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Q1 2025 Earnings

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CORPORATE SPEAKERS:

Michael McCleary
PriceSmart Inc.; Chief Financial Officer
Robert Price
PriceSmart Inc.; Interim Chief Executive Officer

PARTICIPANTS:

Jon Braatz
Kansas City Capital; Analyst
Hector Maya
Scotiabank; Analyst

PRESENTATION:

Operator: Good afternoon, everyone, and welcome to PriceSmart Inc.'s Earnings Release Conference Call for the First Quarter of Fiscal Year 2025, which ended on November 30, 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 one hour and is being recorded today, Friday, January 10, 2025. A digital replay will be available shortly following the conclusion of the call through January 17, 2025 by dialing (888) 660-6264 for domestic callers, or (646) 517-3975 for international callers, and entering replay access code 20154#.

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

Michael McCleary: Thank you, Operator, and welcome to PriceSmart Inc.'s earnings call for the first quarter of fiscal year 2025, which ended on November 30, 2024. We will be discussing the information that we provided in our earnings press release and our 10-Q, which were both released on January 8, 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.pricesmart.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 10, 2025. 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 Wednesday 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. It is my pleasure to join Michael in welcoming you to our first quarter FY 2025 investors call.

I want to begin by thanking our management team and our 12,000 PriceSmart employees for their continuing dedication to our business.

On behalf of our Board and stockholders, we are extremely grateful for your loyalty and contribution to our success. Michael will soon be providing his narrative for the first quarter, and we look forward to answering your questions at the conclusion of Michael's remarks.

Now I am pleased to ask Michael to continue with his presentation.

Michael McCleary: Thank you, Robert. Net merchandise sales for the first quarter were $1.22 billion, and total revenue was $1.26 billion. Net merchandise sales increased by 7.8% or 8.2% in constant currency, and comparable net merchandise sales increased by 5.7% or 6.1% in constant currency.

By segment, in Central America, where we had 30 clubs at quarter end, net merchandise sales increased 8.4%, or 7.0% in constant currency, with a 5.1% increase in comparable net merchandise sales, or 3.7% 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, which is not yet included in the comparable net merchandise sales calculation. Our Central America segment contributed approximately 310 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the first quarter.

In the Caribbean, where we had 14 clubs at quarter end, net merchandise sales increased 5.4%, or 7.9% in constant currency, and comparable net merchandise sales increased 5.2%, or 7.6% in constant currency. All of our markets in this segment had positive comparable net merchandise sales growth except for a slight decrease in Barbados. Our Caribbean region contributed approximately 150 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the first quarter.

In Colombia, where we had 10 clubs opened at the end of our first quarter, net merchandise sales increased 10.7% or 16.1% in constant currency, and comparable net merchandise sales increased 10.3%, or 16.2% in constant currency. Colombia contributed approximately 110 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 first quarter sales to the same period in the prior year, our foods category grew approximately 1.8%, our non-foods category increased approximately 10.2%, our food services and bakery categories increased approximately 7.5%, and our health services including optical, audiology and pharmacy increased approximately 20.6%.

Membership accounts grew 4.8% versus the prior year to over 1.9 million accounts, with a 12-month renewal rate of 87.8% as of November 30, 2024. Platinum accounts as of the end of our first quarter represented 14.0% of our total membership base, an increase from 9.3% in the prior year first 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 fiscal 2024 and the first quarter of fiscal 2025.

Total gross margin for the first quarter of fiscal year 2025, as a percentage of net merchandise sales, decreased 20 basis points to 15.9% versus 16.1% in the first quarter of fiscal year 2024.

During the first quarter, our average sales ticket grew by 2.4% and transactions grew 5.3% versus the same prior year period. The average price per item remained flat year-over-year, while average items per basket increased approximately 2.4% compared to the same period of the prior year.

Regarding SG&A expenses, our warehouse club operating expenses for the quarter as a percentage of revenue were the same as last year. The overall 30 basis point increase of SG&A as a percentage of revenue is as a result of U.S. central overhead, primarily related to technology investments. We budgeted these expense increases as necessary investments for the future growth of the business.

Operating income for the first quarter of fiscal year 2025 was similar to the prior year coming in at $58.3 million.

In the first quarter of fiscal year 2025, we recorded a $7.3 million net loss in total other expense, compared to a $2.1 million net loss in total other expense in the same period last year. The increase in total other expense was primarily due to an increase of $0.7 million in premiums to convert local currencies into U.S. dollars and an increase of $3.3 million of unrealized losses in value of U.S. dollar-denominated monetary assets and liabilities in several of our markets as well as lower interest income of $0.6 million.

Our effective tax rate for the first quarter of fiscal year 2025 was 26.5% ,versus 32.3% a year ago. The decrease in the effective tax rate is primarily related to tax optimization initiatives that were undertaken at the end of fiscal year 2024. We anticipate that these tax optimization initiatives will continue to result in lower overall tax rates for the balance of fiscal 2025. Recognizing the many variables that can impact tax rates, we anticipate that our annualized effective tax rate for the full fiscal year will be in the range of 27% to 29%.

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Net income for the first quarter of fiscal year 2025 was $37.4 million, or $1.21 per diluted share, compared to $38 million, or $1.24 per diluted share, in the first quarter of fiscal year 2024. Adjusted EBITDA for the first quarter of fiscal year 2025 was $79.1 million compared to $77.8 million in the same period last year.

We ended the quarter with cash and cash equivalents and restricted cash totaling $136.5 million, plus approximately $101.3 million of short-term investments.

From a cash flow perspective, net cash provided by operating activities totaled $38.5 million for the first quarter of fiscal year 2025, compared to $41.1 million for the same prior year period. Shifts in working capital generated from changes in our merchandise inventory and accounts payable positions contributed $13.3 million to the overall decrease. This was partially offset by a net positive change in our other operating assets and liabilities, which contributed $9.1 million.

Net cash used in investing activities decreased by $0.8 million for the first quarter of fiscal year 2025, compared to the prior year, primarily due to a $5.1 million decrease in property and equipment expenditures. This was partially offset by a $4.3 million net decrease in proceeds from settlements and purchases of short-term investments.

Net cash used in financing activities during the first quarter of fiscal year 2025 decreased by $56.9 million, primarily from fewer repurchases of treasury stock during the first three months of fiscal year 2025, partially offset by an increase in repayments of long-term bank borrowings compared to the same period a year ago.

When reviewing our cash balances, it is important to note that at the end of our first quarter, we had $81.0 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.

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 six-acre property and is anticipated to open in the spring of 2025. Additionally, we finalized execution of the land lease this quarter and plan to build 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 will be built on a four-acre property and is anticipated to open in the summer of 2025. Once these two new clubs are open, we will operate 56 warehouse clubs in total.

In the first three months of fiscal year 2025, we completed the remodeling of our high-volume clubs in San Pedro Sula, Honduras and Santiago, Dominican Republic. Additionally, in December, we completed expansions of our clubs in San Salvador, El Salvador and Portmore, Jamaica.

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 DC's 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-stock positions. 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 clubs.

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, either operated by PriceSmart or through the use of third-party logistics providers.

Turning now to our efforts to increase the value of membership.

As we've highlighted in previous calls, our private label Member's 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's Selection brand across all markets. During the first three months of fiscal year 2025, our private-label sales represented 27.7% of our total merchandise sales. That's up 50 basis points from 27.2% in the comparable period of fiscal year 2024.

We also continue to focus on health services. We currently have 53 locations with optical centers, as well as pharmacy centers in all eight of our warehouse clubs in Costa Rica, five warehouse clubs in Panama and four in Guatemala. By the end of fiscal 2025, we expect to have pharmacies in substantially all clubs in Costa Rica, Panama, Guatemala and El Salvador. We also currently have 30 audiology centers open.

Our optical program provides four free eye exams with every membership, and we performed over 35,000 eye exams during the quarter. Optical services are also an important component of our contributions to the communities in which our clubs are located through philanthropical activities.

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. We currently utilize PriceSmart.com, our app and other third-party last mile delivery services to drive online sales. During the first quarter, total net merchandise sales through digital channels increased 21.1% versus the same period in the prior year and represented a record high of $69.4 million or 5.7% of total net merchandise sales. Total orders placed directly on PriceSmart.com and our app increased 12.8% and the average transaction value increased 5.6% versus the same prior year period.

As of the end of the first quarter, approximately 65.2% of our Members had created an online profile with PriceSmart.com or our app and 28.0% of our 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 RELEX, 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 year 2025. As a result of this implementation, we anticipate improved sales and efficiencies due to enhanced in-stock positions, diminished spoilage and streamlined inventory flow. Additionally, in the first quarter of fiscal year 2025, we successfully implemented our new point-of-sale system, Elera, a Toshiba product, in one of our countries. We will continue to roll out this new application throughout the next few fiscal years.

Looking forward a little into our current second quarter, comparable net merchandise sales for the four weeks ended December 29, 2024, were up 6.6% or 7.8%, in constant currency versus December last year.

In closing, we are proud of the positive impact our business has had on our employees and the communities in which we do business. We've made solid progress in our implementation of several important technology initiatives particularly in key areas such as procurement, logistics and other front-end back office processes that we expect will make us more efficient operationally and more agile in our merchandising process. 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.

Operator: (Operator Instructions) Your first question comes from the line of Jon Braatz from Kansas City Capital.

Jon Braatz: Michael, can we talk a little bit about your currency conversion cost.

I think in the quarter, it was $3.4 million, I think, per the 10-Q. And it looks like during the quarter, your Trinidad balances went up $10 million. Your Honduras balances went down about $11 million. Does that suggest that you only converted Honduras currencies in the quarter?

I know it's probably a lot more complex than that, but can you give me an idea?

Michael McCleary: No. Good question, John. We converted both during the quarter. We just generated more local currency in Trinidad than we were able to convert.

Jon Braatz: Okay. Does that $3.4 million in currency costs? I'm trying to get a sense of how costly it is to convert, is there sort of a percentage cost percentage if you want to call out that to convert the currencies?

Michael McCleary: As we've talked about before, we made some estimates on an annual basis of what we expect the cost to be and allocations within our margin structure so that we're pricing for that. And those averages are kind of what we target throughout the year. And I think I mentioned on a couple of calls, we don't always have access to the dollars that we'd like to during the quarter.

So disconnect on timing like happened this quarter.

Jon Braatz: Okay. But so the strategy is to recoup those costs through a little bit higher margin.

Michael McCleary: Correct.

Jon Braatz: Okay. And then secondly, on -- it's not a big part of the business.

I know you're -- you've sort of lost your -- that export business with the Philippines, and I know you're looking elsewhere to develop that business. Does that business -- that revenue in the absence of new business, does that actually go to 0 going forward?

Robert Price: Jon, I'll answer that question because we are -- no, the answer is no. In fact, even in the first quarter, we had revenue from exports. But what we've done in light of the fact that we no longer have the Philippines business.

We've set up a small division within our company that's focused exclusively on export sales. And we think that could be a good growth area for our business.

It's certainly not going to be at the level that our basic business is, but we have been approached and are working with a number of customers, particularly in countries where we don't already have PriceSmart in operations, and we have developed some agreements and made sales to third parties in some countries, and we're trying to build that business.

Jon Braatz: So was there indeed some Philippines revenue in the first quarter?

Robert Price: I think so because there's -- I think, a kind of a tailing off of our business in the Philippines, but there was still some left.

Jon Braatz: Okay. Okay. Very good. And last question. Your private label business, I think, was up what they say about 28%.

Where do you think that can go over the next couple of years.

What's your goal in securing more private label business?

Robert Price: That's a really good question. We haven't, per se, looked at it as a percent of our total sales, maybe we should.

I think one of the real values in our business is the value of that brand, the member selection brand that we've developed.

In fact, when we talk about export sales, what most of these distributors or small retailers want are the private label brands, very interesting that's where they're really focused.

And I think we've got a lot of opportunity to keep building that private label and going into more products. The only thing I wouldn't do is -- we shouldn't do is over -- well let's say, eliminate too many of the branded products because part of the attraction of PriceSmart in the markets we're in is the fact that our Members have access to North America, particularly North American brands that aren't readily available in the community.

But our Member’s Selection brand is really well thought of, and we've been very disciplined about keeping the quality high and also making sure that we're really giving good value.

I think there's a lot of potential there.

Operator: And your next question comes from the line of Hector Maya from Scotiabank.

Hector Maya: Just wanted to know first, if you could give us more details on the drivers for the increase of costs as a percentage of sales.

If you could please help us understand that a little bit further? And also what region was the one that contributed the most to this effect?

Michael McCleary: So you cut off right at the key point, was that a percentage of cost as a...

Robert Price: Why don't you repeat the question because I couldn't hear it. We can hear you, but it wasn't real clear as to what you said. So could you maybe repeat it?

Hector Maya:. If you could give more details, please, about the percentage of cost as percentage of sales, we saw an increase there.

I just wanted to understand the effect and what was the driver behind this? And what region was the one that contributed the most to this effect, please?

Michael McCleary: Okay. I thought that's what I heard. I just want to make sure when you're referring to costs, is it SG&A?

Hector Maya: COGS as percentage of sales.

Michael McCleary: COGS, cost of goods sold?

Hector Maya: Yes.

Michael McCleary: COGS. Okay.

Robert Price: Can you repeat, Michael? Just so I make sure I understand what's being asked because it's still not clear to me.

Michael McCleary: My understanding of the question, Hector, correct me if I got it right, was COGS, you're asking about why COGS as a percentage of sales went up.

Hector Maya: Yes, basically, yes.

Robert Price: Okay. But that is the question as to why it went up.

Michael McCleary: But what's throwing me is the margins are up.

So I think it's -- the COGS percentage of sales should be down, so margins are up -- sorry, you're right.

Robert Price: No. The margin 0.2%.

Michael McCleary: I was thinking Q4 to Q1, yes.

Robert Price: The question could be asked either way. Be why is COGS up or why are margins down, is that kind of what you're asking?

Hector Maya: Yes. Yes.

Robert Price: Okay. I've been studying that a little bit. It was a little bit of a -- we didn't -- it's not a big difference. I guess, if you're talking year-to-year, right, 15.9% versus 15.7% year-to-year.

I think it was primarily in exports, if I remember right, I think on the local merchandise, we actually did as well as a year ago, but it was on exports.

And it could be that -- again, I don't necessarily have a total grasp of it, but it could be that on some of the areas where we were really more aggressive about trying to get sales, particularly in electronics and other big-ticket items, we might have lost a little margin in order to be more aggressive about getting the sales.

Michael McCleary: Yes. The reason I got confused about the question, Hector.

So if you look at Q4 to Q1, sequentially, we're up 20 basis points. Q1 to Q1, we're down 20 basis points.

So I think we mentioned on a couple of calls, ranges of 10 to 30 basis points in one particular quarter don't necessarily make a trend.

The other thing I'd call your attention to is, historically, Q1 margins have been a little bit higher than the full year.

So if you look at the full year last year, full year prior year compared to Q1.

Robert Price: But I would say the other factor might be this, and again, I haven't studied it totally, but if you notice in our sales increases, the largest increase, I believe, was in Colombia.

In Colombia, especially on the imports, what we call them exports from the U.S., because of the peso depreciating during the first quarter, we may have lost some margin in terms of adjusting to the -- our prices to the decrease in the peso. And that I think we increased in terms of local currency, close to 16% in sales in Colombia, right? Wasn't it something like that, Michael?

Michael McCleary: I think so.

Robert Price: And I noticed that our -- the import portion was down from a year ago quite a bit. So I think we might have gotten hurt on the currency situation.

Hector Maya: Got it.

I understand. That's very helpful. And also in terms of your investments in technology, you were also talking about the improved sales and efficiencies that you could expect by the end of the fiscal year of 2025, if you could also give us more details on the implementation behind that, please?

Robert Price: Make sure we understand your question again.

I want -- it's a little -- can you kind of be a little more specific about what your question is trying to determine?

Hector Maya: Yes. You were also mentioning in the report that you made from expenses on technology to achieve business optimization.

So just wanted to understand your goals and also in your prepared remarks, you were talking about your expected improved sales and efficiencies maybe end of the 2025 fiscal year.

So I wanted to understand more details about that.

Robert Price: Let me try to explain what's happening. I'm not sure that all of these efficiencies will play out in 2025.

I think that's probably not likely -- there are a couple of -- a number of things that in our business that have not -- I think we under-invested for years in technology in the back office -- and I'll start with the back office.

I think in the area of the support that we need for our buying team and for the distribution portion of our business, we've -- we are now in a catch-up phase, trying to get the resources to end up being less dependent on paper and give the buyers and our distribution people the tools they need to operate efficiently and that takes money.

I mean we have to spend the money now to get the benefits that will occur, hopefully over the years.

So that's one area that -- and I would say that's the area of technology in the back office is pretty much everywhere.

I think we haven't invested enough in accounting technology to create more of efficiencies there. And then the other thing that's I think is really significant in technology is the point-of-sale technology, which we're working with Toshiba under there, I guess it's called ELERA technology to try to get -- and to implement efficiencies that will allow us to be more productive at the registers and also service our Members better. And we're in the early stages of implementing this new technology in Trinidad. And hopefully, over the balance of the year, we'll be able to move that technology throughout the system.

So that's one piece of it.

The other thing that I think is really important is our online business because we still -- although it's -- it grew very well I think Michael reported about a 21% increase in online sales.

We still are not where we need to be in terms of the interface with our Members and the quality of the interface on the online business as well as some of the support areas that relate to maximizing online business. And that also is requiring more investment than what we had done in the past.

So I think this year, we're going to experience continuation of that impact on our overhead in the corporate side.

Now I wanted to point out, too, this is very important that at the club level, operating level of our warehouse clubs, we've actually, I think, in the first quarter had a lower percent operating cost at pretty close to being the same, maybe slightly better.

So we are doing better there.

And the other thing I want to really emphasize, it was in Michael's comments, but I think it's really important to point this out.

We're in a pretty aggressive mode in developing these regional distribution centers. And I think for me, in my own sense of where we're headed as a company, those distribution centers, particularly in our critical big markets have many dividends to be paid in terms of sales, efficiencies even to the extent of cost to build our buildings in these markets.

So there's a lot in the works, but it isn't going to all result this year in a bottom line impact this year.

I think we'll do okay. Our numbers look good, but I really feel more that this is something that we had to do that hopefully will be important for the future of the company.

Operator: Thank you. There are no further questions at this time. I will now hand the call back to Mr. Michael McCleary for any closing remarks.

Michael McCleary: Okay.

Well thank you, everybody, for joining our conference call today. we want to send our best wishes to anybody that has been impacted by the fires in Los Angeles, and we want to wish a happy New Year to all of you on the call. Thank you. Take care.

Operator: Thank you. And this concludes today's call. Thank you for participating. You may all disconnect.