

Event Name: PriceSmart Inc. Q1 Fiscal 2022
Event Date: Friday, January 07, 2022 at 12:00 PM Eastern Time

Officers and Speakers

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

Analysts

John Braatz; Kansas City Capital
Charlie Carter; Ceredex Value Advisors

Presentation

Operator: Good afternoon, everyone, and welcome to PriceSmart, Inc.'s, earnings release conference call for the first quarter of fiscal year 2022, which ended on November 30 of 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, January 7, 2022. A digital replay will be available following the conclusion of today's conference call through January 14 of 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 6014456.

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 first 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, January 6, 2022. You can find these documents on our Investor Relations website at investors.pricessmart.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, January 7, 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: Good day, everyone. Welcome to our earnings call. I hope you're all starting 2022 with the same optimism that our folks here have for the new year.

So we have some great topics to cover today, and as you can see from the results, we had a very strong first quarter of the fiscal year. COVID or no COVID, supply chain disruptions or not, the results delivered by our team are very, very solid.

So now, looking at the numbers, during the first quarter, our total membership base has grown to a new record level with 7% growth year-over-year and our 12-month membership renewal rate was very strong at 89%. Our headline numbers all grew over their prior comparable period, and it's worth noting that results of this quarter are being compared to a quarter last year in which significant growth was achieved relative to the same quarter in fiscal year '20.

So net merchandise sales increased 12.6% versus the same period last year. With regard to comparable sales in Q1, they increased 9.4% versus the same period last year. Currency continued to be a headwind and impacted total and comparable net merchandise sales by 1%.

Our operating income grew 3.3% in the first quarter of this fiscal year when compared to the same period last year, and earnings for the first quarter grew 10.1% to \$30.5 million, versus \$27.7 million in the prior year period, yielding diluted and basic earnings per share of \$0.98 in the current quarter versus \$0.90 in the prior year period.

Now looking forward into Q2, we can report strong holiday sales with our comparable net merchandise sales for the four weeks ended December 26, 2021. They were up 10.1%. This was achieved despite a negative currency impact of 2.8%. We're seeing good momentum and our team is well prepared to build on that momentum.

So now I'd like to talk a little bit about how we're pursuing growth for our company. We're focused on three major drivers to grow our company. The first is real estate; opening new clubs and making investments in our distribution network to ensure that we're strategically located in the right places to maximize efficiencies in the supply chain. Second is enhancing the value of the membership, and third is driving incremental sales for the company through our new platform, pricesmart.com, and other digital capabilities.

So now let's briefly touch on some of our activities in each of those areas. With regard to real estate, we continue to actively seek opportunities to expand our geographic footprint for brick-and-mortar warehouse clubs. It is our intent to continue, and even accelerate, our current pace of club growth over the next three to five years and to continue to explore and evaluate opportunities in new markets.

Since the beginning of the COVID pandemic, we've opened four clubs. Two of those clubs were just opened in the first quarter of fiscal '22. The first of those two is the Aranda club in southeast Guatemala City, Guatemala, and it's our fifth club in Guatemala. Our COO attended the opening and was extremely pleased with the club, our employees and the overall offering we provide in that market. In only about three months, we're seeing strong performance and good growth in membership, and we see potential for even more clubs in Guatemala.

In November, during the first quarter of the fiscal year, I, along with several members of our leadership team, traveled to Colombia to visit our clubs there and evaluate the market. We attended the opening of Floridablanca, our ninth club in Colombia, located near Bucaramanga. It felt really good to be back in our market, and it was quite reassuring to see that our local management team is doing an exceptional job. Our employees were positive and extremely grateful for having been cared for and protected during this very difficult time.

We are working to increase our presence in the Colombian market. Although not yet announced, we can share with you today that we're under contract, permits have been issued and site preparation is under way for a new club in Medellin, Colombia. The site is in the center of a densely populated and growing area of Medellin, with very good demographics for our business. I got to see it myself when I was there in November, and we're just extremely excited about the prospects for this location. Assuming all goes as planned, this club, which we refer to as St. Michel, should open in the fall of 2023.

Also, as we previously shared, the Portmore, Jamaica, club is progressing nicely. We believe Jamaica is a strong market for us and the sales generated out of our Kingston club have been historically record-setting for that location. So we're looking forward to the opening of Portmore in approximately April of this year, and that will mark the 50th club for our company.

We've invested in our real estate team and have more potential locations identified for potential new clubs than we've had in years. Of course, the pipeline includes potential sites at various stages of evaluation or due diligence, but there's no doubt the positive results that we're seeing from newer clubs, the increase in demand for our memberships and the opportunity that we see to serve the needs of these markets responsibly and competitively is a strong motivator to increase our brick-and-mortar presence and expand our geographic footprint with new clubs.

Hand in hand with our plans for club growth is smart planning for our distribution network and additional distribution centers of various types, so that we can most efficiently support the flow of merchandise from the supplier to the member, be it sales generated from the clubs or through pricesmart.com. Also, the need for optionality in today's world has proven essential. Therefore, we plan to make appropriate investments in our distribution network to maximize efficiencies, minimize supply chain disruption and to provide optimal support for a growing e-com business.

We also intend to expand our network of produce distribution centers from three that we currently operate to six. Sites are at various stages of analysis and execution, but we expect that these eventual six produce distribution centers will allow us to serve local and regional produce to all of our current markets. These distribution facilities sometimes also provide the opportunity to centralize certain production activities such as bakery, meat processing and packaging and labeling, all of which is intended to lead to greater efficiencies.

As we scale up the number of our clubs and sales in our markets, we continually evaluate how to land our merchandise at the lowest cost. Strategically located distribution centers enable us to realize greater efficiencies, which result in better pricing, guard us against lost sales, and

provides optionality to mitigate the additional expenses associated with supply chain disruption, and that's a reality that we're all having to contend with nowadays.

Now, moving to our second driver for growth: enhancing membership value. At its core, our business model is about making our value proposition so compelling, so great, that people choose to pay a membership to access what we provide. So we are continually developing new ways to reduce cost and provide greater value. Examples include our direct farm program, where we invest and partner with local farmers to source better-quality produce at a lower cost, which we can then pass the savings on to the member. Another example is our private-label program. We have strong brand recognition in our markets, and a great reputation; private label gives us the opportunity to get even greater value to our members. So we plan to continue expanding our offering, especially in the area of hard and soft lines.

Private label also provides us the opportunity to source quality items locally when appropriate. Select local sourcing has a number of benefits; for example, it supports local communities in which we operate by developing industry and creating direct and indirect jobs, it can help mitigate the FX risk, it reduces exposure to supply chain disruption and escalation of transportation cost. So there are a number of reasons for us to continue investing in and expanding our private label, including the fact that it's a differentiator for us, given that it's our own brand. Private label represented approximately 23.6% of our merchandise sales in the first quarter of fiscal '22, which is up from 22% for the full year of fiscal '21.

We also enhanced membership value by offering services that can enhance the quality of life for our members. Our wellbeing initiative, which continues to expand, currently offers optical services in 45 clubs with free eye exams for the member and additional members of their families, along with deeply discounted, quality eyeglass frames. We expect that we're going to be opening at least two more before the end of this fiscal year, and optical has proven to be a great success for us.

We provide audiology services. This is one of our newest initiatives under the wellbeing umbrella, and we provide those services in all of -- all five of our Guatemala clubs, with free hearing exams for members and members of their family, as well as deeply discounted hearing aids. We expect to roll out audiology to somewhere between a third and half of our clubs before the end of the fiscal year. And we've opened pharmacies in all eight of our Costa Rica clubs and also intend to roll out pharmacy to more of our markets.

Members also benefit from the convenience services we provide, such as curbside pickup and delivery options for purchasing -- I'm sorry, for purchases, using our Click & Go platform. And so we continue to invest in and enhance these services.

We also believe that a benefit of being a member is that we can be trusted. As a company, we are trusted and we are working on really cultivating that goodwill and trust that comes from the fact that we put such emphasis on keeping our members safe and treating them responsibly. During COVID, and to this day, we've maintained compelling prices and great value for our members, even in times of scarcity and supply chain interruptions. Our team did a great job of ensuring we had the right amounts of the right merchandise at the right place, at the right price and at the right

time, so that we could maximize sales and make available those goods when our members needed it most.

So stepping back, driving membership value leads to a higher membership base. The opportunity -- or it provides the opportunity to increase the membership fee when appropriate and it allows us to reinvest the membership fee to drive prices down, which in turn makes the membership even more valuable. By adding more valuable benefits that members can only get from us, we expect membership income to grow and for that to be a driver for growth for our company.

So now turning to our third main driver. We are focused on generating incremental sales from pricesmart.com and other online capabilities. Now, that doesn't mean that it's necessarily limited to the sales that are transacted online, but by virtue of our presence online, we see opportunities to generate incremental sales both online and in our clubs.

As mentioned earlier, we continue to invest in our development and evolution of pricesmart.com and our technology tools that allow us to engage in better analytics with the valuable resources we have with our membership data. We're seeing positive signs and opportunities to grow sales because of our online platform. In fact, we've found that members who shop both online and in-club generally spend more than comparable members who shop exclusively in clubs.

In Q1 on pricesmart.com, we saw an increase in sales, transactions and penetration of total sales from the immediately preceding quarter. We recently surpassed 1.5 million transactions on pricesmart.com, and sales via pricesmart.com represented 4% of our first quarter sales, up from 3.5% in the preceding quarter, which was Q4 of FY '21. However, once again, it's important to emphasize that our online format and our clubs do not operate in silos. Pricesmart.com provides a great opportunity to connect and demonstrate our value proposition to our members. The two formats should reinforce each other to drive greater sales overall for the company. The online platform provides convenience. In fact, 15% of all new members in Q1 signed up online. It's also an effective vehicle to provide information and offerings that can help drive in-club sales as well.

In addition, through pricesmart.com, we have better connectivity with our members in a two-way communication channel that allows us to provide better customer service. Although our current online platform and technology tools have already become a significant part of how we do business and connect with our members, we believe we have untapped opportunity to utilize this platform and the data it generates to effectively grow incremental sales.

So wrapping up, underlying all of these drivers of growth and what makes any of this a reality is our people. We've always been a company that puts our employees first. But I must admit, COVID -- it not only gave us an opportunity to prove it to our employees, it compelled us to do even better. One of the greatest tangible accomplishments in this last year, which you don't see reflected, necessarily, in the numbers, was to make sure that all of our employees at all levels of our company have access to good healthcare. No doubt this was a cost we had not previously incurred, but I believe it is one of the wisest long-term investments we've made. The appreciation, loyalty and commitment expressed by our employees is palpable. I firmly believe

that how we have cared for our employees through these uncertain times is a major contributor to the results that we're talking about here today.

I want to thank our team for a great job on a stellar quarter. And I'll hand it back to Michael now. Thank you.

Michael McCleary: Thank you, Sherry. Good morning or afternoon to everyone, and thanks for joining us today. Before I begin, I would like to take this opportunity to thank our team members for their tremendous efforts and dedication during this past quarter and holiday season. Our results are a reflection of that hard work and determination.

Total revenues and net merchandise sales for the quarter were \$975.4 million and \$944 million respectively, representing increases of 11.2% and 12.6% over the comparable prior year period respectively.

Including the clubs we opened in Aranda, Guatemala, in October and in Floridablanca, Colombia, in November, we ended this quarter with 49 warehouse clubs, compared to 46 warehouse clubs at the end of the first quarter of fiscal 2021, and we are excited about our plans to reach the milestone of 50 clubs when we open our second club in Jamaica in April 2022. We experienced a very strong opening out of the gate with Aranda and membership signups for our Floridablanca club have been well ahead of our target. We believe that this is further evidence that consumers in these markets appreciate and embrace our unique business model.

Our comparable net merchandise sales growth for our fiscal first quarter was 9.4% for the 13 weeks ended November 28, 2021. Foreign currency fluctuations had a negative impact on both net merchandise sales and comparable net merchandise sales of 100 basis points, or approximately \$8.4 million and \$8.5 million respectively.

By segment, in Central America, where we had 27 clubs at quarter end, net merchandise sales increased 15.6%, with a 14.1% increase in comparable net merchandise sales. All of our markets in Central America had positive comparable net merchandise sales growth, with exceptional performance in the Northern Triangle countries of El Salvador, Guatemala and Honduras. In the Caribbean region, where we had 13 clubs at quarter end, total net merchandise sales increased 5.4% and comparable net merchandise sales increased 5%. The Dominican Republic, Jamaica and Aruba all contributed double-digit sales growth.

However, this strong performance was partially offset by weakness in Trinidad, where we have four clubs, which saw a sales decline of 6.2% in the first quarter. This decline was primarily driven by our measured approach to rebalance our merchandise mix following the reopening of the economy at the end of our fiscal 2021. In December, we began to see strong positive comps again in Trinidad due to a combination of rebalancing our in-stock inventory levels, strong year-end demand and having lapped the impact of our pullback on inventory imports, which began impacting sales in December of 2020. We are monitoring the evolution of this market closely, but generally continue to manage our imports to be in line with the amount of U.S. dollars we expect to source in Trinidad.

In Colombia, where we had nine clubs open as of the end of November, net merchandise sales increased 16.6% and comparable net merchandise sales declined 2.8%. The comparable net merchandise sales decrease contributed approximately 30 basis points of negative impact to total comparable net merchandise sales for the quarter. The decrease in Colombia during the first quarter was primarily due to foreign currency devaluation, with a relatively small impact from sales transfers from existing clubs due to our new Bogota club that opened in the second quarter of last year.

In terms of merchandise, we saw our foods category grow 9% compared to the same quarter in the prior year. Our cleaning, beverages and liquor departments led the way with 9%, 36% and 13% growth respectively. Our fresh category grew 12% compared to the same quarter in the prior year, led by our poultry, meat and seafood departments, with 21%, 18% and 15% growth respectively.

Our total nonfoods category grew 3% compared to the same quarter in the prior year. Hardlines declined 3%; however, excluding Trinidad's sales from both periods, where the reduction of our imports negatively impacts year-on-year comparison, hardlines grew 2.9%. Our hardlines seasonal Christmas department enjoyed a strong rebound versus the prior year period with 96% growth, offsetting some of the declines in our other departments. Our softline category grew approximately 20%, with sales of casual apparel growing 26% and home furnishings growing 24% versus the same quarter last year.

Lastly, our other business category rebounded with 17% 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 came out at 16% for the quarter, which is substantially in line with the 16.1% margins for the same period last year. Total revenue margins decreased 60 basis points to 17.4% of total revenues when compared to the same period last year. This decrease is primarily the result of 50 basis points of lower revenue margins following our sale of Aeropost during the quarter.

SG&A expenses increased \$11.2 million compared to the prior year, primarily due to the addition of three new clubs and our continued investment in technology and talent to support continued growth, but decreased by 20 basis points as a percentage of total revenue. This decrease was primarily due to lower operating expenses after our sale of Aeropost. The impact of eliminating Aeropost operating expenses was a 40-basis-point contribution to lower warehouse club and other expenses and a 10-basis-point contribution to lower general and administrative expenses. These combined cost savings of 50 basis points were offset by the 50-basis-points lower margin contribution I mentioned previously. Therefore, the sale of Aeropost had a basically neutral year-on-year impact on operating income.

Operating income for the quarter increased 3% from the same period last year to \$46 million. Net interest expense decreased \$0.4 million for the first quarter, primarily due to the short-term borrowings 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 risks. We repaid all these borrowings by the end of the third quarter of fiscal 2021.

Other income of \$1.4 million was primarily driven by a pretax gain of \$2.7 million from the sale of Aeropost. On an after-tax basis, the Aeropost disposal resulted in a net contribution of \$0.05 of EPS during the quarter. This pretax gain on disposal was partially offset by a \$1.9-million loss associated with the cost to convert Trinidad dollars into other tradable currencies and the revaluation of monetary assets and liabilities in several of our markets.

Our effective tax rate for the first quarter of fiscal 2022 came in higher than last year at 34.1%, versus 32.9% a year ago. This increase of 1.2% is attributable to a comparably unfavorable net tax impact from nonrecurring items of 1.7%, which primarily related to changes in uncertain tax positions, offset by a comparable favorable benefit from accruing items of 0.5%, primarily resulting from 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 first quarter of fiscal year 2022 was \$30.5 million, or \$0.98 per diluted share, compared to \$27.7 million, or \$0.90 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 \$192.6 million. From a cash flow perspective, net cash used in operating activities decreased by \$4.4 million compared to the prior year. The decrease in net cash used is primarily a result of the increase in profits during the quarter when compared to the prior year, with changes in operating assets and liabilities largely offsetting each other.

Our inventory position has increased to \$501 million as of November 30, 2021, versus \$373 million as of November 30, 2020. This increase reflects our efforts to bring our inventory levels in line with our sales trends and the addition of two clubs versus the prior year period. In addition, we have made strategic investments in inventory to maintain adequate in-stock levels on items that either have been or we expect may be impacted from increased container transit times, especially for merchandise coming from Europe and Asia, and commodity and electronic part shortages.

Net cash used in investing activities decreased by \$38.3 million compared to the prior year, primarily due to the decrease in purchases of certificates of deposit compared to the same three-month period a year ago from the significant improvement or decrease in our balance of Trinidad dollars on hand versus the prior year. Cash used in investing activities is also net of approximately \$5 million of net cash proceeds from our disposal of Aeropost during the quarter.

With respect to Trinidad, our balance of Trinidad-dollar-denominated cash, cash equivalents and short- and long-term investments measured in U.S. dollars improved slightly during the quarter, decreasing \$3 million from our fiscal 2021 ending balance to approximately \$49.9 million. As part of our continued efforts to convert Trinidad dollars to U.S. dollars, in December 2021, we executed a loan whereby we received \$25 million U.S. dollars. The associated principal and interest on this loan will be repaid in Trinidad dollars, converted at rates in effect in December 2021, over a four-year period, thereby locking in the conversion of a significant amount of Trinidad dollars at current conversion rates and freeing up this cash in U.S. dollars for deployment for general corporate purposes.

The \$23.4-million change from cash used in to cash provided by financing activities is primarily the result of higher net repayments of short-term debt, compared to the same three-month period a year ago, when we were repaying short-term facilities accessed at the early stages of the COVID-19 pandemic. We continue to be vigilant about our cash position and are ready to adapt to sudden changes in circumstances.

In closing, we are very pleased with the results achieved during the first quarter of fiscal 2022 and believe that we are off to a good start to our fiscal second quarter, driven by the 10.1% comparable net merchandise sales growth in December. Our balance sheet continues to be very strong and we believe we are well positioned to drive future growth through real estate, membership value and further digital expansion through pricesmart.com. This achievement is a team effort involving this entire organization, and their diligence to make PriceSmart a key component of our members' lives.

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

Questions & Answers

Operator: [Operator Instructions]

And the first question will come from John Braatz with Kansas City Capital.

John Braatz: I'm curious. With COVID cases rising again, are you seeing any indications in your markets that there might be a return to some operational restrictions at your stores?

Sherry Bahrambeygui: At this point, we're not seeing anything of significance. However, the cases are definitely rising. I believe the view is that this round may be different from prior rounds, but we don't know, and we are basically at the mercy of the government officials who may decide to impose restrictions or not. But to date, we're not seeing much of a difference, and we're prepared, though, regardless, to be able to make sure that we can get the goods that our members need to them in the most safe and appropriate way no matter what the circumstances are.

John Braatz: Okay, thank you. And Michael, it sounds like the Trinidad -- Trinidad's getting a little bit better. It sounds like you're seeing a little bit of sales improvement. Have you adjusted prices accordingly? I know you've raised prices to account for the currency restrictions, but have you adjusted pricing in Trinidad?

Michael McCleary: Yes, I guess, John, you could say we're cautiously optimistic. We did have a little bit of a buffer there in the Q4, not the reasons we wanted, but because we had pulled back on inventory shipments because of the closures, and we continued to receive dollars. So that was a big help to get, in our fiscal Q4, to get those balances back down closer to more historical levels. But we continue to see challenges there, so we haven't adjusted pricing at this point. It's something we're actively monitoring. We're leaving that -- you could see, as I reported, we had a

\$1.9-million hit in sourcing of FX during the quarter. So we continue to incur costs associated with that, and we've also now added this new loan, which will add some financing costs, but we're pretty excited about this new loan as being a new vehicle to generate new dollars, but we have not pulled back on any pricing at this point.

Operator: The next question will come from Charlie Carter with Ceredex.

Charlie Carter: Just trying to better understand the general and administrative costs. I think you all had alluded to the talent investments, either in, like, real estate or IT, or just other IT-related spending, and there's, I guess, maybe the health insurance comment, too, might be part of that, so just trying to make sure I understood that increase, and then also would like to kind of have a near- to medium-term view on kind of where you see that cost line item going. Thanks. And then I have a follow-up, if that's okay.

Michael McCleary: Yes, thanks. Yes, so as I mentioned -- and we've got a couple of moving pieces in there this quarter, right? We've got the reductions from Aeropost, right? So that kind of changes the year-on-year aspects of that. But as we've mentioned, I think last quarter, I think once we pull out the effects of Aeropost, we're kind of expecting that we're going to continue to invest, as Sherry mentioned, in things like healthcare. We've mentioned regularly our investments in talent. Healthcare is just one example of that. And so we're continuing to invest in the talent and technology, and we're hoping to -- as sales are growing again, that we can at least stabilize that G&A percentage as a part of sales, as opposed to some of the deleveraging we've had. Now, if you include selling in there, obviously there's some distortions as we've opened two new clubs, the new ramp-ups and costs for new clubs, for the overall capturing of SG&A, until they ramp up to their kind of more stabilized selling levels.

Charlie Carter: So is there a target where you want to grow that? I mean, I understand there might need to be some one-time investment in the business, but is there, just given your intended acceleration and real estate growth, store growth, do you hope to kind of keep it constant as a percentage of sales, or do you think you can actually leverage it as you leverage this real estate talent you've added on, and what -- IT spending that will support dot com, et cetera, et cetera?

Michael McCleary: I guess the best I could say at this point is in the near term, we're continuing to make the investments we feel are appropriate to fund that growth. Sherry laid out a pretty extensive growth plan we have over the new few years, and as that growth comes to play, then that certainly should help us leverage, but in the near term, we're going to continue to make those investments so we can support that growth plan.

Charlie Carter: Okay.

Sherry Bahrambeygui: Charlie, on that, if I can add, in recent years, we have invested in -- and I'm focused on the talent portion right now. We've invested in expertise in areas that the company really didn't have or need years ago. We now, for the first time, in the last year or so, have a chief technology officer. We have an EVP-level professional who is adept at data analytics and helping us use the data that's being mined from the investments in technology so that we can apply that in a way that allows us to make better decisions, respond more quickly,

save in other areas of the business and help us grow in a very disciplined way with data to support our decisions. So retail, as you know, has evolved in the last few years, and those were not necessarily positions that were essential for a successful retail company, but because of the interplay with technology and the way consumers behave now and how we expect them to behave going forward, these are areas that are extremely important and do have the opportunity to leverage and to be leveraged.

But the one thing about technology is that it's not like another club. For example, every time you build a new brick and mortar, there's a fixed cost associated with it. Technology often has the opportunity to apply the same tools across a larger scale without the cost going up. So there are opportunities to leverage this, but in the meantime, we are making those investments that we feel are going to strengthen the foundation of the company for the long term. These are things that we believe are essential and appropriate for us to be able to grow faster and stay ahead of the curve and be able to reach more members and conduct our business smartly. So short term, yes, there's going to be continued investing, but we have faith that these are wise investments that are going to bear fruit in the long run, and that's our approach for the company.

Charlie Carter: Yes, and you certainly are realizing at least the early benefits of that, so I'm not disagreeing with whether they're warranted. I guess maybe just a follow-up, and then I did have one other question if that's okay. But how many years do you think, though, will you be kind of at an elevated level of investments with the distribution centers and adding into the stores? Is there like a -- when you talk to the board, what are the expectations you're setting for them in terms of spending at a historically elevated level?

Sherry Bahrambeygui: Well, I mean, the more you grow or the more you want to grow, the more you're going to spend, right? So if you're going to open one club a year, the spend is going to be much lower than, hypothetically, 10 clubs a year. If you want to expand into new markets, you will likely be spending more. So we are definitely poised for growth, and it's difficult for me to tell you how long there's going to be additional investments made, but we're only going to make those investments if we think we're going to get a good return. So that elevated expense really suggests that we're -- we believe that what we're investing in is going to help us grow and help us increase our membership base, increase our geographic footprint and generate more sales, so that the company can grow to its potential.

So in the meantime, we do take a measured approach, but we're seeing enough signs that we have a level of confidence that our business model has a very specific purpose and role, especially in emerging markets. And not only do we have opportunity in some ways, having gone through this COVID experience, I think there's a sense of responsibility, because we have experienced how our business model and the values that we hold and the tenets that we maintain really do help keep our members supported, their businesses supported, and there's a level of trust that we think has been highlighted by this experience, that the members have, and to the extent that we can continue to generate good profits and expand our reach to people who can benefit from our business model, and we can improve their lives, then we intend to do so.

Charlie Carter: Fair enough. Just quickly then, on the real follow-up question, on just foreign exchange, like headwinds for the P&L, do you all at least attempt to kind of price for that in U.S.

dollars so that you don't have margin deleverage on that? Because I'm assuming at least some portion of your cost of goods originally was denominated in U.S. dollars, and so how do you all manage to do that? Do you have analytics to do that well? Just whatever you can say on pricing and the transactional headwind from a stronger U.S. dollar.

Michael McCleary: Yes, thanks, Charlie. Yes, good follow-up. Yes, we're very actively monitoring FX and we basically -- our whole business model is kind of a cost-plus model where we bring things in based on the average cost of the increasing transportation, or first cost from our vendors, whatever is coming in. We're constantly monitoring that on a weekly or monthly basis, depending on, especially, countries like Colombia that have so much volatility. We're actively monitoring that and repricing dynamically. So you can see we've had pretty stable margins over the last year, especially, and we're very much -- I mean, we're very much on top of that, and repricing as we -- as much as we can, as the foreign currency fluctuates.

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

Sherry Bahrambeygui: I'd just like to thank you all for joining us today. We are looking forward to 2022, and we hope to -- that you'll join us again for the next quarter's earnings call. Take care. Bye-bye.

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