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Market Intelligence

PriceSmart, Inc. NasdaqGS:PSMT

Earnings Call

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Call Participants

EXECUTIVES

Michael L. McCleary

*Executive VP, CFO & Principal
Accounting Officer*

Robert E. Price

Founder, Interim CEO & Chairman

ANALYSTS

Jonathan Paul Braatz

Kansas City Capital Associates

Presentation

Operator

Good afternoon, everyone, and welcome to PriceSmart, Inc.'s Earnings Release Conference Call for the Third Quarter of Fiscal Year 2024, which ended on May 31, 2024.

After remarks from our company's representatives, Robert Price, Interim 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 1 hour and is being recorded today, Thursday, July 11, 2024. A digital replay will be available following the conclusion of today's conference call through July 18, 2024 by dialing 1 (888) 660-6264 for domestic callers or 1 (646) 517-3975 for international callers and by entering the replay access code 97656#.

For opening remarks, I would like to turn the call over to PriceSmart's Chief Financial Officer, Michael McCleary. Please proceed, sir.

Michael L. McCleary

Executive VP, CFO & Principal Accounting Officer

Thank you, operator, and welcome to PriceSmart Inc.'s earnings call for the third quarter of fiscal year 2024, which ended on May 31, 2024.

We will be discussing the information that we provided in our earnings press release and our 10-Q, which were both released yesterday afternoon, July 10, 2024. Also in these remarks, we refer to non-GAAP financial measures. You can find a reconciliation of our non-GAAP financial measures to the most directly comparable GAAP measures in our earnings press release and our 10-Q. These documents are available 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 other expressions. All forward-looking statements are based on current expectations and assumptions as of today, July 11, 2024. 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, the quarterly report on Form 10-Q filed yesterday 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 Robert Price, PriceSmart's Interim Chief Executive Officer.

Robert E. Price

Founder, Interim CEO & Chairman

Thank you, Michael. On behalf of myself and our Board of Directors, congratulations to the PriceSmart team for the excellent sales and earnings results in our recently completed third quarter. As we enter our final 3 months of fiscal year 2024 and finalized planning for fiscal year 2025, we will continue to focus on improving sales, operating efficiencies and the use of technology to further enhance our business performance. PriceSmart is a highly respected and valued brand in all our markets. Our goal is to continue to improve our business operations for the benefit of our Members and our employees. Thank you to our many shareholders for your continued confidence and support.

Now, Michael will continue with his presentation.

Michael L. McCleary

Executive VP, CFO & Principal Accounting Officer

Thank you, Robert. We had a strong third quarter as net merchandise sales reached almost \$1.2 billion, and total revenue was over \$1.2 billion. For the quarter ended May 31, 2024, net merchandise sales increased by 11.6% or 9.1% in constant currency and comparable net merchandise sales increased by 7.8% or 5.6% in constant currency. For the 9 months ended May 31, 2024, total net merchandise sales reached almost \$3.6 billion, and total revenues were almost \$3.7 billion. Net merchandise sales increased by 11.8% or 8.3% in constant currency and comparable net merchandise sales increased by 8.2% or 5% in constant currency for the 9-month and 39-week periods, respectively.

By segment, in Central America, where we had 30 clubs at quarter end, net merchandise sales increased 11.2% or 8.9% in constant currency, with a 7.4% increase in comparable net merchandise sales or 5.2% in constant currency. All of our markets in Central America had positive comparable net merchandise sales growth, except for El Salvador, which recently opened 2 new clubs, which are not yet included in the comparable net merchandise sales calculation. Our Central America segment contributed approximately 450 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the third quarter. We opened our sixth warehouse club in Guatemala in November 2023 and our fourth warehouse club in El Salvador in February 2024.

In the Caribbean, where we had 14 clubs at quarter end, net merchandise sales increased 5.3% or 8.3% in constant currency and comparable net merchandise sales increased 5% or 8% in constant currency. All of our markets in this segment had positive comparable net merchandise sales growth. Our Caribbean region contributed approximately 140 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the third quarter.

In Colombia, where we had 10 clubs opened at the end of our third quarter, net merchandise sales increased 33.9% or 12.5% in constant currency and comparable net merchandise sales increased 19.4% and increased 0.5% in constant currency. Colombia contributed approximately 190 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the quarter.

In terms of merchandise categories, when comparing our third quarter sales to the same period in the prior year, our foods category grew approximately 4%, our non-foods category increased approximately 17%, our food services and bakery categories increased approximately 24% and our health services, including optical, audiology and pharmacy, increased approximately 43%. Membership accounts grew 4.8% versus the prior year to almost 1.9 million accounts, with a strong 12-month renewal rate of 88.1% as of May 31, 2024.

Due to the importance of our Platinum Members, during the month of March, we ran a special campaign rewarding our Platinum Members and encouraging upgrades and sign-ups to our Platinum membership program. This campaign was quite successful, helping our platinum accounts to end the quarter at 11% of our total membership base, an increase from 8.6% as of the end of last year's third quarter and 9.6% from this year's second quarter. For the quarter ended May 31, 2024, membership income was \$19.3 million, an increase of 15.2% over the same period last year. We increased the annual membership fee by \$5 in substantially all countries during fiscal year 2024.

Total gross margin for the third quarter of fiscal year 2024 as a percentage of net merchandise sales increased 30 basis points to 15.6% versus 15.3% in the third quarter of fiscal year 2023. The 30 basis point increase was primarily due to general margin improvement across most of our sales categories. In total dollars, total gross margin increased \$22.2 million or approximately 13.5% versus the same quarter of the prior fiscal year. Total revenue margins increased 30 basis points to 17.1% of total revenue when compared to the same period last year primarily due to the increase in total gross margin as a percentage of net merchandise sales.

During the third quarter, our average sales ticket grew by 2% and transactions grew 9.4% versus the same prior year period. For the 9-month period, our average ticket grew by 2.3% and transactions grew 9.2% versus the same prior year period. The average price per item increased approximately 3.6% year-over-year, with average items per basket decreasing approximately 1.2% compared to the same period of the prior year.

Total SG&A expenses increased to 13% of total revenues for the third quarter of fiscal year 2024 compared to 12.9% for the third quarter of fiscal year 2023, primarily due to higher compensation, professional fees and depreciation expense. General and administrative expenses increased to 3.3% of total revenue for the third quarter of fiscal year 2024 compared to 3.1% for the third quarter of fiscal year 2023. The 20 basis point increase is primarily due to investments in technology and an increase in compensation expense from stock grants to executive leadership.

Operating income for the quarter increased 15.9% from the same period last year to \$49.9 million. Operating income for the first 9 months of fiscal year 2024 increased 12.7% from the same period last year to \$171.7 million. In the third quarter of fiscal year 2024, we recorded a \$2.9 million net loss in total other expense compared to \$1.5 million net loss in total other expense in the same period last year. The increased net loss in total other expense was primarily due to an increase in interest expense of \$0.8 million and lower interest income of \$0.6 million.

Our effective tax rate for the third quarter of fiscal year 2024 came in at 30.8% versus 28.9% a year ago. The increase in the effective tax rate is primarily related to the cost savings for CEO compensation, offset by assets written down in the prior year. For the 9 months ended May 31, 2024, the effective tax rate was 31.3% compared to 32.2% for the prior year period. The decrease in the effective tax rate is primarily related to fewer valuation allowances on deferred tax assets from foreign tax credits that are no longer deemed recoverable. Looking forward into Q4, we expect to end the fiscal year with an annualized effective tax rate of about 31% to 32%.

Net income for the third quarter of fiscal year 2024 was \$32.5 million or \$1.08 per diluted share compared to \$29.6 million or \$0.94 per diluted share in the third quarter of fiscal year 2023. Net income for the first 9 months of fiscal 2024 was \$109.8 million or \$3.62 per diluted share compared to \$93.8 million or \$3.01 per diluted share in the comparable prior year period. Adjusted net income for the third quarter of fiscal year 2024 was \$32.5 million or an adjusted \$1.08 per diluted share compared to adjusted net income of \$32.5 million or an adjusted \$1.04 per diluted share in the comparable prior year period. Adjusted EBITDA for the third quarter of fiscal year 2024 was \$71 million compared to \$63.9 million in the same period last year.

Adjusted net income for the first 9 months of fiscal year 2024 was \$109.8 million or an adjusted \$3.62 per diluted share compared to adjusted net income of \$106.1 million or an adjusted \$3.41 per diluted share in the comparable prior year period. Adjusted EBITDA for the first 9 months of fiscal 2024 was \$232.9 million compared to \$218.4 million in the same period last year.

Moving on to our strong balance sheet. We ended the quarter with cash, cash equivalents and restricted cash totaling \$140.3 million, in addition to approximately \$99.9 million of short-term investments. From a cash flow perspective, net cash provided by operating activities totaled \$165.8 million for the first 9 months of fiscal year 2024 compared to \$184.7 million for the same prior year period. Shifts in working capital generated from changes in our merchandise inventory and accounts payable positions contributed \$35.8 million to the overall decrease. Additionally, a net change in operating assets and liabilities contributed \$7.8 million of additional cash used. This was partially offset by an increase in net income without noncash items, which contributed \$24.6 million for the 9 months ended May 31, 2024.

Average inventory per club increased by approximately \$900,000 or 10.2%, and inventory days on hand increased by approximately 1 day or 2.3% for the third quarter of fiscal year 2024 versus the same period in 2023. The increase of inventory per club and days on hand is primarily due to a shift in our inventory mix towards more non-food items, which have longer lead times. Net cash used in investing activities decreased by \$48.4 million for the 9 months ended May 31, 2024 compared to the prior year, primarily due to a \$103.6 million increase in proceeds from settlements of short-term investments.

This was partially offset by a \$45.3 million increase in property and equipment expenditure to support growth of our real estate footprint and a \$10.8 million increase in purchases of short-term investments compared to the same 9-month period a year ago. We opened 3 additional clubs during the first 9 months of fiscal 2024.

Net cash used in financing activities during the 9 months ended May 31, 2024 increased by \$111.2 million, primarily from the result of the share repurchase program we completed during the first quarter, a special \$1.00 dividend payment in April of 2024 and lower proceeds from long-term bank borrowings compared to the same period a year ago.

When reviewing our cash balances, it is important to note that as of May 31, 2024, we had \$60.6 million of cash, cash equivalents and short-term investments denominated in local currency in Trinidad and Honduras, which we could not readily convert into U.S. dollars.

Now on to our growth drivers. Starting with real estate. We have purchased land and plan to open our ninth warehouse club in Costa Rica, located in Cartago, approximately 10 miles east from the nearest club in the Greater San Jose metropolitan area. This club will be built on a 6-acre property and is anticipated to open in the spring of 2025. Once this new club is open, we will operate 55 warehouse clubs in total. Additionally, we are currently remodeling several of our high-volume clubs, which are in San Pedro Sula, Honduras; Santiago, Dominican Republic; and Port of Spain, Trinidad & Tobago as well as expanding our clubs in San Salvador, El Salvador; Liberia, Costa Rica; and Portmore, Jamaica.

Finally, we continue to actively seek ways to improve our distribution infrastructure to better serve our Members. In the third quarter, we started using distribution centers run by a third party in 4 different markets, Guatemala, Honduras, Nicaragua and El Salvador. The benefits of opening distribution centers include reduced net lending costs, reduction in lead time and improvement of working capital.

Turning now to membership value. As we've highlighted in previous calls, our private label membership selection brand continues to be a significant area of focus based on the good value it brings to our Members. We offer private label food, household products and apparel under our member selection brand across all markets. During the first 9 months of fiscal year 2024, our private label sales represented 27.4% of our total merchandise sales. That's up 140 basis points from 26% in the comparable period of fiscal year 2023.

We also continue to focus on health services. We currently have 53 locations with optical centers as well as pharmacy centers in all 8 of our warehouse clubs in Costa Rica and 5 warehouse clubs in the Panama. We expect to open 2 more pharmacies in Guatemala during fiscal year 2024. We currently have 27 audiology centers open and expect to open one additional audiology center in each of Panama, Jamaica and Trinidad by the end of fiscal year 2024.

Our Optical program provides four free eye exams with every membership, and we performed over 38,000 eye exams during the quarter. Optical services are also an important component of our contributions to the communities in which our clubs are located. In partnership with Price Philanthropies' Aprender y Crecer Vision Program, PriceSmart optometrists perform free eye exams for children and the charities provide free lenses and frames.

Our third growth driver is providing omnichannel shopping options for our Members, including sales via our app and/or our desktop website. We currently utilize pricesmart.com, our app and other third-party last-mile delivery services to drive online sales. During the third quarter, total net merchandise sales through digital channels increased 27% versus the same period in the prior year and represented a record \$65.9 million or 5.5% of total net merchandise sales. Total orders placed on pricesmart.com and our app increased 21.9% and the average transaction value increased 2.6% versus the prior year period.

In the third quarter of fiscal year 2024, we began a country-by-country rollout of our new e-commerce website platform. This platform will allow us to better tailor delivery zones and services for our Members, update inventory availability more quickly, improve product discovery and reduce friction in the shopping experience. As of May 31, 2024, approximately 63% of our Members had created an online profile with pricesmart.com or our app. And 17.3% of our total membership base has made a purchase on pricesmart.com or our app. We believe that there are significant growth opportunities in our digital channel, and we will continue to invest in this part of our business to provide an enhanced omnichannel experience and additional value to our Members.

Additionally, we are continuing the work on implementation of RELEX to modernize our ordering and inventory management. We started this project in 2023, and it is currently proceeding as planned, and we expect it to be completed by the end of fiscal year 2025. As a result of this implementation, we anticipate improved sales and efficiencies due to enhanced in-stock positions, diminished spoilage and an optimally streamlined inventory flow.

During the third quarter, we released our comprehensive environmental and social responsibility report for fiscal year 2023. This report showcases our commitment to environmental and social responsibility. The full ESR report is available on our Investor Relations website at investors.pricemart.com under the ESG tab. Environmental and social responsibility continues to be an important component of how we approach our business and add value to the membership. We do our best to incorporate practices that use natural resources responsibly. Just to give a quick update, we currently have 7 recycling centers open, with 2 in El Salvador, 3 in Honduras and 2 in Guatemala. Each location collects an average of around 30,000 pounds of recycled material monthly, with the Tegucigalpa locations collecting around 50,000 pounds per month.

Looking ahead, we plan to expand this successful program by opening 4 additional recycling centers in the Dominican Republic during fiscal year 2025. You can find more information about PriceSmart's philanthropic and corporate social responsibility efforts on pricemart.org. Looking forward a little into our current fourth quarter, our comparable net merchandise sales for the 4 weeks ended June 30, 2024, were up 6.4%, or 6.1% in constant currency.

In closing, it was a great result for our third quarter, and we are proud to see that our Members recognize the value proposition we offer as evident by strong sales growth and renewal rates. We expect a solid performance in the fourth quarter to round out our fiscal year, and we are thankful for the ingenuity and hard work of all our employees who make it possible.

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from John Braatz from Kansas City Capital.

Jonathan Paul Braatz

Kansas City Capital Associates

Robert, Michael, most recently, the Colombian currency has weakened quite a bit, and I don't know if it will continue or not. But have you seen any change in consumer behavior in Colombia? And have you made any changes in pricing like you did maybe 1.5 years ago? Or is it too soon to do something like that?

Robert E. Price

Founder, Interim CEO & Chairman

Why do you say it's weakened?

Jonathan Paul Braatz

Kansas City Capital Associates

Well, it has weakened. It was at -- it's at 4,000 now, and it was at 3,600 or something like that. So it's weakened a little bit.

Robert E. Price

Founder, Interim CEO & Chairman

Yes. I mean it's -- I think it's kind of hung in around 3,900 to 4,000 for a while. I wouldn't say it's particularly weakened. I mean that's pretty much what we would have expected and hoped for is around 4,000. I don't think it's really impacted our general approach to how we price merchandise, I mean, I think we're feeling pretty good about the fact that it's around 4,000 and it's made it probably a little more positive for imports.

Jonathan Paul Braatz

Kansas City Capital Associates

Yes. Okay. Okay. That's good. And Michael, when you think about the additions and the expansions at your existing stores, when you add everything up, how much of a square foot increase is that in terms of those expansions? How much are you expanding those facilities by?

Robert E. Price

Founder, Interim CEO & Chairman

Maybe I can take it. We have, what, 4 locations that are being expanded, 3 or 4. Are you asking that as a percent of those individual locations?

Jonathan Paul Braatz

Kansas City Capital Associates

Yes, Yes, that would be great.

Robert E. Price

Founder, Interim CEO & Chairman

I would guess I'm not sure we thought about it quite like that, but I would guess maybe 15% to 20% more sales floor.

Jonathan Paul Braatz

Kansas City Capital Associates

Okay. Okay. And then when you do that, what kind of -- what new merchandise do you put in there? What's the additive?

Robert E. Price

Founder, Interim CEO & Chairman

Yes. It's not necessarily that you put more SKUs in. What happens is that the ability to display the products with better facings improves so that you have a bigger impact for each item and less labor related to stocking and handling the items. It improves the efficiency. And I think for the Member, it presents a more compelling individual item value than the issue we have, we are trying to fit items into a more limited space. It just seems to make it more both efficient and impactful.

Jonathan Paul Braatz

Kansas City Capital Associates

Okay. Very good. That's all I have.

Operator

There are no further questions. I will now turn the call over to Michael.

Michael L. McCleary

Executive VP, CFO & Principal Accounting Officer

Okay. Thank you, everybody. We hope you have a good day. Take care. Bye-bye.

Operator

Ladies and gentlemen, this concludes the call for today. Thank you for calling in. Please go ahead and disconnect your lines.

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