

10 - 31 - 2024

PriceSmart, Inc.

Q4 2024 Earnings Release Conference Call

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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 Fourth Quarter of Fiscal Year 2024, which ended on August 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 one hour and is being recorded today, Thursday, October 31, 2024. A digital replay will be available following the conclusion of today's conference call through November 7, 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 28615#.

For opening remarks, I would now 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 fourth quarter of fiscal year 2024, which ended on August 31, 2024. We will be discussing the information that we provided in our earnings press release and our 10-K, which were both released yesterday afternoon, October 30, 2024. Also in these remarks we refer to non-GAAP financial measures.

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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-K. These documents are available on our Investor Relations website at investors.pricemart.com, where you can also sign up for email 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, October 31, 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 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 obligations 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. As we report on fiscal year 2024 financial results, I want to thank our nearly 12,000 employees working in 13 countries for their outstanding job performance.

Our employees' dedication and loyalty demonstrated by our Company's exceptionally low employee turnover is the reason PriceSmart achieved such positive results in fiscal year 2024. The warehouse club format continues to be a dynamic factor in the merchandising business characterized by constant renewal and innovation.

It has been nearly 50 years since Price Club opened the first warehouse club on Morena Boulevard in San Diego. Although the basics do not change, we understand that we must continue to adapt to a changing environment and to challenge ourselves to new ways of doing business.

Our future success depends on the right combination of adherence to what has got us here and a commitment to continual improvement. Now I am pleased to ask Michael to continue with his presentation.

Michael McCleary: Thank you, Robert. We had a strong fourth quarter as net merchandise sales reached almost \$1.2 billion, and total revenue was over \$1.2 billion. Net merchandise

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sales increased by 9.5% or 9.3% in constant currency and comparable net merchandise sales increased by 6.2% or 6.0% in constant currency.

For the fiscal year ended August 31, 2024, total net merchandise sales reached almost \$4.8 billion and total revenues were over \$4.9 billion. Net merchandise sales increased by 11.2%, or 8.6% in constant currency and comparable net merchandise sales increased by 7.7%, or 5.2% in constant currency, for the 12-month and 52-week periods, respectively.

By segment, in Central America, where we had 30 clubs at quarter end, net merchandise sales increased 9.1% or 7.9% in constant currency, with a 6.1% 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. Our Central America segment contributed approximately 370 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the 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 6.9%, or 9.4% in constant currency and comparable net merchandise sales increased 6.7% or 9.2% in constant currency. All of our markets in this segment had positive comparable net merchandise sales growth. Our Caribbean region contributed approximately 190 basis points of positive impact to the growth in total consolidated comparable net merchandise sales for the quarter.

In Colombia, where we had 10 clubs open at the end of our fourth quarter, net merchandise sales increased 18.7% or 16.8%, in constant currency and comparable net merchandise sales increased 5.4% and or 3.8% in constant currency. Colombia contributed approximately 60 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 fourth quarter sales to the same period in the prior year, our foods category grew approximately 1%, our non-foods category increased approximately 19%, our food services and bakery categories increased approximately 17% and our health services including optical, audiology and pharmacy increased approximately 36%.

Membership accounts grew 4.7% versus the prior year to almost 1.9 million accounts. Platinum membership accounts are 12.3% of our total membership base as of August 31, 2024, an increase from 8.9% in the prior year due to an increased focus on this important segment of our Members including through platinum promotional campaigns.

Our membership income was \$19.7 million, an increase of 14.1% over the same period last year due to the increased platinum penetration and a \$5 increase in the annual membership fee

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for all membership types staggered throughout the year in all but one of our markets. At year-end, we continued with a strong 12-month renewal rate of 87.9%.

Total gross margin for the fourth quarter of fiscal year 2024, as a percentage of net merchandise sales increased 10 basis points to 15.7%, versus 15.6% in the fourth quarter of fiscal year 2023. The 10 basis point increase was primarily due to general margin improvement across most of our sales categories. In total dollars, total gross margin increased \$17.5 million or approximately 10.3% versus the same quarter of the prior fiscal year.

Total revenue margins increased 20 basis points to 17.3% of total revenue when compared to the same period last year, primarily due to the increase in total gross margin as a percent of net merchandise sales and an increase to other revenues due to an increase in interest earned on our co-branded credit cards.

During the quarter, our average sales ticket grew by 2.4% and transactions grew 6.9% versus the same period in the prior year. For the 12-month period, our average ticket grew by 2.4% and transactions grew 8.6% versus the same prior year period. The average price per item increased approximately 3.1% year-over-year, while average items per basket decreased approximately 0.7%, compared to the same period of the prior year.

Total SG&A expenses decreased to 13.3% of total revenues for the fourth quarter of fiscal year 2024, compared to 14.2% for the fourth quarter of fiscal year 2023, primarily due to two significant expenses in the fourth quarter of fiscal year 2023. As you may recall these 2023 charges related to a \$9.2 million settlement of a minimum tax dispute and a \$5.7 million impairment charge and related closure costs primarily for the write-down of assets of our Trinidad sustainable packaging plan.

General and administrative expenses increased to 3.4% of total revenues for the fourth quarter of fiscal year 2024, compared to 3.1% for the fourth quarter of fiscal year 2023. The 30 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 53.1% from the same period last year to \$49.2 million. Operating income for the fiscal year increased 19.7% from the same period last year to \$22.9 million.

In the fourth quarter of fiscal year 2024, we recorded a \$7.4 million net loss in total other expense, compared to \$1.5 million net loss and total other expense in the same period last year. The increased net loss and total other expense was primarily due to an increase in other expenses of \$4.2 million, which was primarily driven by an increase in foreign currency transaction losses due to premiums to convert local currencies into U.S. dollars and unrealized

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losses in value of U.S. dollar deposits due to appreciation of the Costa Rica colón, as well as a decrease of \$1.2 million in interest income, due to lower cash balances.

Our effective tax rate for the fourth quarter of fiscal year 2024 came in at 30.4% versus 49.9% a year ago. The decrease in the effective tax rate is primarily attributable to the non-recurrence of the comparably unfavorable impacts in the prior year of 11.6% due to the AMT settlement and 5.4% from asset impairment and related closure costs.

For fiscal year 2024, the effective tax rate was 31.1% compared to 35.4% for the prior year period. The decrease in the effective tax rate is primarily driven by the non-recurrence of the comparably unfavorable impact in the prior year of write-offs of VAT receivables, Aeropost write-offs and asset impairment and related closure costs of 2.2% and a 1.8% unfavorable impact due to the AMT settlement.

Looking forward, following the implementation of certain tax optimization initiatives, we expect our effective tax rate to decrease to between 27% and 29% and in fiscal year 2025.

Net income for the fourth quarter of fiscal year 2024 was \$29.1 million or \$0.94 per diluted share compared to \$15.4 million, or \$0.49 per diluted share, in the fourth quarter of fiscal year 2023. Net income for fiscal year 2024 was \$138.9 million or \$4.57 per diluted share, compared to \$109.2 million or \$3.50 per diluted share, in the comparable prior year period.

Our earnings per share for the fourth quarter and full year of fiscal 2023 are inclusive of a negative impact of \$0.30 per diluted share for costs related to the reserve for the AMT settlement and \$0.18 per diluted share of asset impairment and closure costs. Adjusted net income for the fourth quarter of fiscal 2024 was \$29.1 million, or an adjusted \$0.94 per diluted share, compared to adjusted net income of \$20.4 million, or an adjusted \$0.65 per diluted share, in the comparable prior year period.

Adjusted EBITDA for the fourth quarter of fiscal year 2024 was \$70.7 million compared to \$57.2 million in the same period last year. Adjusted net income for fiscal year 2024 was \$138.9 million, or an adjusted \$4.57 per diluted share, compared to adjusted net income of \$126.5 million, or adjusted \$4.06 per diluted share in the comparable prior year period. Adjusted EBITDA for fiscal year 2024 was \$303.6 million compared to \$275.7 million in the same prior year period.

Moving on to our strong balance sheet, we ended the quarter with cash, cash equivalents and restricted cash totaling \$136.3 million in addition to approximately \$100.2 million of short-term investments.

From a cash flow perspective, net cash provided by operating activities totaled \$207.6 million for fiscal year 2024 compared to \$257.3 million for the same prior year period.

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Shifts in working capital generated from changes in our merchandise inventory and accounts payable positions contributed \$58.0 million to the overall decrease along with an increase in various other operating assets, net of changes in liabilities. Average inventory per club increased by approximately \$550,000 or 5.9% and inventory days on hand increased by approximately two days or 4.5% for the fourth quarter of fiscal year 2024 and 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 \$46.6 million for fiscal year 2024 compared to the prior year, primarily due to a \$71.4 million net increase in proceeds from settlements of short-term investments. This was partially offset by a \$26.0 million increase in property and equipment expenditures to support growth of our real estate footprint, compared to the same period a year ago. We opened three additional clubs during fiscal year 2024.

Net cash used in financing activities during fiscal 2024 increased by \$109.0 million, primarily from the result of the share repurchase program we completed during the first quarter, a special \$1.00 dividend payment in April 2024, and lower proceeds, net of repayments, 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 August 31, 2024, we had \$82.5 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.

Additionally, we expect to formalize a land lease this quarter and 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 4-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.

Additionally, we are currently remodeling several of our high-volume clubs, which were in San Pedro Sula, Honduras and Santiago, Dominican Republic; as well as expanding our clubs in San Salvador, El Salvador and Portmore, Jamaica.

In the fourth quarter of fiscal year 2024, we completed the remodel of our warehouse club in Port of Spain, Trinidad and Tobago and the expansion of our warehouse club in Liberia, Costa Rica.

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Finally, we continue to seek ways to improve our distribution infrastructure to better serve our Members. 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. We expect to reduce lending cost and lead times via direct shipments from Asia to our local markets while also improving our working capital.

In addition to our regional distribution center in Costa Rica, we have a PriceSmart-operated distribution center in Panama for dry merchandise, which we are currently in the process of expanding to include cold merchandise.

We are also in various stages of development and implementation of PriceSmart operated distribution centers in markets such as Guatemala, Trinidad and the Dominican Republic.

Turning now to membership value.

As we've highlighted in previous calls, our Private Label Members' 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 fiscal year 2024, our private-label sales represented 27.6% of our total merchandise sales. That's up 130 basis points from 26.3% 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 eight of our warehouse clubs in Costa Rica, five warehouse clubs in Panama and one in Guatemala. By the end of fiscal 2025, we expect to have pharmacies in substantially all clubs in Costa Rica, Panama and Guatemala. We also currently have 29 audiology centers open.

Our optical program provides four free eye exams with every membership, and we performed almost 17,000 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 charity provides free lenses and frames.

A PriceSmart membership provides access to high-quality products at low prices and complementary services, all under one roof. Memberships are for personal use of the main and secondary cardholders and are not meant to be shared. We are working towards ensuring that our Members are not sharing their memberships with non-Members.

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Our third growth driver is providing omni-channel 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 PriceDmart.com, our app and other third-party last mile delivery services to drive online sales. During the fourth quarter, total net merchandise sales through digital channels increased 21.0% versus the same period in the prior year and represented \$65.1 million or 5.5% of total net merchandise sales. Total orders placed directly on PriceSmart.com and our app increased 19.1% and the average transaction value increased 0.9% versus the prior year period.

During fiscal year 2024, we completed a country-by-country rollout of our new PriceSmart.com website, as well as mobile applications on both Android and iOS devices, to complement our in-club shopping. These new platforms 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 August 31, 2024, approximately 61.3% of our Members had created an online profile with PriceSmart.com and 28.5% 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 omni-channel experience and additional value to our Members.

We are also continually improving the digital experience for our employees by finding ways to deploy technology that improves efficiency. One example of these efforts is RELEX, which will modernize our ordinary and inventory management. We started this project in 2023 and expect it to be completed by the end of fiscal 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 began implementation of a new point-of-sale system, Elera, a Toshiba product, in one of our countries.

Shifting now to our ESR activities.

During the year, 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 seven recycling centers open, with two in El Salvador, three in Honduras and two in Guatemala. Each location collects an average of 30,000 pounds of recycled material monthly. with the Tegucigalpa, Honduras location collecting around 50,000 pounds per month. Looking ahead, we

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plan to expand this successful program by opening four additional recycling centers in the Dominican Republic during fiscal year 2025.

In response to Hurricane Beryl in the fourth quarter of fiscal year 2024, PriceSmart and the PriceSmart Foundation, swiftly mobilized to support affected communities in Barbados and Jamaica. We collected 57 kilos of food and 551 kilos of non-food items in the U.S. alongside 91 kilos of food and 30 kilos of essential goods in Jamaica. Additionally, the PriceSmart Foundation donated \$15,000 to Global Empowerment Mission for the purchase of generators and repair materials, and \$10,000 to Young Women/Men of Purpose, a Jamaican nonprofit, for aid packages. In Barbados, we gathered 210 kilos of food to support those in need.

You can find more information about PriceSmart's philanthropic and corporate social responsibility efforts on [PriceSmart.org](https://www.PricSmart.org).

We believe that all of our efforts to enhance our membership value and our community efforts have also resonated with our employees, as we are excited to announce that we were ranked in the top five retailers to be employed by in Guatemala, Honduras and El Salvador by Tecoloco. Tecoloco is an operator of a recruitment website in Central America.

Looking forward a little into our current first quarter, our comparable net merchandise sales for the eight weeks ended October 27, 2024, were up 5.6% in U.S. dollars and 5.7% in constant currency.

In closing, it was a great result for our fourth quarter and fiscal year. We are proud to continue seeking to make shopping easier, more efficient and more rewarding for our Members. We are excited about the many initiatives we have underway, especially on the technology front, to make our procurement, logistics and other front and back-office processes more efficient and are looking forward to an exciting fiscal year 2025.

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. Thank you.

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

Jon Braatz: Michael, could you talk a little bit more about -- I think you referenced the tax optimization program that you're looking at for 2025 and a lower tax rate. What's behind that?

Michael McCleary: John, yes, I mean as you know kind of the basis of our business model is to always be looking to reduce costs and deliver as much of that benefit on to the Members we can.

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So as our model evolves, we continue to adapt to changes in, for instance, the investment in technology and how we do that and how we ensure we're sharing the cost of that with the operating subsidiaries and as a result of those efforts together working with our tax advisers.

We feel that we can reduce our taxes fairly significantly in this coming year.

Robert Price: Let me add something to that. So we knew this question would come up, so it's not a surprise.

And Michael and I talked about how to properly respond. First of all, we think we've come up with something that's going to be much better in terms of tax planning than what we had.

But one of the things that I think is important to be aware of, and I don't -- I assume this is disclosed. The nature of our business is that we do generate a substantial amount of tax -- usable tax credits from our countries, and we have not been as thoughtful or as creative in how to use the income from the United States, and there is a lot of income that we get in the United States Corporation to offset or to take advantage of those tax credits. And so part of what we've come up with is a better approach to using these tax credits against U.S. profits, which effectively saves us taxes.

And in fact, we're recapturing a portion of taxes.

So I guess you could say, well why didn't we do this before, and we should have probably -- but the nature of -- you're constantly thinking about your business and how to improve it. And I think this is something that we feel can be very beneficial to our business and continue to improve our sales by having lower prices and also our profitability.

Jon Braatz: Okay. So would it be fair to say, and I know this is part of your strategy, would it be fair to say that the benefits that you get from these tax savings will not necessarily flow to the bottom line because you're going to invest those tax savings into lower prices.

Robert Price: That was the second question we knew you'd ask. So I think our answer is that we will take some and leave some.

Jon Braatz: All right. Do you know my third question?

Robert Price: Now you're putting me on the spot.

Jon Braatz: The other question I have is, I noticed in the 10-K that -- and it's not a big deal, but your export business to the Philippines has been discontinued and there's some export business, I think, to the Bahamas or something like that. And I guess my question is what happened to the Philippines business? And will new business replace the Philippine business?

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And is there an opportunity to go beyond just, I think, again, I think it was a Bahamas, but is there an opportunity to go beyond that?

Robert Price: Okay. So the Philippines, which -- that's S&R, which, by the way, used to be PriceSmart, but then when we got out of there, you know the history. They've gotten big. And basically, they can buy direct and have decided that our pricing doesn't benefit them, I guess. So they're on their own way. As far as the export business, other than -- I don't know why the Bahamas is focused on specifically. Do you? Because we already have one some transactions going on so far.

Jon Braatz: I thought maybe that was mentioned in the 10-K, and I may have that country right? Maybe.

Robert Price: No. I think it is. I'm surprised that it's the only one mentioned because we do have other countries. We've decided to focus in the Hemisphere and not Western Hemisphere not go outside of this area for the time being.

But we think there's opportunity. I don't know that we can tell you how that will compare with what's been going on with the Philippines. But I do think there's good opportunity.

And we have set up a group of people who are working specifically on exports. And the benefit of the exports, of course, there's another opportunity to increase profits in the United States that are basically can be used because they're foreign source income to -- against these credits that we have so that effectively, we don't pay taxes on those -- I mean we can neutralize the tax hit.

Operator: Your next question comes from the line of Hector Maya.

Hector Maya: Robert, Michael.

I just have a couple. The first one is, if you could please give us an update on how the consumer environment has continued to evolve in Colombia. I mean you can share the trends that you have seen by category particularly related to private label.

Robert Price: I can address that somewhat. I mean our -- I think our acceptance in the Colombia market continues to grow. I think we're very well thought of in that market. The consumer environment in the last couple of weeks may -- the peso has weakened against the dollar. And that generally is not good for our -- the products we export to Colombia.

But the sales are -- have been good. And I don't know generally that I can tell you about the overall consumer environment in Colombia, but our situation, I think we continue to be well thought of and continue to grow.

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Hector Maya: I understand. And also out of your business regions or ongoing projects, what would you say that makes you most excited about 2025. That's a good question. I think the -- there are a lot of things that are very positive.

Robert Price: There are a lot of things that are positive. I think we start with technology. We have a number of initiatives that really are going to benefit our business.

We mentioned RELEX, but we also now are in the middle of implementation of a new point-of-sale system. And so our investment in technology, which I think was not where it needed to be in the past, we're catching up. And I think that's a very positive sign for the future.

I think the fact that we are -- we've done quite a few remodels and expanding our buildings that will be completed by the end of calendar '24 are very positive for the business.

I'm excited about the improvement we've made in non-food buying and merchandising, which, of course, most of that is product we export to our countries.

I'm also excited about our distribution center initiatives because I think having been here in this business since the day one, distribution has always been a key to this business because we really have the benefit of getting lower prices because of the efficiencies of how we distribute our products. And I think these in-country distribution centers in our major markets have the benefit both of allowing us to bring product in net landed cost will be lower and also improve operating efficiencies within the country. And that is a very positive benefit going forward for us to be able to continue to bring better values to our Members. And those are some of the things that I think are pretty positive.

I also am very positive about our senior management team in terms of the people who we have here but also some new people we brought in. We just brought in a person who's going to focus on government relations in our countries, I think this individual can be very helpful to us. So I think overall, assuming the world stays in reasonable shape, I think we're okay.

Operator: There are no further questions at this time. I'd now like to turn the call back over to Michael for final closing remarks. Please go ahead.

Michael McCleary: Okay. Thank you, everybody. That wraps up our call for today. We hope you all have a good day. And for those who celebrate the Halloween, a Happy Halloween. Thank you. Take care.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.