PriceSmart membership. And the third driver of growth was to drive incremental sales for the Company through our pricesmart.com platform and improved digital capabilities yielding important data to drive incremental sales for the Company, whether the sales happen online or in clubs, because we believe these two environments should be mutually supportive and synergistic. The pricesmart.com platform and other digital capabilities also allow us to potentially expand in existing markets and/or enter new markets, possibly without the immediate need for traditional brick-and-mortar locations and the huge investments that go with that.

Starting with real estate, now I want to update you a little bit on what we've done on that first driver of growth. On Monday we plan to be celebrating our 50th-club milestone as we open our second club in Jamaica, located in the area of Portmore, near the capital of Kingston. We expect this club to do well and take some pressure off of the Kingston location, which is a very high-producing, but impacted, club. A good sign is we're already seeing new sign-ups well exceeding our plans for Portmore, which indicates to us that this market has significant uncaptured potential. Also, I'm pleased to say that growth by way of a new club in Jamaica is also growth for our people and upward mobility for them professionally. Approximately 18% of our employees in Jamaica were promoted as a result of the new Portmore club.

With regard to real estate again, we also recently announced that construction has begun on our second warehouse club in Medellin, Columbia. It's located in the El Poblado area. We expect to open in the summer of 2023. We've been searching for a suitable site in this densely populated urban area for a long time. Kudos to the real estate and construction teams for making it happen. We're optimistic that our value proposition will resonate with consumers in this area due to its demographic characteristics. And this will be our 10th club in Columbia.

In addition to our curated collection of high quality merchandise at great prices, both of these new clubs will be -- they'll be outfitted with our additional services in the wellness area, specifically optical and audiology. As I've mentioned before, we're progressing on a very active pipeline for new locations in terms of clubs and we will be able to share more about that as plans and permits are finalized.

Another part of our real estate strategy focuses on the important role of our distribution facility to optimize efficiencies and strive to reduce risk. We expect to soon have a distribution center in Trinidad that could also be used to export merchandise to our other markets. We're actively identifying opportunities for a new distribution center in northern Central America and we're working on expanding our distribution footprint in Columbia.

We also are increasing our produce distribution centers -- or we refer to them as PDCs throughout the Company. We have 4 in operation at this time and they include Costa Rica, Panama, the Dominican Republic and the most recent one, in Columbia, which we opened last month. These PDCs not only support local agriculture and create jobs in and around our communities, but they also allow us to source directly and provide fresh produce to the clubs, allowing our members to benefit from more competitive pricing and also reducing spoilage and other waste that leads to greater efficiencies. We're targeting 2 additional PDCs at this time and they're likely to be in Guatemala and in Trinidad, but they are currently still in the planning phase.

With regard to logistics and distribution, again a key area of real estate and the importance of real estate to us -- as everyone knows, supply chain disruptions remain pervasive, whether because of COVID, oil prices or other factors, especially with regard to those exports from Asia. This has adversely impacted our suppliers' ability to deliver merchandise and our ability to secure transportation services from Asia and within the United States. But fortunately, our overall supply chain logistics network has remained relatively stable and reliable in its ability to replenish merchandise in our clubs. Effective collaborations and careful planning all throughout our supply chain has resulted in our ability to maintain good in-stock positions during our second quarter. Average freight costs in Asia were also lower during the second quarter versus the first quarter of fiscal year 2022.

But, you know, we have to remain proactive and vigilant. We certainly believe that we're still facing a continuing volatile and unpredictable future in terms of the overall supply chain. We've recently added a new contracted carrier to our network, which is expected to further reduce the average freight rate during

the third quarter of fiscal '22 and we continue to remain very focused on this very important part of the business in these times.

We're also increasing our efforts to near-shore select items without compromising on any of our quality or value, which will also allow for more reliability and diversification of our supply chain. Some examples I can share with you are our textiles and domestics. For example, we're sourcing wonderful quality pillows from Guatemala and towels from El Salvador. We're looking at sparkling water, pork and frozen fruits and vegetables, just to give you an example.

In addition, we are actively including local and regional suppliers and including them in our bidding process as we develop additional products that will carry our private-label brand, Member's [Select]. A recent example of this is the selection of a local vendor in Trinidad for our Member's Select copy paper that will be sourced from Trinidad and is expected to be exported to all of our markets. Other than the benefits I've mentioned, that alone creates an export item that is developed largely utilizing TT, while generating income that is more easily converted to US dollars. So this specific example also contributes to helping our [indiscernible] situation in Trinidad with TTs that may not be readily exchangeable to US dollars. So we are also exploring additional alternatives and ways that we can replicate this type of business initiative to be able to solve for many varied challenges that we're facing.

You know, I have to congratulate our merchandising and distribution and logistics team and their great collaboration in handling these challenges and turning them into opportunities to make our business even stronger despite the additional challenges.

So now, let's turn to what we're doing to enhance the benefits of a PriceSmart membership. First, we are continuing to expand our private label offerings. During the first 6 months of fiscal '22 our private label sales represented 23.5% of our total merchandise sales. That's up 200 basis points from 21.5% in fiscal year 2021. That is a 9.3% increase in penetration of total sales versus FY21 for our private label.

There are several benefits to investing in our private label offerings, in addition to what I shared above. The opportunity to offer the same or better quality merchandise often exist at a lower price when we develop our own private label merchandise. We've got greater control of the supply chain. When we source locally or regionally there are potential savings in transportation. Local sourcing for private label can generate more jobs in our market. We also have, in some cases, the benefits of a natural currency hedge. It's a differentiator for PriceSmart because PriceSmart's private-label Member Select is not available through other major retailers in the countries where we operate. And sourcing our own merchandise gives us the opportunity to squeeze out inefficiencies and is also in line with one of our goals, to increase our direct participation in the production to ensure our high quality standards are as good, if not exceed, the leading-brand products.

Our private-label sales in domestics have grown over 180% through our new Member Select towels, pillows, sheets and blankets. We've also introduced new SKUs of cookware, food storage, mixing bowls. Those have been very well received and have shown the kind of sales that give us confidence that we're on the right track with expanding our private-label offerings. As I said before, our brand carries significant goodwill and trust amongst our members. It communicates high standards, reliability and value.

Our private-label team of merchants has been another key area of investment for the business, because talent is important. Over the past 2 years we've expanded this team from 6 to 11 people. Although we still maintain a limited number of SKUs as far as the overall business discipline, the SKUs we have been adding or replacing have contributed to this overall delivery of sales of \$230 million during Q2. So job

well done by our private-label team and the related teams during Q2. And we plan to grow even more with our private-label product development, sourcing and sales.

We believe our wellness program is another value driver for our membership. We currently have decided to expand audiology to about 30 locations by the end of this fiscal year and to about 40 by the end of Q2 next fiscal year. Our decision was driven by membership interaction, partly due to the free hearing test that we provide to our members and the early determination that audiology appears to be a valuable contributor when analyzing renewal rates and the average annual purchases amongst members who utilize our services.

In optical, we currently have 45 locations with optical centers and expect to have 47 open by the end of this fiscal year. This service provides up to 4 free eye exams with every membership. We also offer a broad range of quality lenses and frames, at highly, highly competitive prices in our markets. For the period ending in February, we've seen total growth in optical sales of 79% over the same period last year and year-to-date comparable growth of 15% over the same period last year.

We've also opened pharmacy centers in all 8 warehouse clubs in Costa Rica and we expect to have pharmacy centers in all of our Panamanian clubs by the end of fiscal year 2023. We continue to study pharmacy for additional countries, as each country varies in dynamics and regulatory requirements.

So now I'd like to turn to our third driver of growth, which is our digital environment that drives engagement and sales and our digital channels, which include PriceSmart.com. Total e-comm sales represented 3.5% of total merchandise sales and delivery continues to grow as a larger proportion of online sales. Our digital capabilities are accelerating and driving growth. When comparing this second fiscal quarter versus the comparable prior-year period, online sessions increased 8%, leading to an increase in digital orders, online orders, of 12%. Meanwhile, the average online order value increased 13%. PriceSmart.com sales as a percentage of net merchandise sales increased 40 basis points during the second quarter, versus the comparable prior-year period.

Our total sign-up -- this is also an area where we're seeing benefits of the ability to engage online, using digital tools, with our members. Of our total sign-ups, 15% of new memberships were purchased online during the quarter and online renewals represented 4% of our total renewals for the Company. During the quarter we had more than 9,000 email interactions, more than 65,000 chat interactions with members, which we all believe further improves our ability to engage with the customer, provide better customer service and learn from what our members are telling us. As of February 28, 2022, approximately 42% of our members have created an online profile on PriceSmart.com. We've effectively gone from about zero to almost half of our base having an online digital credential in less than 2 years. 14% of our total membership has made a purchase on PriceSmart.com. I'm sorry; I believe it's 15%. Michael, will you correct me on that?

Michael McCleary: I think it's 14. It's 14 to 15%, let's say.

Sherry Bahrambeygui: Okay. Just wanted to verify; 14% of our total membership base has made a purchase on PriceSmart.com and the average for online purchases on PriceSmart.com in Q2 was 9.3% higher than the average ticket in the club, for in-club purchases. So we're seeing a material difference in the average ticket size for members who are buying online versus those who are buying in clubs, which presents additional opportunity.

Also encouraging is that 7.5% of our total membership base is signed up with our auto-renewal option. What does that mean? They've provided their email and opted to have their renewal automatically charged on their anniversary and they've also provided a payment method for that charge. That goes a

long way in terms of protecting membership income and ensuring that membership income leakage is reduced. We're feeling solid about our progress in this area and are proud of what our tech and membership and finance teams have all made possible in a relatively short period of time.

So, lastly, I'd like to talk about ESG and sustainability, which continues to be a cornerstone of the PriceSmart philosophy. PriceSmart is committed to fostering a healthy environment for our employees, members, vendors, communities and the world around us. The Company's actions and practices aim to responsibly use natural resources and focus on environmental impact and social wellbeing.

In FY21 the Company formed PriceSmart's ESG Department to develop, track and measure the Company's sustainability and social responsibility efforts. One of the principal objectives of our team is to find, prevent and control environmental impact generated by our operations, as well as to work to adapt and mitigate the impacts of climate change. ESG continues to develop and evolve for everyone and we are also growing and evolving with our effort. So we continue relentlessly to apply our values every day to improve the lives, the businesses and the communities of our members.

I want to thank our over 10,000 employees, our executives, whether in San Diego, Miami, throughout all of our markets where we operate, for continuing to build on this momentum and showing us that we have more and more opportunities to do better and better and serve our members every day. Your commitment is really a source of great appreciation and admiration.

Thank you, again, team, and I'll hand it back to you, Michael.

Michael McCleary: Thank you, Sherry. Good morning or afternoon to everyone and thanks for joining us today to talk about our record-setting second quarter.

As Sherry mentioned, we are very excited to have crossed the \$1 billion sales threshold for the first time this quarter, with total revenues and net merchandise sales coming in at \$1.04 billion and \$1.01 billion, respectively, representing increases of 10.8% and 12.6% over the comparable prior-year period, respectively. We ended this quarter with 49 warehouse clubs compared to 47 warehouse clubs at the end of the second quarter of fiscal 2021 and we are also very excited about reaching the milestone of 50 clubs when we open our second club in Jamaica next week.

Our comparable net merchandise sales growth for our fiscal second quarter was 10.3% for the 13 weeks ended February 27, 2022. Foreign currency fluctuations had a negative impact on net merchandise and comparable net merchandise sales growth of 3% and 2.7%, or approximately \$26.3 million and \$24.2 million, respectively.

By segment, in Central America where we had 27 clubs at quarter end, net merchandise sales increased 13.6%, with a 10.6% increase in comparable net merchandise sales. Foreign currency fluctuations had a negative impact on net merchandise and comparable net merchandise sales growth in Central America of approximately 1.8% and 1.9% during the quarter, respectively. All of our markets in Central America had positive comparable net merchandise sales growth, except for Guatemala, which had a small negative comp due to sales transfers from other clubs following the opening of our new Aranda club.

In the Caribbean region, where we had 13 clubs at quarter end, total net merchandise sales increased 13% and comparable net merchandise sales increased 13.1%. All of our markets in the Caribbean had positive comparable net merchandise sales growth, which turned out showing a significant rebound this quarter, with double-digit sales growth versus the comparable prior-year period.

Although most local COVID restrictions have been lifted and the liquidity of the Trinidad dollar has improved thus far in fiscal 2022, we continue to manage to a target level of imports in Trinidad. So far in fiscal 2022, these self-imposed import limitations have generally been in line with the needs of the market from a demand perspective. However, we continue to actively monitor market demand and our ability to source tradable currencies in Trinidad.

In Columbia, where we had 9 clubs open at quarter end, net merchandise sales increased 7.2% and comparable net merchandise sales increased 1.7%. Foreign currency fluctuations had a significant negative impact on merchandise and comparable net merchandise sales growth in Columbia, of approximately 14% and 13.1% during the quarter, respectively.

In terms of merchandise, we saw our foods category grow approximately 8% compared to the same quarter in the prior year. Our cleaning, beverages and liquor departments led the way, with 9%, 30% and 14% growth, respectively. Our fresh category grew 11% compared to the same quarter in the prior year, led by our poultry, meat and seafood departments, with 18%, 14% and 14% growth, respectively. Our non-foods category grew 15% compared to the same quarter in the prior year, as we made strategic investments in inventory in many of our non-food categories to respond to rising demand and longer supply chain transit times, especially for merchandise coming from Asia.

Hard lines grew 7%, with the hardware and garden and patio categories coming in very strong with 25% and 29% growth, respectively. Our soft line category had exceptional results, growing approximately 33%, with sales of casual apparel up 36% and basic apparel up 49% versus the same quarter last year.

Finally, our Other business category rebounded with 16% growth, primarily from our food service and bakery departments, buoyed by increased in-club traffic.

Turning to margins, total gross margins on net merchandise sales were 15.6% for the quarter versus 16% for the same period last year. This decrease for the quarter was primarily due to a reduction in the premium we applied to our sales prices to offset our COVID-related operating costs and higher markdowns versus the prior-year period. Total revenue margins decreased 80 basis points to 17% of total revenues when compared to the same period prior year. In addition to the 40 basis point decline in gross margins, we had 40 basis points of lower revenue margins due to the sale of Aeropost during the first quarter.

SG&A expenses decreased during the quarter by 60 basis points as a percentage of total revenue, primarily due to our lower operating expenses after the sale of Aeropost. Therefore, the decrease in margins as a result of the Aeropost disposal was offset by the decrease in expenses, yielding an essentially neutral impact on operating income when comparing for the same quarter of the prior year. Operating income for the quarter increased 7.4% from the same period last year to \$48.3 million.

Other expense of \$0.8 million was primarily driven by a \$1.8 million foreign currency loss, which mostly consisted of costs to convert Trinidad dollars into other tradable currencies.

Our effective tax rate for the second quarter of fiscal 2022 came in lower than last year at 31% versus 33.9% a year ago, with our year-to-date rate coming in at 32.6%. This decrease in the quarter was primarily related to comparatively favorable changes in uncertain tax positions, partially offset by comparably unfavorable changes in valuation allowances on our foreign tax credits. On a go-forward basis we continue to estimate an annualized effective tax rate of 33 to 34%.

Net income for the second quarter of fiscal year 2022 was a record \$31.5 million, or \$1.03 per diluted share, compared to \$28.2 million, or \$0.92 per diluted share, in the comparable prior-year period.

Moving on to the balance sheet, we ended the quarter with cash, cash equivalents and restricted cash totaling \$194.9 million.

From a cash flow perspective, for the 6 months ended February 28, 2022, we [had a] \$37.6 million change from cash provided by to cash used in operating activities compared to the prior year, which was primarily a result of nonworking capital changes on the balance sheet of \$29.7 million. These changes were primarily due to prepaid expenses and income taxes, which increased due to higher sales during the period and VAT paid increased due to our higher inventory position.

Another contributor to the change in cash flows from operations was our inventory position, which increased to \$470.3 million as of February 28, 2022 versus \$389.7 million as of February 28, 2021. This increase reflects our efforts to bring our inventory levels in line with our sales trend and the addition of 3 new clubs this year, including our Portmore, Jamaica club, which will open next week. Additionally, we have made investments in inventory to maintain adequate in-stock levels on items that either have been or we expect may be impacted by increased container transit time, especially for merchandise coming from Asia and commodity and electronic part shortages. Our increased inventory investment is also a reflection of costs increases throughout the supply chain.

Net cash used in investing activities decreased by \$51.7 million for the 6 months ended February 28, 2022 compared to the prior year, primarily due to the decrease in balances of certificates of deposit compared to the same period a year ago, due to significant improvement, or a decrease, in our balance of Trinidad dollars on hand versus the prior year.

With respect to Trinidad, our balance of Trinidad-dollar-denominated cash, cash equivalents and short- and long-term investments measured in US dollars improved this year, decreasing \$17.4 million from our fiscal 2021 ending balance to approximately \$35.5 million. As mentioned during our last conference call, as part of our continued efforts to convert Trinidad dollars to US dollars, in December we executed a loan whereby we received \$25 million US dollars. The associated principal and interest on this loan will be repaid in Trinidad dollars converted at rates in effect upon the initial disbursements of this loan, over a 4-year period, thereby locking in the conversion of a significant amount of Trinidad dollars at current conversion rates and freeing up this cash in US dollars for deployment for general corporate purposes.

The \$78.7 million change from cash used in to cash provided by [financial] activities for the 6 months ended February 28, 2022 is primarily the result of obtaining the additional Trinidad-related financing in the current year, along with lower net repayments of short-term debt compared to the same 6-month period a year ago, when we were repaying short-term facilities accessed at the early stages of the COVID-19 pandemic.

In closing, we are very pleased with the record results achieved during the second quarter of fiscal 2022. And I want to extend my thanks and appreciation to the PriceSmart team for their hard work and dedication that made these results possible. We believe our value proposition and how we conduct our business resonates with our members and within our communities. The fundamentals of the business remain very strong and we believe our growth plans position us well for the future success.

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

Questions & Answers:

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

Jon Braatz: Good morning, Sherry, Mike. I just want to touch base on the gross margin's 40-basis-point reduction and sort of COVID-related cost or impact. And I'm curious. Are we going to see that continue sort of that 40-basis-point reduction going forward? Or have you recovered those costs, so to speak?

Michael McCleary: Hi, Jon. As far as just backing up to total revenue margins, as I mentioned, the 40-basis-points decrease there, the Aeropost was basically offset by costs. So your particular question was on gross margin and we highlighted a couple of things there, which was the COVID-related premium that we're charging, that was offset by costs, right? So that's essentially -- should be basically neutral at the operating income level. But, yes, as hopefully our COVID costs continue to wind down, we would expect to wind down that [indiscernible].

Jon Braatz: Okay.

Michael McCleary: Just as a reminder, we do have also the FX premium that was being incurred in Trinidad for imported merchandise there. We have not -- year on year that's not a factor at this point. But if things continue to improve, at some point that may come back down further. It's not a normal part of our costs-plus around operations, but we need to do that for now to cover.

And then the other thing was just the flow of freight and markdowns that we had during Q2 and it's not so atypical to see markdowns in the Q2 period as we work through our holiday merchandise. But, yes, as you see, we still have a good set of merchandise which we're working through the holiday -- the Semana Santa -- Easter -- holiday season now. So we're still working through some of that and then certainly expect to be back on track. At this point we're estimating definitely to be back on track by Q4.

Jon Braatz: Mike, when do you --

Sherry Bahrambeygui: I'd like -- it's important also to remember the context of our business model. As we make the effort to drive volume and get better pricing, that gives us the opportunity to compress margin. So we focus on margin dollars as opposed to necessarily margin percentage. And the flip side to that is as we get more involved in sourcing and developing our own products because we think we can achieve something better than what is already out there or that we're already doing, sometimes that requires an investment on our part that justifies a different margin structure. And so you will see that as our business becomes -- as we're adding more dimensions to our business and going deeper in trying to develop quality and good pricing in the most efficient way, there will be occasions when certain areas will have a higher margin structure because we're directly getting involved and going higher into the supply chain and making investments to handle more of the production and the development of the product, and sometimes you're going to see that it's going to be compressed because we are gaining volume. And as we gain volume, which is the name of the game for us, we are generating more margin dollars, which allows us to then provide better value, because we can buy better, better value for the members, which then in turn feed the success of the business by making the membership more valuable.

So I just want to elaborate on that point, because unlike some other retailers, if you just look at the margin from quarter to quarter and you're not looking deeper or understanding that there are different dynamics in the way we're developing and providing products to the members today that we didn't do years ago. I don't know that looking at just the margin percentage like that is going to be as informative, but that's -- I just wanted to give you that color.

Jon Braatz: Sure. Sure. Okay, thanks. One other question. Mike or Sherry, when do you think maybe that pricing premium in Trinidad may begin to fade? What is it going to take to see prices come down a little bit -- selling prices come down a little bit in Trinidad?

Michael McCleary: Yes. Jon, we talk about this every quarter. We're obviously monitoring it very closely internally. Certainly, as I've mentioned before, it's not something we would hope to keep for the long term, but there's a lot of uncertainty out there right now. And we've made significant progress from our peak of over \$100 million of [TT] dollars on hand to \$35 million. But even -- and our imports are relatively balanced right now with the availability of dollars. But we're also making profits in local currency, so -- which is a good thing. Right? So we have to balance just the uncertainty in the market and work through our dollars on hand. So it's obviously something we're monitoring. We are still incurring costs also to convert and there may be some form of that for a long time. Whether at the same levels or not, we'll have to see.

Jon Braatz: Okay.

Sherry Bahrambeygui: We will be reducing it at the first opportunity that we feel we can responsibly do so.

Jon Braatz: Sure.

Sherry Bahrambeygui: [Indiscernible] to keep the prices down.

Jon Braatz: Okay. And then, Sherry, I may have misunderstood you. I think initially you talked a little bit about March sales and I think you said total sales were up 9.9% and comps were up 9.8%. Was that right?

Sherry Bahrambeygui: Let me see here. I want to make sure I'm going you the exact right...

Michael McCleary: Yes, that's right.

Sherry Bahrambeygui: Yes, that's right.

Jon Braatz: Okay.

Sherry Bahrambeygui: Total sales, \$338.1 million, was an increase of 9.9% and then the 4-week period ending comp net merchandise sales was 9.8%.

Jon Braatz: I know there's a lot that goes into this calculation, but you have 3 stores that are not in the comps right now. Why weren't -- and I know there was some --

Sherry Bahrambeygui: [Indiscernible] more?

Jon Braatz: Yes. Why weren't sales up more than the comps?

Sherry Bahrambeygui: Well, there's multiple reasons. First of all, we've got several new clubs that we're still dealing with the transfer of sales. Then we also have newer clubs that just are not at the level that we can say is normalized. Michael, do you have anything more to add to that?

Michael McCleary: Yes. There's, I think, 4 days this month that we're off there as far as Sunday to Sunday. You've also got the whole Semana Santa timing, which always makes March and April on an

individual month basis hard to compare. So we usually look at March and April combined. I went ahead and put that out there because that was what we had as of today.

Jon Braatz: Okay. All right. Thanks.

Operator: Our next question will come from Rodrigo [Echagaray] with Scotiabank.

Rodrigo Echagaray: Good morning, everyone, and congrats on the results. I want to start with e-commerce or online sales. The fact that 15% or 14% of total members are -- it's a small percentage in terms of the full potential, which is obviously great. And also, that carries a higher ticket, if I understood correctly. So the first question is how does the basket, the average basket, in terms of the type of products, differs from the basket at the club? And the follow-up on that would be what kind of opportunity do you see beyond growing the number of online users that are existing shoppers at the store in terms of the SKUs or even higher-ticket items? That would be my first questions.

Sherry Bahrambeygui: Well, in terms of the basket, especially early on in this process we were surprised to see that there was more in terms of typical grocery items than we would have expected for online. That has been shifting and this is an area that we're studying right now. Because we still have a ways to go on our e-comm in terms of both the online platform and in terms of the merchandise. So that's our -- a very high priority for us right now, to make sure that our online is offering the right items that would be most conducive for sales online. At this point it's not far beyond being able to offer what we have in club, but the opportunity to have [extended] SKUs, the opportunity to have items that are online only -- we are currently in the midst of working on that right now.

So I do think we have more potential. And it varies. I mean, during Smart Week or during certain types of promotions you'll see electronics go up potentially online. The tickets -- the baskets will have items that are being marketed aggressively because of Smart Week and it's convenient for people to get it online and have it delivered.

But in terms of the concept of what more could we do online, what I'd like to say is we've got a foundation right now that is functioning well. But in terms of building out all the opportunities where there could be expansion of our online sales, we're still building.

Rodrigo Echagaray: Got it. And I think you mentioned earlier, Sherry, that you were thinking that -- and I think you've mentioned this in the past, but wanted to pick your brain on this a bit -- that you see the online operations as perhaps a different way to tackle new markets, even if there are no stores currently there. Is this something that perhaps is more around adjacent geography within Columbia or could you maybe touch on that a little bit more in depth?

Sherry Bahrambeygui: Yes. There are opportunities -- as our online presence grows and our members recognize that they can basically access merchandise via online in a very comfortable and reliable manner. With regard to existing markets, let's take, for example, in Columbia, we have members that have memberships with us that are 2, 4, 6 hours away from the nearest club. So just imagine. And their membership is housed at the location where we have the brick and mortar. So just imagine the opportunity that exist and basically the data that we can track to see what concentration of memberships we have in what geographies or what areas of the market and, if we were to have a physical club there, how successful do we think it would be. I mean, it gives us great insights.

Or, alternatively, if we were to be able to set it up so that delivery became a very -- if there was a very cost-effective way for us to leverage and create memberships in those other markets where there's concentration and have a greater presence just virtually or with a dark store initially. These are all the

things that having the online capabilities, having the data and having the brick-and-mortar work together, that present themselves. And each situation is different and some may look at it and conclude, no, this is at a point where we should really just go straight to a brick-and-mortar and another we may say this is one where we're seeing substantial sales generated from a club that is several hours away and can be supported with delivery with a streamlined system that we make very efficient, but may not yet be at a level where it warrants investing in a brick-and-mortar. But, again, once there's more activity and the numbers just grow and people see the value that we offer, that can help support the justification of even another brick-and-mortar.

Rodrigo Echagaray: Got it. In terms of the renewal rates, I mean, obviously record high, but can you highlight any specific market where the renewal rates are particularly strong?

Sherry Bahrambeygui: I don't think we do that. Sorry, Rodrigo.

Rodrigo Echagaray: Okay. No, that's fine. No worries. No, I get it. And then, lastly, you earlier were going into more depth on the strategy of absolute dollars, such as margin, which obviously it's a big difference versus other formats in retailers. In this quarter, I would say contrary to prior years, there was record sales but not necessarily record EPS. This quarter that flowed nicely to the bottom line. And I know this is a very broad question, but any thoughts on that?

Sherry Bahrambeygui: Any thoughts on what?

Rodrigo Echagaray: Just the relative performance or the -- EPS is definitely this quarter -- it seems to me that the operating leverage and the absolute dollar revenue now was -- did flow nicely this quarter. What do you see that going forward? Or any thoughts on the drivers behind that? And I know there's no guidance, but any thoughts, forward-looking, would be appreciated.

Sherry Bahrambeygui: Sure. Without giving guidance, I mean, you know all the things that go into EPS. But starting with just what we talked about, this concept of lowering costs -- lowering prices by -- again, this is going right back to our roots, the 6 rights. Lowering the prices as a result of being able to operate more efficiently, as a result of all the work that's being put into becoming, if you will, more innovative in the way we do business, like, getting our hands into developing our own product, doing more of those types of things. If the end result is we can make our prices more compelling without compromising the quality for the number, that should drive volume. If that drives volume, that should drive more expense savings for us and it should result in greater margin dollars. So it's sort of a win, win, win, if you will.

The other part is that if members are able to continue to see increasing benefits, and not just benefits, so how PriceSmart does business -- the way we take care of them during COVID, the way we are focusing on wellbeing, the ethics by which we operate, the increased services and convenience of their experience, whether it's in the club or it's online or through delivery, the more valuable that membership becomes. The more valuable the membership becomes, the more reliable the membership income. And then there's the technical approach. You auto-renew. This is not something we had before. You auto-renew. Someone commits to that and puts their credit card down right at the beginning. There's no risk of losing -- having leakage between the time that they last were a member and they came back to shop and then renewed their membership.

So all of these things add up. It's not like there's one silver bullet. So it ties right back to the theme of the 3 drivers of growth. If we keep doing what we're doing, our hope and expectation is the members are going to win. The membership's going to be incredibly valuable. We're going to drive volume and that's going to drop to the bottom line and whether it's in the form of membership income or in the form of margin dollars.

On the other hand, we know that investments in technology also does have a financial impact on our EPS in a way that -- I'm sorry; there's something beeping in -- in a way that capital investments in real estate do not. So that's why I can't tell you how the EPS specifically would be impacted, because there are a lot of variables there. And I'm sure Michael can give you a whole list of other things. But generally speaking, yes, the goal is to drive volumes because of the compelling prices, the savings, expense savings, and better value to the member, and achieve it through margin dollars as well as the value of the membership, which would make it -- again, like I said before, we can't afford to not have the membership. That's our goal. We want to make as many people as possible feel that they cannot afford to not have our membership, because there's too much value associated with it.

Rodrigo Echagaray: Got it. No, that's great color. Thank you for all that.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Sherry Bahrambeygui for any closing remarks.

Sherry Bahrambeygui: I'd just like to thank all of our shareholders and the people who have interest in our stock that are taking the time to listen to our journey and all the exciting things that we're doing. Our team is really energized. We're excited about the future and we especially believe that we've got an important role as a company and an employer and a provider of goods in today's world and the environment that we're in.

So thank you for joining us and we look forward to seeing you next quarter.

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