

04 - 10 - 2025

PriceSmart

Second Quarter 2025 Earnings

PriceSmart

Second Quarter 2025 Earnings

CORPORATE SPEAKERS:

Michael McCleary

PriceSmart; Chief Financial Officer

Robert Price

PriceSmart; Interim Chief Executive Officer

PARTICIPANTS:

Jon Braatz

Kansas Capital; Analyst

PRESENTATION:

Operator^ Good afternoon, everyone. And welcome to PriceSmart, Inc. Earnings Release Conference Call for the Second Quarter of Fiscal Year 2025, which ended on February 28, 2025. 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 one hour and is being recorded today, Thursday, April 10, 2025. A digital replay will be available shortly following the conclusion of the call through April 17, 2025 by dialing (888) 660-6264 for domestic callers, or (646) 517-3975 for international callers, and entering replay access code 70282#.

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, Operator, and welcome to PriceSmart, Inc.'s earnings call for the second quarter of fiscal year 2025, which ended on February 28, 2025.

We will be discussing the information that we provided in our earnings press release and our 10-Q which were both released on April 9, 2025.

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.pricessmart.com, where you can also sign up for e-mail alerts.

PriceSmart

Second Quarter 2025 Earnings

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 10, 2025. These statements are subject to risks and uncertainties and 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 Price^ Thank you, Michael. And good day, everyone.

Welcome to our second quarter fiscal year 2025 earnings call.

In a few minutes, Michael will present his report.

But before he makes his remarks, I would like to begin my remarks today by thanking our 12,000 employees for their hard work and dedication to our company.

We truly appreciate everything they do for PriceSmart and I am personally grateful for the opportunity to support our employees, their families by providing competitive wages, comprehensive benefits and a positive working environment that fosters growth and opportunity.

This past week, I was in Costa Rica for the opening of our ninth Costa Rica location, which is located in the city of Cartago on the far east end of the Central Valley of Costa Rica. The opening went very well. I was impressed by the design of the building that provides an enhanced shopping experience and a more efficient operational -- more efficient operational characteristics.

Additionally, our buyers, both in the U.S. and locally have done an excellent job procuring new and exciting merchandise as well as coordinating seamlessly with our distribution center in Costa Rica that has made our operation much more efficient.

I also wanted to make brief remarks about the ongoing tariff challenges which of all merchants face and particularly those of us who have some dependency on products from Asia.

PriceSmart

Second Quarter 2025 Earnings

We have been developing contingency plans to try to be flexible and to adapt, but it's pretty tough right now because nobody really knows how this thing is going to play out. I think one benefit for PriceSmart is that about 50% of the products we sell are sourced either locally or in the region and about a third of the products we source come from the United States. So we're not as dependent on Asia and Europe as perhaps other merchants are. And the other thing is that we are able to bring product in through our distribution centers directly from Asia could give us some shelter from tariff issues that are more focused on the United States.

But again, none of us really knows what's going to happen. And so we have to just be -- try to be as smart as adaptable as possible.

So that's about the extent of my remarks, I do want to end by thanking our stockholders for their continued trust and support.

And with that, I will turn the meeting back to Michael McCleary.

Michael McCleary^ Thank you, Robert.

In the second quarter, our net merchandise sales reached over \$1.3 billion, and total revenue was almost \$1.4 billion.

During the first half of our fiscal year, net merchandise sales reached almost \$2.6 billion and total revenue was over \$2.6 billion.

During the second quarter, net merchandise sales increased by 5.8%, or 7.0% in constant currency and comparable net merchandise sales increased by 6.7%, or 7.9% in constant currency.

For the first half of the fiscal year, net merchandise sales increased by 6.8%, or 7.6% in constant currency, and comparable net merchandise sales increased by 6.2%, or 7.1% in constant currency.

By segment, in Central America, where we had 30 clubs at quarter end, net merchandise sales increased 5.4%, or 4.6% in constant currency, with a 5.6% increase in comparable net merchandise sales, or 4.9% in constant currency. All of our markets in Central America had positive comparable net merchandise sales growth, except for El Salvador, which opened one new club in February 2024, that is not yet included in the comparable net merchandise sales calculation. Our Central America segment contributed approximately 340 basis points of positive impact to the growth in total consolidated comparable and merchandise sales for the second quarter.

In the Caribbean, where we had 14 clubs at quarter end, net merchandise sales increased 6.4% or 8.6% in constant currency, and comparable net merged sales increased 8.3%, or 10.5% in constant currency. All of our markets in this segment had positive comparable net merchandise sales growth. Our Caribbean region contributed approximately 230 basis points of positive

PriceSmart

Second Quarter 2025 Earnings

impact to the growth in total consolidated comparable net merchandise sales for the second quarter.

In Colombia, where we had 10 clubs open at the end of our second quarter, net merchandise sales increased 6.6%, or 16.0% in constant currency and comparable net merchandise sales increased 8.6%, or 17.7% in constant currency. Colombia contributed approximately 100 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 second quarter sales to the same period in the prior year, our foods category grew approximately 5.3%, our non-foods category increased approximately 7.9%, our food services and bakery categories increased approximately 4.7%, and our health services including optical, audiology and pharmacy increased approximately 15.5%.

Membership accounts grew 4.1% versus the prior year to over 1.9 million accounts with a 12-month renewal rate of 87.0% as of the end of the quarter. A key driver of our membership strategy is the Platinum membership which is designed to offer even more value to our most engaged members. Platinum members enjoy exclusive benefits including an annual cash back reward on eligible purchases which directly translates to savings that reward loyalty and increased purchasing power. Platinum accounts as of the end of our second quarter represented 14.5% of our total membership base, an increase from 9.6% in the prior year's second quarter and 12.3% as of the end of fiscal 2024. This increase is due to additional focus on this important segment of our membership, which included platinum promotional campaigns during the second half of fiscal 2024 and the first half of fiscal 2020.

Total gross margins for the second quarter of fiscal 2025, as a percentage of net merchandise sales, decreased 10 basis points to 15.6% versus 15.7% in the second quarter of fiscal 2024.

However, in terms of total dollars, total gross margin increased \$10 million or approximately 5.0%, versus the same quarter of the prior fiscal year. Total revenue margins remained flat at 17.1% of total revenue when compared to the same period last year.

During the second quarter, our average sales ticket grew by 1.9%, and transactions grew 3.9% versus the same prior year period. The average price per item remained flat year-over-year, while average items per basket increased approximately 1.8%, compared to the same period of the prior year.

Total SG&A expenses increased to 12.4% of total revenues for the second quarter of fiscal 2025, compared to 12.2% for the second quarter of fiscal 2024. The 20 basis point increase of SG&A, as a percentage of revenue, primarily related to planned technology investments to support the future growth of our business.

PriceSmart

Second Quarter 2025 Earnings

Operating income for the second quarter of fiscal 2025 increased 2.6% from the same period last year to \$65.3 million. Operating income for the first six months of fiscal 2025 increased 1.4% from the same period last year to \$123.5 million.

In the second quarter of fiscal 2025, we recorded a \$5.1 million net loss in total other expense, compared to a \$7.1 million net loss in total other expense in the same period last year. This decrease in total other expense was primarily due to a \$3.6 million decrease in unrealized losses in value of U.S. dollar-denominated monetary assets and liabilities in several of our markets.

This decrease was partially offset by an increase in the cost of premiums to convert local currency into U.S. dollars from \$3.4 million in the prior year to \$5.1 million in the current year.

Our effective tax rate for the second quarter of fiscal 2025 came in at 27.2%, versus 30.5% a year ago. Our effective tax rate for the first six months of fiscal 2025 was 26.9%, compared to 31.4% for the prior year period. The decrease in the effective tax rate is primarily related to our implementation of certain tax optimization initiatives at the end of fiscal 2024. On a go-forward basis, we estimate our annualized effective tax rate will be approximately 27% to 29%.

Net income for the second quarter of fiscal 2025 was \$43.8 million, or \$1.45 per diluted share, compared to \$39.3 million, or \$1.31 per diluted share, in the second quarter of fiscal 2024. Adjusted EBITDA for the second quarter of fiscal 2025 was \$87.0 million compared to \$84.1 million in the same period last year.

Net income for the first six months of fiscal 2025 was \$81.2 million, or \$2.66 per diluted share, compared to \$77.3 million, or \$2.54 per diluted share, in the comparable prior year period. Adjusted EBITDA for the first six months of fiscal 2025 was \$166.1 million, compared to \$161.9 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 \$145.5 million, plus approximately \$116.9 million of short-term investments. When reviewing our cash balances, it is important to note that as of February 28, 2025, we had \$77.3 million of cash, cash equivalents and short-term investments denominated in local currency in Trinidad and Honduras which we could not really convert into U.S. dollars. This is a decrease from \$81 million at the end of the first quarter, driven by our ability to source more dollars in our under subsidiary during the second quarter.

From a cash flow perspective, net cash provided by operating activities totaled \$126.4 million for the first six months of fiscal 2025, compared to \$127.7 million for the same prior year period. Shifts in working capital generated from changes in our merchandise inventory and accounts payable positions contributed \$29.0 million to the overall decrease. This was partially offset by a net positive change in our other operating assets and liabilities, which contributed \$20.6 million.

Average inventory per club increased by approximately \$878,000 or 9.4% and inventory days on hand increased by approximately one day or 3.1% for the second quarter of fiscal 2025 versus

PriceSmart

Second Quarter 2025 Earnings

the same period in 2024. 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.

Net cash used in investing activities decreased by \$25.8 million for the first six months of fiscal 2025, compared to the prior year, primarily due to a \$40.7 million decrease in property and equipment expenditures. This was partially offset by a \$15.0 million net decrease in proceeds from settlements and purchases of short-term investments.

Net cash used in financing activities during the first six months of fiscal 2025 decreased by \$51.6 million, primarily the result of fewer repurchases of our common stock, partially offset by an increase in repayments of and a decrease in proceeds from long-term bank borrowings.

Now on to our growth drivers, starting with real estate.

We are excited to announce that last week, we opened our ninth warehouse club in Costa Rica located in Cartago approximately 10 miles east of the nearest club in the Greater San Jose metropolitan area. We had a successful opening day with strong sales volume and new member sign-ups. As of today, we have 55 warehouse clubs in operation. Additionally, we plan to open our seventh warehouse club in Guatemala located in Quetzaltenango, approximately 122 miles west from the nearest club in the capital of Guatemala City. This club is currently under construction. And we expect it to open this summer. Once this new club is open, we will operate 56 warehouse clubs in total.

Finally, we continue to actively seek ways to improve our distribution infrastructure to better serve our members. We currently have major distribution centers in Miami, Costa Rica and Panama. We are also in various stages of development and implementation of PriceSmart operated DCs in markets such as Guatemala, Trinidad and the Dominican Republic. We believe these in-country distribution centers will provide numerous advantages including shortening the time to market for imported products, lowering the net landed cost for most of our merchandise and providing better in-stocks, along with additional distribution centers, we are beginning to operate our own fleet of trucks in some countries to deliver merchandise from our distribution centers to our clouds.

Additionally, we are enhancing our distribution and logistics network through the expected opening of distribution centers in China and in each of our multi-club markets, either operated by PriceSmart or through the use of third-party logistics providers.

As Robert mentioned earlier in the call there is currently significant uncertainty surrounding the topic of tariffs. Most recently, last week, the U.S. government announced a baseline tariff of 10% on products imported from all countries and an additional individualized reciprocal tariff on the countries with which the United States has the largest trade deficits. There are some exemptions from those reciprocal tariffs but not from the additional 10% tariff.

PriceSmart

Second Quarter 2025 Earnings

The countries into which we import, may adjust and/or impose new reciprocal tariffs or other restrictions, which may affect our operations and increase the cost of the merchandise we import, negatively affecting affordability to our members. This new international trade landscape creates additional complexities and will potentially bring cost pressures.

However, our operations within a free trade zone in both the U.S. and Cost Rica provide us with a significant advantage.

Our FTC operations are designated areas where foreign goods are received and can be reconsolidated for shipment to the countries where we operate without being subject to customs duties or tariffs until they reach their final destination.

We are actively working with our vendors and evaluating strategic measures where feasible, such as supply chain diversification, cost management, expanding China consolidation efforts and increasing the use of our to keep our supply chain as efficient and as cost-effective as possible and minimize the impact of related costs to our members.

I'd now like to turn to our efforts to increase the value of membership to attract new members and foster long-term loyalty.

In addition to providing low prices on merchandise, we seek to provide members with greater convenience and an expanding range of services. Our private label member selection brand plays a crucial role in enhancing the membership value proposition. By offering high-quality products at competitive prices, members selection delivers superior value while maintaining the high standards that our members expect sourced with care and designed to meet everyday needs, members selection products range from food staples to other household essentials, providing affordable alternatives without compromising on quality.

During the second quarter of fiscal 2025, our private label sales represented 27.4% on of our total merchandise sales. That's up 30 basis points from 27.1% in the comparable period of fiscal 2024.

We also continue to focus on health services.

We currently have 54 locations with optical centers where during the second quarter, we performed over 31,000 eye exams. Optical services are also an important component of our contributions to the communities in which our clubs are located. Our pharmacy centers are open in all nine of our warehouse codes in Costa Rica, five warehouse clubs in Panama and five in Guatemala. By the end of fiscal 2025, we expect to have pharmacies and substantially all clubs in these three countries. We also currently have 30 audiology centers that members can utilize for hearing tests and competitive pricing on hearing aids.

Our third growth driver is providing omnichannel shopping options for our members including sales via our app and/or our desktop website as well as enhancing our technological capabilities.

PriceSmart

Second Quarter 2025 Earnings

We currently utilize pricesmart.com, our app and other third-party last mile delivery services to drive online sales.

During the second quarter, total net merchandise sales through digital channels increased 19.3%, versus the same period in the prior year and represented a record high of \$76.2 million, or 5.7% of total net merchandise sales. Total orders placed directly on pricesmart.com in our app increased 14.4%, and the average transaction value increased 3.9% versus the prior year period.

In March, we launched our online pharmacy services on pricesmart.com in Costa Rica, and we plan to launch this online platform for other pharmacy locations. This new e-commerce service allows our members to place orders directly to our pharmacy for home delivery or pick up at the club.

As of February 28, 2025, approximately 63.7% of our members that created an online profile with pricesmart.com or our app and 29.2% of members with an online profile had 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.

We are also continuing to prioritize investments in our technology for supply chain enhancements and back-office productivity improvements and initiatives to both optimize and transform the brick-and-mortar experience and to make the digital experience more efficient and member-centric. One example of these efforts is relaxed, a unified supply chain and retail planning platform, which will modernize our ordering and inventory management. We started this project in 2023, and we expect it to be substantially operational by the end of fiscal 2025. As a result of this implementation, we anticipate improved sales and efficiencies due to enhanced and stock positions, diminished spoilage and streamlined inventory as well.

Sustainability continues to be an important component of how we approach our business and add value to the membership. We do our best on corporate practices that use natural resources responsibly. Just to give a quick update, we currently have seven recycling centers open with two in El Salvador, three in Honduras and two in Guatemala. Looking ahead, we plan to expand the successful program by opening one additional recycling center in the Dominican Republic during fiscal 2025. You can find more information about price marks sustainability efforts on PriceSmart art.

Looking forward a little into our current third quarter, our comparable net merchandise sales for the four weeks ended March 30, 2020, were up 8.7% or 10.2% in constant currency.

It is important to note that this year-on-year comparison is impacted by the timing of the Easter holiday period this year, Good Friday when we closed all our clubs and Easter Sunday when we closed our clubs in Aruba and Barbados both following April, whereas last year they fell in March.

PriceSmart

Second Quarter 2025 Earnings

In closing, as PriceSmart continues to grow, we look forward to reinvesting in new benefits and services that enhance the member experience, creating a mutually beneficial relationship built on trust, value and innovation. 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 & ANSWER:

Operator^ (Operator Instructions)

Our first question comes from the line of Jon Braatz from Kansas Capital.

Jon Braatz^ If we could return to the tariff situation, and I know it's very, very fluid and who knows what's going to happen. But Robert, you mentioned that 50% of your merchandise is locally sourced, and a third of it comes from the U.S. And so a couple of questions. Number one, some of the companies that you -- some of the countries that you do business with, have they instituted or imposed a 10% reciprocal tariff on merchandise from the U.S.?

And then secondly, the merchandise that comes in from China, it sounds like some of it might come through the U.S. as sort of a conduit.

But can you move that merchandise instead directly to your warehouses in San Jose and Panama and just avoid any issues with the tariffs? And maybe, I guess, in the end, how much of your merchandise really might be impacted by tariffs?

Robert Price^ Okay.

So starting with the 10% question, we're not aware of our countries having reciprocated with 10% tariff. Yes. It could happen, but we're not aware of anything yet.

So that's one thing. The second question about the sourcing out of Asia.

We -- the reason let me see how to answer this. Michael, in his remarks mentioned the fact that historically, most of that has routed through Miami, which is really not very efficient to a free trade zone that we have in Miami.

So the U.S. tariffs don't apply, but the cost of extra freight going into Miami is really what has -- well two things.

PriceSmart

Second Quarter 2025 Earnings

The extra freight cost as well as the time to market has really motivated us to consolidate our freight in -- particularly in China, so that it can be shipped efficiently full containers directly into our markets.

Now at the moment, we have our own distribution centers in Costa Rica and Panama, where it would be very easy to which would facilitate those direct shipments. And we are building, as Michael mentioned in Guatemala Dominican Republic and Trinidad.

So I think for both -- in terms of costs, lower costs because of freight and time to market, regardless of these tariffs, we would have been doing this and the fact that at the moment, we don't pay the tariffs unless, the only time we're paying tariffs out of Asia is when we're buying something domestically, which has already incurred the tariff but that tends to be on items that don't sell at a very high rate because if they sold a high rate, we'd be consolidated and buying out of Asia Direct.

So I think from that point of view, I don't see that directly affecting us.

One thing that came through my mind, I shouldn't probably say this, but I'll say it anyway.

If I was in China vendor names tender, I might think, well shipping into the U.S. is going to be more difficult.

I'll have to try to find ways to lower my cost to try to compensate for the tariffs.

Although 125% tariffs is going to be pretty hard to compensate for.

But we might risk having some shifting of cost to us, but I hope that wouldn't happen.

What we've seen early so far is the suppliers. Well I've heard anyway, the suppliers who do sell us direct out of Asia actually are grateful that they have our business. And I think they'll hopefully be cooperative in terms of supporting our pricing.

Jon Braatz^ So Robert, it sounds like that in the absence of any reciprocal tariffs imposed by Central America countries or Colombia, that any impact would be de minimis?

Robert Price^ Let's hope so. I mean this is a crazy world. So you don't know how the whole thing will play out.

I was thinking about one item in particular when I was in Cartago, we sold this coffee maker made by, I guess, Ninja, you're probably familiar with Ninja, Shark Ninja, the company, I guess. And the thing just in 10 minutes, we had sold out of 24, \$500 items.

And it's very interesting because this company is based in Boston, engineers really highly educated people designing very advanced consumer goods, but everything is made in China.

PriceSmart

Second Quarter 2025 Earnings

So here, you have the -- this is just lost in the whole discussion here. The high-value educated people doing the work and really the U.S. benefiting from that.

At the same time the need to source product where it can be sourced efficiently and at a low cost.

And that partnership is really being disrupted right now.

It's really bad.

Jon Braatz^ Okay.

One final question.

We're halfway through 2025. And we haven't heard -- we haven't talked or disclosed anything about any new store openings beyond Guatemala. And I'm wondering, you've opened stores at least one a year since 2012 or 2013, something like that.

Is it likely we'll see some store openings for in 2026?

Robert Price^ Okay.

So I don't know how much I can say.

Michael McCleary^ It's actually, Jon, as you know we don't generally announce before we receive permits in the 10-Q, we have disclosed that we're in that we have up to six locations, which are in various stages of due diligence and permitting.

So we're not talking about timing at this point, but we have disclosed that. And so there's multiple -- that's probably the highest number since we started disclosing it that we've had, but that may or may not be an indicator. And once again, the timing of all those are varied just based on.

Operator^ There are no further questions at this time.

Mr. McCleary, please go ahead.

Michael McCleary^ Okay. That wraps up our conference for today. We thank you all for your time. Have a great week.

Bye-bye.

Operator^ Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect.