PriceSmart Announces Fiscal 2019 Third Quarter Operating Results

SAN DIEGO, July 10, 2019 /PRNewswire/ -- PriceSmart, Inc. (NASDAQ: PSMT), operator of 43 warehouse clubs in 12 countries and one U.S. territory, today announced its results of operations for the third quarter of fiscal year 2019 which ended on May 31, 2019.

Total revenues for the third quarter of fiscal year 2019 increased 0.8% to $788.6 million compared to $782.2 million in the third quarter of the prior year. For the third quarter of fiscal year 2019, net merchandise sales increased 0.6% to $755.0 million from $750.5 million in the third quarter of fiscal year 2018. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by $27.9 million or 3.7% versus the same period in the prior year.

The Company had 42 clubs in operation as of May 31, 2019, compared to 41 warehouse clubs in operation as of May 31, 2018.

Comparable net merchandise sales, for the 40 warehouse clubs that have been open for greater than 13 ½ calendar months, decreased 0.8% for the 13-week period ended June 2, 2019 compared to the same period in the prior year. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by $27.5 million or 3.8% versus the same period in the prior year.

The Company recorded operating income for the third quarter of fiscal year 2019 of $22.0 million, as compared to operating income of $28.4 million in the prior year period. Net income attributable to PriceSmart, Inc. (which excludes results from minority interests in joint ventures), was $14.1 million, or $0.46 per diluted share, in the third quarter of fiscal year 2019 compared to $18.7 million, or $0.61 per diluted share, in the same period last year. The third quarter fiscal 2019 earnings were negatively impacted by $2.9 million or $0.09 per share from costs related to investments to expand our omni-channel capabilities, combined with net operating results of the Aeropost legacy business.

The Company reports comparable net merchandise sales on a "same week" basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close a match as possible to the calendar month and quarter that is used for financial reporting purposes. This approach equalizes the number of weekend days and weekdays in each period for improved sales comparison, as we experience higher merchandise club sales on the weekends. Each of the warehouse clubs used in the calculations was open for at least 13 ½ calendar months before its results for the current period were compared with its results for the prior period.

The term "currency exchange rates" refers to the currency exchange rates we use to convert net merchandise and comparable net merchandise sales for all countries where the functional currency is not the U.S. dollar into U.S. dollars. We calculate the effect of changes in currency exchange rates as the difference between current period activities translated using the current period's currency exchange rates, and current period activities translated using the comparable prior year period's currency exchange rates. The disclosure of the effects of currency exchange rate fluctuations on the Company's results permits investors to understand better our underlying performance.

PriceSmart management will host a conference call at 12:00 p.m. Eastern time (9:00 a.m. Pacific time) on Thursday, July 11, 2019, to discuss the financial results. Individuals interested in participating in the conference call may do so by dialing (855) 209-8211 for domestic callers or (412) 317-5214 for international callers, and asking to join the PriceSmart, Inc. call. A digital replay will be available through July 18, 2019, following the conclusion of the call by dialing (877) 344-7529 for domestic callers, or (412) 317-0088 for international callers, and entering replay access code 10131782.

About PriceSmart

PriceSmart, headquartered in San Diego, owns and operates U.S.-style membership shopping warehouse clubs in Latin America and the Caribbean, selling high quality merchandise at low prices to PriceSmart members. PriceSmart operates 43 warehouse clubs in 12 countries and one U.S. territory (seven each in Colombia and Costa Rica; six in Panama; five in the Dominican Republic, four in Trinidad; three each

in Guatemala and Honduras; two each in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica and the United States Virgin Islands). The Company is currently constructing and plans to open warehouse clubs in San Cristobal, Guatemala and an additional club in Panama City, Panama, in the fall of 2019. Once these two new clubs are open, the Company will operate 45 warehouse clubs. PriceSmart is developing an expansion of its omni-channel capabilities, including through its e-commerce platform, by investing in and integrating the technology, talent and cross-border logistics infrastructure obtained as part of the acquisition of a company in March 2018. PriceSmart expects these investments and this integration to enhance the membership shopping experience, drive efficiencies and fuel sales growth. The Company acquired by PriceSmart also operates a legacy (i.e., marketplace and casillero) business through the Aeropost brand in 38 countries in Latin America and the Caribbean, many of which overlap with markets where PriceSmart operates its warehouse clubs.

This press release may contain forward-looking statements concerning the Company's future performance. These forward-looking statements include, but are not limited to, statements containing the words "expect," "believe," "will," "may," "should," "project," "estimate," "anticipated," "scheduled," and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially including, but not limited to, the following risks:

Natural disasters that might cause damages not covered by insurance;

Negative macroeconomic conditions;

Volatility in foreign currency exchange rates and limitations on our ability to convert foreign currency to U.S. dollars;

Changes in, and inconsistent enforcement of, laws and regulations in countries where we operate, including those related to tariffs and taxes;

Compliance risks;

Crime and security concerns, which can adversely affect the economies of the countries in which we operate and which require us to incur additional costs to provide additional security at our warehouse clubs;

Recoverability of moneys owed to PriceSmart from governments in countries where we do business;

The possibility of operational interruptions, including those related to union work stoppages;

Political instability, such as recent unrest in Honduras, the ongoing anti-government protests in Nicaragua that have disrupted our operations there, and a general strike in Costa Rica led by public-sector unions that disrupted normal commerce in September 2018;

In March 2019, the President of the United States directed the U.S. State Department to cut off $450 million of planned aid to Guatemala, Honduras and El Salvador. Eliminating this aid could adversely impact the economies of these countries and lead to further political instability, with the resulting impact on our business;

Changes in consumer shopping preferences;

Significant competition, including from international online retailers or the market entrance of other club operators;

Limitations on the availability of appropriate sites for new warehouse clubs, which could adversely affect growth;

Failure to establish an e-commerce presence to allow our members to choose a physical or online shopping channel that is convenient for them and efficient for us may materially adversely affect our market position, net sales and financial performance, and costs associated with our increasing investments in technological resources intended to fuel sales growth and drive efficiencies may adversely affect our short-term results of operations;

Acquisitions, such as our acquisition of Aeropost, Inc. in March 2018, may expose us to additional risks, such as retention of key personnel, previously undisclosed liabilities or compliance issues, integration challenges, impairment of goodwill or intangible assets, and diversion of management resources;

Cost increases from product and service providers;

Interruption of supply chains, which might adversely impact on our ability to import merchandise;

Failure to maintain our brand's reputation;

Exposure to product liability claims and product recalls;

Failure to maintain our computer systems and/or disruption in those systems;

Cybersecurity risks, such as a failure to maintain the security of the information we hold relating to our company, our members, employees and suppliers;

Risks associated with executive leadership and organizational transition, failure to attract and/or retain other qualified employees, increases in wage and benefit costs, changes in laws and other labor issues;

Changes in accounting standards affecting management's financial assumptions, projections, estimates and judgments; and

A few of our stockholders own approximately 24.4% of our voting stock as of May 31, 2019, which may make it difficult to complete some corporate transactions without their support and may impede a change in control.

The risks described above as well as the other risks detailed in the Company's U.S. Securities and Exchange Commission ("SEC") reports, including the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 2018 filed on October 25, 2018, pursuant to the Securities Exchange Act of 1934, see "Part I - Item 1A - Risk Factors," could materially and adversely affect our business, financial condition and results of operations. These risks are not the only risks that the Company faces. The Company could also be affected by additional factors that apply to all companies operating globally and in the U.S., as well as other risks that are not presently known to the Company or that the Company currently considers to be immaterial.

For further information, please contact Maarten O. Jager, Chief Financial Officer and Principal Accounting Officer (858) 404-8826.

PRICESMART, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED—AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended		Nine Months Ended	
	May 31,	May 31,	May 31,	May 31,
	2019	2018	2019	2018
Revenues:				
Net merchandise sales	$ 755,009	$ 750,473	$ 2,322,742	$ 2,312,447
Export sales	8,281	9,967	23,314	27,252
Membership income	13,132	12,852	38,717	37,930
Other revenue and income	12,134	8,909	37,845	11,207
Total revenues	788,556	782,201	2,422,618	2,388,836

Operating expenses:				
Cost of goods sold:				
Net merchandise sales	649,894	641,249	1,996,595	1,977,840
Export sales	7,872	9,466	22,136	25,900
Non-merchandise	4,121	1,979	13,194	1,979
Selling, general and administrative:				
Warehouse club and other operations	78,231	76,259	228,161	217,712
General and administrative	24,532	24,079	76,835	63,167
Pre-opening expenses	1,647	352	1,759	863
Asset impairment	—	—	—	1,929
Loss/(gain) on disposal of assets	262	388	735	587
Total operating expenses	766,559	753,772	2,339,415	2,289,977
Operating income	21,997	28,429	83,203	98,859
Other income (expense):				

Interest income	310	370	1,124	1,138
Interest expense	(915)	(1,362)	(2,949)	(3,609)
Other income (expense), net	159	(575)	(2,032)	(87)
Total other income (expense)	(446)	(1,567)	(3,857)	(2,558)
Income before provision for income taxes and income (loss) of unconsolidated affiliates	21,551	26,862	79,346	96,301
Provision for income taxes	(7,478)	(8,128)	(26,721)	(40,950)
Income (loss) of unconsolidated affiliates	(4)	(18)	(48)	3
Net income	$ 14,069	$ 18,716	$ 52,577	$ 55,354
Less: net (income) loss attributable to noncontrolling interest	27	(22)	(59)	(22)
Net income attributable to PriceSmart, Inc.	$ 14,096	$ 18,694	$ 52,518	$ 55,332
Net income attributable to PriceSmart, Inc. per share available for distribution:				

Basic	$ 0.46	$ 0.61	$ 1.73	$ 1.82
Diluted	$ 0.46	$ 0.61	$ 1.73	$ 1.82
Shares used in per share computations:				
Basic	30,198	30,137	30,192	30,105
Diluted	30,205	30,137	30,202	30,105
Dividends per share	$ —	$ —	$ 0.70	$ 0.70

PRICESMART, INC.

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	May 31, 2019	**August 31, 2018**
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 106,445	$ 93,460
Short-term restricted cash	4,136	405

Short-term investments		17,023		32,304
Receivables, net of allowance for doubtful accounts of $165 as of May 31, 2019 and $97 as of August 31, 2018, respectively.		9,543		8,859
Merchandise inventories		326,724		321,025
Prepaid expenses and other current assets		36,649		31,800
Total current assets		500,520		487,853
Long-term restricted cash		3,402		3,049
Property and equipment, net		629,063		594,403
Goodwill		46,158		46,329
Other intangibles, net		13,182		14,980
Deferred tax assets		13,846		10,166
Other non-current assets (includes $2,742 and $4,364 as of May 31, 2019 and August 31, 2018, respectively, for the fair value of derivative instruments)		44,983		48,854
Investment in unconsolidated affiliates		10,710		10,758
Total Assets	$	1,261,864	$	1,216,392
LIABILITIES AND EQUITY				
Current Liabilities:				
Short-term borrowings	$	2,152	$	—
Accounts payable		271,298		255,739

Accrued salaries and benefits	23,813	22,836
Deferred income	25,070	23,018
Income taxes payable	4,219	4,636
Other accrued expenses	29,576	28,281
Dividends payable	10,672	—
Long-term debt, current portion	23,480	14,855
Total current liabilities	390,280	349,365
Deferred tax liability	1,766	1,894
Long-term portion of deferred rent	9,867	8,885
Long-term income taxes payable, net of current portion	4,538	4,622
Long-term debt, net of current portion	69,476	87,720
Other long-term liabilities (includes $1,161 and $502 for the fair value of derivative instruments and $5,376 and $4,715 for post-employment plans as of May 31, 2019 and August 31, 2018, respectively)	6,882	5,268
Total Liabilities	482,809	457,754
Stockholders' Equity:		
Common stock $0.0001 par value, 45,000,000 shares authorized; 31,440,379 and 31,372,752 shares issued and 30,539,966 and 30,460,353 shares outstanding (net of treasury shares) as of May 31, 2019 and August 31, 2018, respectively	3	3
Additional paid-in capital	440,373	432,882

Tax benefit from stock-based compensation		11,486		11,486
Accumulated other comprehensive loss		(141,168)		(121,216)
Retained earnings		505,127		473,954
Less: treasury stock at cost, 900,413 shares as of May 31, 2019 and 912,399 shares as of August 31, 2018		(37,228)		(39,107)
Total stockholders' equity attributable to PriceSmart, Inc. stockholders		778,593		758,002
Noncontrolling interest in consolidated subsidiaries		462		636
Total stockholders' equity		779,055		758,638
Total Liabilities and Equity	$	1,261,864	$	1,216,392

SOURCE PriceSmart, Inc.