

**S&P Global**  
Market Intelligence

**PriceSmart, Inc.** NasdaqGS:PSMT

*Earnings Call*

*Wednesday, January 10, 2024 5:00 PM GMT*

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# Call Participants

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## EXECUTIVES

**Michael L. McCleary**

*Executive VP, CFO & Principal  
Accounting Officer*

**Robert E. Price**

*Founder, Interim CEO & Chairman*

## ANALYSTS

**Héctor Manuel Maya López**

*Scotiabank Global Banking and  
Markets, Research Division*

**Jonathan Paul Braatz**

*Kansas City Capital Associates*

# Presentation

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## Operator

Good afternoon, everyone, and welcome to the PriceSmart, Inc. Earnings Release Conference Call for the First Quarter of Fiscal Year 2024, which ended on November 30, 2023. 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, Wednesday, January 10, 2024. A digital replay will be available following the conclusion of today's conference call through January 17, 2024, by dialing 1 (877) 674-7070 for domestic callers or 1 (416) 764-8692 for international callers and by entering the replay access code 833282 followed by the # key.

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 First Quarter of Fiscal Year 2024, which ended on November 30, 2023. 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 9, 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](http://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 facts 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, 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](http://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. I also want to express my sincere thanks and appreciation to our employees, both here in the United States and in the countries where we operate our business. Overall, I am very pleased with our sales and earnings results. I especially commend our operations and buying teams for their outstanding performance. I also want to highlight our December sales \$511 million, the highest sales month in our company's history.

These record sales were made possible by the coordinated efforts of our buyers, PriceSmart Club employees and our logistics team members. Finally, I would like to congratulate our long-time team member, Paul Kovalski, on his recent appointment as Executive Vice President and Chief Merchandising Officer of PriceSmart. Now Michael will continue with his presentation.

## Michael L. McCleary

*Executive VP, CFO & Principal Accounting Officer*

Thank you, Robert. We had a strong first quarter as both total revenues and net merchandise sales exceeded \$1.1 billion. Net merchandise sales increased by 10.7% or 6.8% in constant currency. And comparable net merchandise sales increased by 8% or 4.3% in constant currency.

By segment, in Central America, where we had 29 clubs at quarter end, net merchandise sales increased 11.3% or 6.4% in constant currency with a 9.1% increase in comparable net merchandise sales or 4.3% in constant currency. All of our markets in Central America had positive comparable net merchandise sales growth.

Our Central America segment contributed approximately 550 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the first quarter. This segment includes 2 new clubs following the opening of our third warehouse club in El Salvador in May 2023 and our sixth warehouse club in Guatemala in November 2023.

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 merchandise sales increased 6% or 8.2% in constant currency. Our Caribbean region contributed approximately 180 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the quarter.

In Colombia, we had 10 clubs open at the end of our first quarter, following the opening of our El Poblado Club in Medellin on September 1. Net merchandise sales in Colombia increased 19.3% or 4% in constant currency and comparable net merchandise sales increased 7.1% or decreased 7.2% in constant currency. Colombia contributed approximately 70 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 7%, our non-foods category increased approximately 9%, our food services and bakery categories increased approximately 7%, and our health services, including optical, audiology, and pharmacy, increased over 600%.

Membership accounts grew 3.8% versus the prior year to 1.82 million accounts with a 12-month renewal rate of 87.4% as of the end of our first quarter. Platinum membership accounts are 9.3% of our total membership base as of November 30, 2023, an increase from 7.9% as of November 30, 2022. Membership income for the first quarter was \$17.7 million, an increase of 11.7% over the same period last year.

In the first quarter of fiscal year 2024, we raised the annual membership fee for 2 cards by \$5 for all membership types in most markets. We expect these fee increases to also take place in most of the remaining countries on a staggered basis during the remainder of fiscal 2024.

Total gross margin from net merchandise sales increased \$15.9 million or approximately 9.6% versus the same quarter of the prior fiscal year, with a slight decrease in rate from 16.2% to 16.1%, primarily from the removal of our COVID premium and reduction of our FX premium.

During the quarter, our average sales ticket grew by 2.3% and transactions grew 8.2% versus the same prior year period. The average price per item increased approximately 4.5% year-over-year with average items per basket decreasing approximately 2.2% compared to the same period of the prior year. Total SG&A expense increased to 12.5% of total revenue for the first quarter of fiscal year 2024 compared to 12.3% for the first quarter of fiscal year 2023, primarily due to higher compensation and IT spend.

Operating income for the quarter increased 4.8% from the same period last year to \$58.2 million.

We recorded a \$2.1 million loss in total other expense net in the first quarter of fiscal year 2024 compared to a \$6.2 million net loss and total other expense net in the same period last year, primarily due to a decrease in other expense of \$2.4 million, driven by a decrease in unrealized foreign currency losses compared to the prior year period as well as higher interest income of \$1.7 million because of significantly more investment of surplus cash at higher yields.

Our effective tax rate for the first quarter of fiscal year 2024 came in lower than last year at 32.3% versus 33.3% a year ago, primarily attributable to fewer valuation allowances on deferred tax assets from foreign tax credits that are no longer deemed recoverable. On a go-forward basis, we estimate our annualized effective tax rate will be approximately 32%.

Net income increased 15.5% for the first quarter of fiscal 2024, coming in at \$38 million or \$1.24 per diluted share compared to \$32.9 million or \$1.05 per diluted share in the comparable prior year period. Adjusted net income, which was the same as net income for the first quarter of fiscal year 2024 increased 8.6% to \$38 million or an adjusted \$1.24 per diluted share compared to adjusted net income of \$35 million or \$1.12 per diluted share in the comparable prior year period.

Adjusted EBITDA for the first quarter of fiscal year 2024 was \$77.8 million compared to \$75.2 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 \$186.9 million. From a cash flow perspective, net cash provided by operating activities totaled \$41.1 million for the first quarter of fiscal year 2024 compared to \$30.5 million for the same prior year period.

Shifts in working capital generated from changes in our merchandise inventory and accounts payable positions for the first quarter of fiscal year 2024 contributed \$16 million of cash flow compared to the same prior year period. Average inventory per club decreased by approximately \$200,000 or 2% and inventory days on hand decreased by approximately 4 days or 7% for the first quarter of fiscal year 2024 versus the same period in 2023. The primary year-over-year driver of the decrease of inventory per club is from selling through the remaining portion of overstocked soft line items carried over from fiscal year 2022 combined with efforts by our team to improve inventory management as well.

Net cash used in investing activity increased by \$8.6 million for the first quarter of fiscal year 2024 compared to the prior year, primarily as a result of an increase in additions to property and equipment.

Net cash used in financing activities during the first quarter of fiscal 2024 increased by \$89.2 million primarily from the finalization of our stock buyback program during the quarter 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 the end of our first quarter, we had approximately \$51.8 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 are thrilled to have opened our Escuintla club in Guatemala on November 30, 2023. The Escuintla club is our sixth club in Guatemala and our 53rd warehouse club overall. We are currently finalizing construction of our warehouse club in Santa Ana, El Salvador, which we plan to open in February 2024. This new club will be our fourth in El Salvador. Once this club is open, we'll be operating 54 warehouse clubs and we are actively exploring additional locations as well. 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 and Tobago as well as expanding 1 of our clubs in San Salvador, El Salvador.

We also entered into a promissory purchase agreement to acquire our club in Via Brasil, Panama, from our current landlord. Our Via Brasil club is the club with the highest sales volume in our Panama market, and we are very happy that through this acquisition, we can lock in long-term certainty as to our access to and development of this key location in Panama. We expect to complete this purchase during our second quarter.

Finally, we continue to actively seek ways to improve our distribution infrastructure to better serve our members, lower the net landed cost of our merchandise and enhance operating efficiencies. In October 2023, we relocated our distribution center in Panama more than doubling its size to approximately 120,000 square feet. Building on the success of our Costa Rica distribution center, we believe this new facility will allow us to drive more efficiencies within our distribution network by centralizing receiving the

process from local Panamanian vendors as well as for imported merchandise into this market. We are actively reviewing similar opportunities into other markets.

Turning now to membership value. As we've highlighted in previous calls, our private label members selection brand continues to be our high-quality, good value alternative in these inflationary times. During the first quarter of fiscal year 2024, our private label sales represented 27.2% of our total merchandise sales. That's up 130 basis points from 25.9% in the comparable period of fiscal year 2023. In the first quarter of 2024, we launched nearly 100 new members' selection items.

We also continue to focus on health services. We currently have 51 locations with optical centers and expect to have 53 open by the end of our fiscal year. Our optical program provides 4 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. In partnership with Price Philanthropies' Aprender y Crecer vision program, PriceSmart optometrists perform eye exams and Price Philanthropies purchases the glasses from our optical centers. We provide both the exams and glasses for children and their families free of charge. We have provided almost 61,000 screenings, 14,000 exams and 12,000 eyeglasses to date through this program.

We currently have pharmacy centers in all 8 of our warehouse clubs in Costa Rica and 3 warehouse clubs in Panama. We expect to open 2 more pharmacies in Panama and 5 in Guatemala during fiscal year 2024. With respect to audiology centers, we currently have 25 centers open. We expect to open 3 additional centers in Panama and 1 center in each of Jamaica and Trinidad in fiscal year 2024.

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 first quarter, total e-commerce sales represented a record 5% of total net merchandise sales. Total e-commerce orders increased 29.4%, and the average transaction value increased 1.1% versus the prior year period. As of the end of our first quarter, approximately 61.5% of our members have created an online profile with pricesmart.com or via our app and 15.9% of our total membership base have 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.

Switching gears slightly. Environmental and social responsibility continues to be an important component of how we approach our business. 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. On average, around 15,000 pounds of recycled material is being collected monthly in each location. We are on track to open 4 recycling centers in the Dominican Republic and 1 more in Guatemala by the end of the fiscal year 2024. You can find more information about PriceSmart's philanthropic and corporate social responsibility efforts on pricesmart.org.

Looking forward a little into our current second quarter, our comparable net merchandise sales for the 4 weeks ended December 31, 2023, were up 12.1% or 8.1% in constant currency with both Costa Rica and Colombia contributing positively from a foreign currency exchange rate perspective. Our nonfoods merchandise sales did extremely well in December, in large part due to a newly designed flex area in many of our clubs. These flex areas prominently display merchandise in high-traffic areas of the club, such as near the entry and along the main aisle.

This gives a fresher look to our members and keeps the excitement going in our clubs. In closing, in fiscal year 2024, we are focused on making shopping easier, more efficient and more rewarding for our members. We are doing this by filling our clubs with the right merchandise geared to our members' wants and needs. We are proud of another successful quarter, a great start to our second quarter and our team who makes all this possible. Thank you for joining our call today. I will now turn the call over to the operator to take your questions. Operator?

## Question and Answer

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### Operator

[Operator Instructions] Your first question comes from Héctor Maya from Scotiabank.

### Héctor Manuel Maya López

*Scotiabank Global Banking and Markets, Research Division*

We are seeing that accounts payables seem to have increased by 4 days this quarter -- could you -- could we expect this to be a structural thing? And what was behind the move? Or did something change when negotiating with suppliers here?

### Michael L. McCleary

*Executive VP, CFO & Principal Accounting Officer*

Hector, yes, good to talk to you. Yes, I would say nothing in particular has changed. I mean there's been a kind of -- we measure kind of our AP to inventory ratios, kind of how we look at it overall, obviously, we monitor terms too. But I wouldn't say anything specific has happened there. It could be just the timing of the flow of merchandise. But yes, we're -- overall, we're managing kind of our AP inventory ratio as a whole. Hence, we have definitely seen improvements over the last year, significantly higher during COVID when we asked for extended terms, we unwound a lot of that.

And I think it's probably just more of a reflection of where our inventory is in the pipeline, which is pretty long, as you know.

### Héctor Manuel Maya López

*Scotiabank Global Banking and Markets, Research Division*

Got it. Understand. And could you also please walk us through your views on how the Colombian market could evolve during the year? I mean I wanted to know if the dynamic during December and how it was, kind of understanding there was a trend change after the decline in comparable sales in constant currency seen during the quarter.

### Michael L. McCleary

*Executive VP, CFO & Principal Accounting Officer*

Well, on the sales, in particular, you noticed that constant currency comparable net merchandise sales were slightly negative -- were negative during the quarter, but we do like to point out that we opened up our second club in Medellin on September 1. So that's a contributing factor. In December, we gave the comp sales in total. But I mean, all markets were positive comp sales in both U.S. dollars and constant currency for December. So I don't know if that's a trend for the rest of the year or not. But certainly bodes good. Robert, if you want to add anything about Colombia -- no. Okay.

### Héctor Manuel Maya López

*Scotiabank Global Banking and Markets, Research Division*

Understand. And the last one, if you could share with us also if your view on further buybacks for this year has changed or no further movements in this are on the table?

### Robert E. Price

*Founder, Interim CEO & Chairman*

We'll be discussing all of those things at our Board meeting that's coming up now. So I think it's premature.

### Operator

[Operator Instructions]

Your next question is from Jon Braatz from Kansas City Capital.

**Jonathan Paul Braatz**

*Kansas City Capital Associates*

Mike, the -- sequentially, your gross margin improved from the third -- from the fourth quarter. And in the 10-Q, you mentioned that food and bakery margins were higher. Can you talk a little bit about the sequential improvement in margins in the first quarter?

**Michael L. McCleary**

*Executive VP, CFO & Principal Accounting Officer*

Yes. I mean I think we kind of have a similar conversation every quarter. I mean there's a lot of moving pieces in margin, Jon, as you know, at any point in time, different dynamics in different markets going on. And we ended up the year a little bit lower. Last year, lower quarter in particular in Q4, and then it spiked back up a little bit in Q1. So something that we continue to monitor actively. And our business model is driven by margin dollars and delivering the best value to our members. So we'll just continue to monitor that as we go forward.

**Jonathan Paul Braatz**

*Kansas City Capital Associates*

Okay. Has -- have you made any pricing changes within Colombia? I know it's been a tough market there, given the exchange rates and so on. And you were -- you had taken some pricing actions. Has -- are those prices -- have those prices changed at all? Or there is continuation of what you've been -- what you've seen?

**Robert E. Price**

*Founder, Interim CEO & Chairman*

Jon, I would say that it's pretty much what we -- it's consistent. We haven't really done much different than what we've been doing in the last 6 months in terms of pricing. And I think that 1 of the things in Colombia, just to be aware of with the elections that happened, they had -- I think it really helped the country a lot in terms of outlook and everything. So I'm sure our sales have been good, and I'm sure everybody in Colombia is probably getting pretty good sales right now. But as far as margins, we're just hanging in there and trying to be as competitive as we can be.

**Jonathan Paul Braatz**

*Kansas City Capital Associates*

Okay. Okay. The new Medellin store just opened up any commentary on the performance of that store. And maybe also what impact it had on sort of cannibalization of the -- of sales from your other stores and the impact on the Colombian comps in the quarter?

**Robert E. Price**

*Founder, Interim CEO & Chairman*

I think overall, the new one is doing pretty much what we thought it would do in sales. The one that was already there, which we call Las Americas has actually performed sales wise better than we thought.

**Jonathan Paul Braatz**

*Kansas City Capital Associates*

Okay. Okay. And lastly, how far along are you in terms of the membership price increase? I know you're going to stagger it through the year, but in the first quarter, are you -- have you 25% complete now?

**Michael L. McCleary**

*Executive VP, CFO & Principal Accounting Officer*

Yes. So yes, kind of we looked at this market by market because the dynamics of what's going on in different markets with some of the civil unrest we've had in some of our countries and different factors

that have come along during the year. So we got -- I think we got more than half from a cash perspective, not from a P&L perspective, obviously, from a cash perspective, so we're charging -- more than half of our clubs were charging the higher fee by the end of the quarter. And most of the rest of the other countries are scheduled to be staggered in during Q2.

**Jonathan Paul Braatz**

*Kansas City Capital Associates*

Okay. And Michael, just to be sure that I heard correctly, your December comps were 12.1% and 8.1% constant currency.

**Michael L. McCleary**

*Executive VP, CFO & Principal Accounting Officer*

Yes, that's correct.

**Operator**

And there are no further questions at this time. I will turn the call back over to Michael for closing remarks.

**Michael L. McCleary**

*Executive VP, CFO & Principal Accounting Officer*

Okay. Thank you, everybody. That wraps up our conference call for today. We hope you have a great day. Take care.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining, and you may now disconnect your lines. Thank you.

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