S&P Global
Market Intelligence

PriceSmart, Inc. NasdaqGS:PSMT

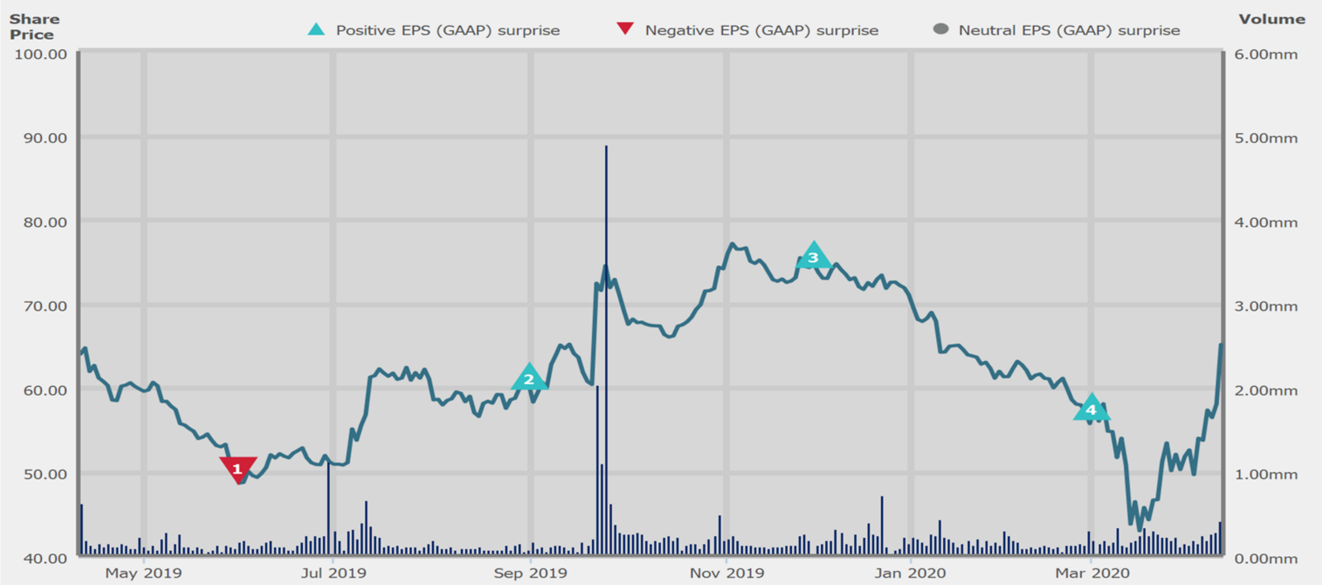
FQ2 2020 Earnings Call Transcripts

Thursday, April 09, 2020 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.82	0.85	▲2.41	0.63	2.86	3.35
Revenue (mm)	913.46	906.74	▼(0.74 %)	849.80	3394.54	3602.80

Currency: USD
Consensus as of Apr-09-2020 2:30 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.50	0.46	▼1 (8.00 %)
FQ4 2019	0.50	0.67	▲2 34.00 %
FQ1 2020	0.63	0.64	▲3 1.59 %
FQ2 2020	0.82	0.85	▲4 2.41 %

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Call Participants

EXECUTIVES

Michael L. McCleary
Executive VP, CFO & Principal Accounting Officer

Sherry S. Bahrambeygui
CEO & Director

ANALYSTS

Jonathan Paul Braatz
Kansas City Capital Associates

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

Presentation

Operator

Good morning or afternoon, everyone, and welcome to the PriceSmart, Inc. Earnings Release Conference call for the Second Quarter of Fiscal Year 2020, which ended on February 29, 2020.

After remarks from our company representatives, Sherry S. Bahrambeygui, Chief Executive Officer; and Michael McCleary, Chief Financial Officer; you will be given an opportunity to ask questions as time permits. However, the company has requested that questions be limited 2 per person. As a reminder this conference call is being recorded today, Thursday, April 9, 2020. Additional replay will be available following the conclusion of today's call through April 16, 2020, by dialing 1 (877) 344-7529. For domestic callers 1 (412) 317-0088, for international callers and entering replay access code 10139915.

For opening remarks, I would now 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, and welcome to the PriceSmart Earnings Call for the Second Quarter of Fiscal Year 2020. We will be discussing the information that we provided in our earnings press release and our 10-Q, which were both released yesterday afternoon, April 8, 2020. You can find both documents on our Investor Relations website at investors.pricesmart.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 facts, are forward-looking statements concerning the company's anticipated future plans, revenues and related matters. Forward-looking statements include, but are not limited to, statements containing the words expect, believe, will, may, should, estimate and similar expressions.

All forward-looking statements are based on current expectations and assumptions as of today, April 9, 2020. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including the risks detailed in the company's annual report on Form 10-K for the fiscal year ended August 31, 2019, as filed with the Securities and Exchange Commission on October 29, 2019, and the company's quarterly report on Form 10-Q for the quarter ended February 29, 2020, as filed with the Securities and Exchange Commission on April 8, 2020.

The company undertakes no obligation to update forward-looking statements made during this call.

Now, I will turn the call over to Sherry Bahrambeygui, PriceSmart's Chief Executive Officer.

Sherry S. Bahrambeygui
CEO & Director

Good morning, everyone, and thank you, Michael. In the spirit of not taking anything for granted, I want to thank everyone involved with this call who's made it possible to connect with our investors and our analysts so that we can inform you about our company's results for Q2 as well as tell you about our current activities.

Although, we're conducting this call from remote locations, I want to welcome Michael McCleary as our official ongoing Chief Financial Officer. Michael has done an excellent job as our interim CFO since December 10, 2019. He's been with the company for 16 years, and he has extensive experience with our business and our leadership team. They say you really get to know a person's true colors in times of challenge and stress. And the events of the last couple of months have revealed many more of Michael's great qualities.

So normally, I'd get right to sharing with you insights on key events that have influenced our most recent quarterly results. Our business ended the second quarter of fiscal year 2020 with strong results and good momentum. We were seeing benefits from many of the initiatives that we've been working on for the last year, and we were feeling pretty well positioned for what we thought the rest of this year would look like. Then just about a couple of weeks into our third quarter in March, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This virus has caused a global disruption that has touched every one of us, in some manner, including our employees and members across 13 countries. So by March, it was clear to us the world had changed and our focus quickly shifted to 5 main priorities.

So priority #1, first and foremost, and as always, protect the safety and wellbeing of our employees and our members. And now more than ever, in the face of this pandemic; priority 2, take additional steps to ensure continued operations without disruption; priority 3, take proactive measures to protect our supply chain; priority 4, get moving quickly on key projects, especially those that could expand online capabilities and find new ways to meet member demand, which was changing in response to this virus; and priority 5, manage cash and capital resources in the face of a much, much less predictable climate.

We're now into this for a little over a month. And as often happens in times of crisis and necessity, we're actually finding opportunity. We're pushing actions, new ideas and improvements that I believe will help us shape the future of our business in very positive ways. The following is a summary of some specific actions we've taken in response to the COVID outbreak. So as to priority 1 and 2, our employees, members and continued operations. We quickly off sited employees whose functions could be performed remotely with many of our key executives taking extra precautions. This was done well before government mandates, and we've been able to continue supporting all operations from off-site since approximately the second week of March.

In February, we had assembled a task force representing leadership covering all aspects of our business. This leadership team is 100% on task and communicates 7 days a week. Every day, we review in detail and plan for all of the developments in each of our 13 markets. Governmental authorities in our markets have imposed or are experimenting with policies or restrictions affecting the retail sectors of our markets, and many of these have resulted in limiting access for our members and impacting our club operations.

These limitations and restrictions change day-to-day and vary from market to market. But our team stands ready to respond real-time and is nimble in finding ways to continue to serve our members while abiding by local laws and regulations.

At the club level and throughout our distribution centers, we've implemented safety protocols to protect our heroes. Our employees who are face-to-face with the public, they're on the front line providing goods to our -- that our members really need. We're taking preventative measures such as providing personal protective equipment for them. We're installing sneeze guards for the cashiers and in other member-facing areas, we've reduced or removed in club food service. We're eliminating food sampling, we're educating our employees about best practices for good hygiene, increasing cleaning and sanitizing protocols, employing social distancing measures, taking temperatures and mapping contacts. That's just to name a few.

We don't allow employees to exhibit symptoms or who live with people that are showing symptoms to come to work. And we've modified our sick leave policy to make sure that people can take paid time off without any concern about being absent.

We're also preparing for the unknown. We're building reserve teams who don't overlap with other employees, so that they can step in as needed. We report and are transparent with our employees, our members and the public when we're notified of a confirmed COVID case, and we follow health authority guidelines for quarantining and contact mapping. Thankfully, to date, we're only aware of a few confirmed cases among our approximate 9,000 employees, and we're really doing whatever we can to keep that number as low as possible. But we're getting prepared if circumstances change.

Our third focus, protecting our supply chain. Our merchandising and distribution teams are working with suppliers to make sure items are available. And by the way, I'd like to also recognize and express my gratitude to our suppliers and our vendors because we're really working together to get through the unexpected. We closely monitor inventories in our supply chain and upstream. While we've experienced some out of stocks on certain surge items, we've generally been able to maintain adequate levels on a majority of the products that our members need. But that's a dynamic situation, and we have to keep monitoring it very carefully.

And we have a contingency plan, actually a couple, in place -- in the event that a country or a region of strategic importance to our inventory flow is negatively impacted by the pandemic or they're experiencing related restrictions. Our distribution centers outside of the United States, especially the Costa Rica regional distribution center has played an important role in providing optionality and reducing the risk of interruption to the flow of critical merchandise to our markets. We've placed limits on the quantity of certain key items that members can purchase such as cleaning supplies, paper products and core shelf-stable groceries so that these essential products are available to as many members as possible. And at some clubs, we've created dedicated shopping hours for our employees as well as for seniors and other individuals most at risk.

Our fourth focus is, of course, meeting the demands of our members. Over the last few weeks, we've expedited our adoption of technological innovation and rapidly accelerated beta initiatives that allow our members to continue to shop while reducing the need for physical contact. I'm pleased to announce that we have successfully launched our online catalog that enables our members to see almost real-time the availability of products for all clubs. Then leveraging this capability and to best accommodate our members within the restrictions, we've already launched our first click-and-go program in Costa Rica.

Our members can go online, look at the catalog of products in the club, order them, pay online, drive to the club and have goods placed in their car, reducing almost any physical interaction with our employees. This is being rolled out very quickly to our other markets as well.

In tandem with this, we're enhancing our member experience and increasing our digital connections with our members through our new PriceSmart app, which our members seem to like, as we're seeing a rapid increase in the number of sign-ups and renewals using the app. The talent and technology we obtained through PriceSmart's acquisition of Aeropost has proven to play a very important role in enabling these capabilities in this compressed period of time. At some clubs, we also provide assisted shopping, which allows a member to order by phone for pick up or for delivery. We've increased our capacity for delivery by our own employees as well as through delivery services.

In fact, in one country where retailers were ordered to temporarily close, the government granted PriceSmart permission to operate as a drive-through, to provide pre-built basic commodity bags that we call smart bags, while requiring minimum time or physical contact between the employee and the member.

We're also working to deploy our workforce in a thoughtful manner, including by developing a program to teach employee skills so that they can support our efforts to provide members with additional alternative ways to shop.

PriceSmart is also working with nonprofits, including Price Philanthropies to provide these basic commodity smart bags to people in need and to support the communities in which we operate. I'm so incredibly proud of how our team has quickly adapted and is creatively responding to the challenges we're facing while preparing for what might be next.

Our fifth focus, cash management. Given the uncertainties surrounding the potential impact of the outbreak on our results of operations and cash flows, we are proactively taking steps to access and preserve cash available on hand. We've also decided to delay certain capital expenditures. We plan to complete the construction of our warehouse club in Liberia, Costa Rica, next month, but we postponed its opening.

With respect to our previously announced future warehouse club openings on land that we've acquired in Bogota and Bucaramanga, Colombia and in Jamaica, we've decided to suspend or not initiate the construction of those clubs for the time being. The reality is, we really don't know yet how long the situation will continue. So we've curtailed discretionary spending and are considering and planning for additional cost-saving measures in the U.S. and in the markets where we operate. You'll hear more about managing our liquidity from Michael.

So now with that, let me turn to the original purpose of this call, our FY 2020 Q2 results. Total revenues were a new record for the company of $906.7 million, an increase of 6.1% over the comparable prior year period. Net merchandise sales were $871.7 million, an increase of 6.3% over the prior year period. We did benefit from the extra day in this leap year.

The second quarter increase resulted from a 5.9% increase in transactions and a 0.3% increase in average ticket. Currency fluctuations in our markets had a $2.9 million or 30 basis point, 0.3% negative impact on net merchandise sales for the quarter.

Comparable net merchandise sales increased by 0.4%, with currency fluctuations impacting comparable sales negatively by 0.4%. By segment, in Central America, where we had 25 clubs at quarter end, net merchandise sales increased 8.3% with a 0.1% increase in comparable net merchandise sales. The impact of currency on total and comparable sales to the Central American REIT segment was positive 1.6% and positive 1.7%, respectively.

All markets within this segment showed increased net merchandise sales year-on-year. In Panama, we opened our sixth club in May 2019 and seventh club in October 2019. And in Guatemala, we opened our fourth club in November 2019. Our comparable store net merchandise sales were negatively impacted by these 3 new club openings.

In the Caribbean region, where we had 13 clubs at quarter end, total net merchandise sales grew 4.9% with comparable net merchandise sales growth of 1.3%. Our Dominican Republic and Jamaica market led the way in this segment with 17.4% and 10.5% growth for the second quarter ended February 29, 2020.

In the Dominican Republic, this growth was primarily attributable to the opening of our fifth club in June 2019. While in Jamaica, strong comparable net merchandise sales growth was the primary driver of growth for the second quarter ended February 29, 2020.

Jamaica, it's at a new all-time monthly sales record for the company. Their bakery alone did $1.6 million in sales in the month of December, another record, which was enabled in part by the investment we previously made to expand the club and add parking.

The impact of currency on both total and comparable merchandise sales for the Caribbean segment was negative 2%. In Colombia, where we have 7 clubs, net merchandise sales grew 0.2% for the quarter, and there was a decrease in comparable net merchandise sales of 0.6%. The impact of currency on total and comparable net merchandise sales in Colombia was significant at negative 6.1% and negative 6.4%, respectively.

With regard to merchandise, in terms of consolidated merchandise categories, we experienced good growth in our fresh category, driven primarily by growth in our prepared foods, poultry and produce departments. We also saw favorable growth in departments such as pet supplies, toys, tires and sporting goods. However, we still have room for improvement in several other categories that include juices and drinks, health and beauty as well as electronics and the appliances category within hardline.

Now let's turn to membership. At the end of Q2, we continued to report very positive results. We ended the quarter with approximately 1.7 million accounts, also a new company record and a 3% increase over the prior year period. Membership income was up by 9.7% during the quarter. The growth in accounts and income during fiscal 2020 can be primarily attributed to the opening of 4 new warehouse clubs compared to last year in our Central American and Caribbean market.

Membership income in our Colombian market has also been positively impacted by a 20% increase in the Diamond membership fee beginning in April 2019. Our trailing 12-month renewal rate was 86% and 85% for the periods ended February 29, 2020, and February 28, 2019, respectively.

Our Platinum membership, which offers cash back based on purchase volume in exchange for a higher annual fee represents approximately 4.5% of our total membership base and has been growing. Total gross margins this quarter increased to 16.6% from 16.1% in Q2 fiscal 2019.

Gross margin when compared to the prior year period was impacted mostly by favorable net merchandise margins. Net merchandise margins for Q2 increased 70 basis points to 14.7% from 14.0% versus the same period a year ago, which is in line with our preceding 2 quarters and prior year's historical trends.

Net income for the second quarter of fiscal year 2020 grew 7.6% to $25.6 million or $0.85 per share compared to $23.8 million or $0.79 per share in the comparable period last year.

Now remember, we ended this quarter with 45 warehouse clubs compared to 41 clubs at the end of the second quarter of fiscal year '19. The new clubs include 2 in Panama referred to as Veraguas and Metropark, and 1 in the Dominican Republic, the Bolivar club; and most recently, the San Cristobal club that opened in November of 2019 in Guatemala.

So now briefly turning to March sales, which we released earlier this week. Net merchandise sales were $306.1 million, an increase of 17.1% versus a year ago. FX fluctuations adversely impacted net merchandise sales by 2.5%. For the 4 weeks ended March 29, 2020, comparable net merchandise sales increased 15.7% with a negative FX impact of 3%. Although overall sales for the month of March 2020 increased significantly, driven by members stocking up primarily on food and essentials ahead of the potential shelter in place advisories.

Sales did moderate and later decreased in the second half of the month. Toward the end of March, we experienced a noticeable reduction in traffic that we believe was driven by restrictive government mandates and consumer concerns about potential exposure.

So to wrap up, we posted strong results for Q2 and strong sales for March. Our efforts to recommit to the Sixth Right during the preceding year was showing results on key metrics. We also recognize that a lot is changing, and there are many unknowns at this time. Therefore, it's difficult to predict when and how our members' consumption and spending patterns will adjust to a new normal. As we sit here today, we expect the impact of the pandemic and the related restrictions on our business to adversely affect traffic and sales over the next several months. And we recognize that the financial impact that COVID-19 will have on our market could also cause a downward trend in sales for some time.

Having said that, we also see this as an opportunity. We've learned a lot in the last 6 weeks about what our team is capable of accomplishing. Everyone from our club and distribution center operators, to the executive team, everyone at all levels. It's nothing short of inspiring. Our team has talent, resolve, and a tremendous commitment to our members into this company, and we have loyal members who really count on us as a trusted source of goods.

A lot of families depend on us, especially in times like this. So we're treating this as a call to action. We've already covered a lot of ground and made a lot of progress on several fronts that will carry us forward long after this chapter ends. And we intend to seize on the opportunities rising from this challenge, to propel our business forward and position ourselves for the future. I'm hoping you and your families stay safe and healthy.

I'll now turn this over to Michael.

Michael L. McCleary
Executive VP, CFO & Principal Accounting Officer

Thank you, Sherry, and good morning or afternoon to everyone in my first earnings conference call as Chief Financial Officer. First, I would like to thank Sherry, the Board and all of my other PriceSmart colleagues for their support during my interim CFO phase, which has now led to this permanent position. However, I would also like to acknowledge the difficult times we are all facing through the COVID-19 crisis and extend my heartfelt best wishes to everybody on this call today, as I imagine you all have been either directly or indirectly impacted by this crisis.

As Sherry discussed earlier, the second quarter of fiscal 2020, total revenues were $906.7 million, an increase of 6.1% and gross margins rose 50 basis points to 16.6% compared to 16.1% in the second quarter of fiscal 2019. Total SG&A as a percentage of total revenue were 12.3%, an increase of 50 basis points versus the same period last year. The increase year-over-year was primarily driven by additional head count related to the opening of our 4 newest clubs and investments in talent to support our technology development and other administrative functions.

Operating income was $38.8 million or 4.3% of total revenues in Q2 of fiscal 2020 compared to $36.5 million or 4.3% of total revenue for the same period last year. The improvement is largely due to higher net merchandising margins in the second quarter of fiscal 2020 versus the same period last year, partially offset by an increase in SG&A expenses due to our 4 new clubs, as indicated earlier.

Our effective tax rate for the second quarter of fiscal 2020 was essentially flat versus the prior year, coming in at 33.1% versus a rate of 32.9% a year ago. While over the last few years, we have generally provided an indication of our expectations for our full year effective tax rate, due to the current COVID-related uncertainties and projecting full year results, we are unable to provide such an indication at this time.

Net income increased 7.6% to $25.6 million with diluted earnings per share of $0.85 in the second quarter of fiscal 2020 compared to $23.8 million with diluted earnings per share of $0.79 from the second quarter of last year.

Moving on to the balance sheet. We ended the quarter with cash, cash equivalents and restricted cash of $136.8 million, an increase of $38.7 million versus the same period a year ago. Cash provided by operating activities increased $12.8 million versus the same period last year, primarily due to higher net income and working capital improvements.

Net cash used in investing activities increased by $31.9 million, primarily due to net increases in purchases of short-term investments and construction payments during the year. Net cash provided by financing activities increased $44.3 million, primarily due to new long-term borrowings in our Colombian and Guatemalan subsidiaries.

Turning now to the impact of the coronavirus outbreak and how this is affecting us in terms of liquidity. We are implementing measures to preserve our liquidity and strengthen our balance sheet during these unprecedented times. We are reevaluating additional needs for liquidity given the potential social and economic impacts in the markets where we operate and any resulting impacts on our results of operations and cash flow.

While we cannot reasonably estimate the duration or severity of this pandemic at this time, it is likely that we will see some negative impacts, especially on sales over at least the near term. Therefore, as a precautionary measure, early in Q3, we have accessed $63.2 million of funding available in several of our lines of credit to increase available cash on hand.

Additionally, as Sherry mentioned, we have postponed the construction and opening of 4 new clubs, which will reduce our capital expenditures and working capital needs significantly in the short term, while we continue to evaluate the situation and the duration of the disruption.

Finally, we are working with all our merchandise and other vendors to extend payment terms and thus create additional liquidity. In closing, our business remained very strong during Q2, and we had great momentum leading into this worldwide crisis. Our second quarter results were excellent and validate the strategies we have in place are the right ones. These results highlighted that sales, margins and membership renewals continued to show strong results and strengthen the core of our business.

With that said, our environment has suddenly changed with the outbreak of COVID-19. With each passing week, during this crisis, we continue to evolve and adapt to the ever-changing landscape we face -- find ourselves in. We will continue to focus on the Six Rights, our employees, our members and our communities. We will keep you updated as the conditions continue to progress in the coming months.

As we turn to the Q&A section of this call, I would like to remind you all that we have never provided earnings guidance. And with this unprecedented situation we are currently enduring it will be even harder to give you all a good sense as to how severely and for how long our results will be impacted by the situation. In any case, if you have any questions related to how we are executing our COVID-19 response initiatives, we will do our best to answer them.

As mentioned at the beginning of this call, we would appreciate it if you could limit your questions to 2 per person. Operator, I will turn it back to you to take up to 2 questions from each of our callers.

Question and Answer

Operator

[Operator Instructions] First question comes from Rodrigo Echagaray with Scotiabank.

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

Congrats, Michael, on your new role. I would say, on my end, I'd like to perhaps hear your thoughts on what will it take for you to revisit store openings? And I guess, more specifically, is this related more to the temporary disruptions on COVID-19? Or is it more related to structural concerns with regards to the region where you operate in terms of the macro short to mid-term?

And I guess the second question would be on the e-commerce front. What kind of growths are you seeing in the past few days? Any color that you can share with us would be great.

Sherry S. Bahrambeygui
CEO & Director

Rodrigo, so if I understand your first question was basically our decision to suspend some of the store openings or the club openings, and you wanted a little color about -- around that, correct?

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

Yes, I mean I guess, how are you thinking about that? I mean I guess I'm trying to get a sense on -- are we perhaps being obviously responsible and cautious for obvious reasons. But once disruptions cease and everything goes back to "normal", then are we looking at those store openings being back on the pipeline quickly? Or is it something that it will take a few months until you feel comfortable putting those back in the pipeline?

Sherry S. Bahrambeygui
CEO & Director

Well, let me put it to you this way. Before the pandemic, we were completely on track for those openings. So it wasn't anything structural or in terms of the market themselves that led us to decide not to do it. It was the pandemic. And then of course, the resulting impact of the pandemic can and may have on these markets going forward, which is really the part that is the big unknown for all of us at this point.

So with that kind of a variable at play, the best answer I can give you is that we're just monitoring it. We're trying to get the best information we can and assess what the impact on our markets are, and then at the appropriate time we will move forward. So as of now, it seems that the most prudent thing to do in the face of this kind of unexpected event was to suspend that and to preserve capital and focus on delivering our best performance for our members with the clubs that we have in the markets where we exist.

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

Got it.

Sherry S. Bahrambeygui
CEO & Director

Your second question related to e-commerce growth. E-commerce, it's hard to quantify. Again, this is all happening so quickly. I can tell you anecdotally that the response we're getting, we track social media now and we're much more connected to our members digitally. We're seeing the response and the reaction to having more online presence, the fact that our members can go now online and see our products, order them, pay for them, at least in our first location so far. And that's all been extremely favorable.

Now it's about building up quickly, ramping up the operational side to be able to support the demand. So I can't quantify for you what the demand is, but you can sort of assume that when people don't want to leave their home or if they do leave their home, they don't want to spend a lot of time being exposed to other people who might be carrying the virus. There's a real demand for e-commerce, and there's a real demand for all of the types of shopping that you can do that minimizes physical interaction with other people. And that's what we're focused on, and that's what we've been expediting and making great progress on in a very short period of time.

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

And so I guess, can you maybe share if all the stores or an x percentage of the stores have now the ability to -- for customers to shop online and maybe do click and collect, how many stores are we looking at that are capable of doing this?

Sherry S. Bahrambeygui
CEO & Director

Well, okay, if you look at the capabilities, the first step is to make sure that all the inventory that's available in the clubs is visible online. So having the online catalog that shows a description, the price, the -- whether or not the product is available, that now exists in all of our countries. So that's a development that's happened since this pandemic was announced.

Then you add on that the ability to -- once you have that information, it opens the doors to the alternative ways of shopping. One is the ability to e-mail or through phone conversations, contact a PriceSmart employee and be able to get an order or order something to be picked up or delivered. That's what we're calling assisted shopping. That's happening throughout a number of our clubs at this time.

The most advanced right now is the click and collect, which is -- I'm sorry, the Click and Go, which is in -- we launched it in Costa Rica, in our Santa Ana club, and that's been going extremely well. And we have a very aggressive rollout plan to all of our other markets in a matter of weeks. So we started with one, make sure we got the kinks out and we're doing it right and set up the protocol so that we can efficiently roll this out throughout the rest of the company.

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

That sounds like you guys have really stepped it up in the last few weeks, which makes a lot of sense. And on the delivery, if I can just maybe double-click on that for a second. I think you're...

Sherry S. Bahrambeygui
CEO & Director

Okay. You're -- just so you know officially you're on question number four, but it's okay, go ahead.

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

I'm sorry about that. I'm just going to leave it at that -- and hopefully, somebody else.

Sherry S. Bahrambeygui
CEO & Director

It's okay, Rodrigo, I'm just giving you hard time.

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

No, I know. I know. It's just that I have a lot of questions, but I'll let other ones take turns.

Sherry S. Bahrambeygui
CEO & Director

That's okay. Why don't you ask that last one, that's fine?

Rodrigo Echagaray
Scotiabank Global Banking and Markets, Research Division

Now, it's just on the delivery. I mean you were mentioning you're using both some aggregators and also you're doing some of that in-house. Can you maybe share more color on both of those strategies?

Sherry S. Bahrambeygui
CEO & Director

Yes. As you know, given the fact that we operate in 13 different markets, the best solutions vary from market to market. In Colombia, we partner with Rappi, as one example. And it's not a one solution for each market. It varies. We do a combination of -- to having our own employees delivering. We've got -- we've secured vehicles that allow for us to be able to do deliveries, we partner with third parties. And we are right at -- on the brink of finalizing contracts with another major delivery service, if you will, that will be able to provide this service to our members throughout most of our markets. So it's a combination of different channels that allow us to get the product to the members.

Operator

Next question comes from Jon Braatz of Kansas City Capital.

Jonathan Paul Braatz
Kansas City Capital Associates

As you tackle this COVID-19 issue, what kind of flexibility do you have in your cost structure at the store level? And have you been making adjustments there? I was just curious what may be potentially some deleveraging of expenses, how you're going to try and minimize that deleveraging of expenses?

Sherry S. Bahrambeygui
CEO & Director

Well, with regard to that, we're watching every penny as we should. And Michael is doing a great job of that. And we have eliminated or reduced what we consider to be any sort of excess. But having said that, we think it's very important to have a balanced approach, especially during this time. The initial instinct may be to just hunker down and dial back on everything.

But what we're actually finding is because of the situation, our team is able to move forward pretty quickly on interventions and on new initiatives that, frankly, we didn't know we could deliver on as quickly as we have. And in that effort, we're realizing we actually need to deploy our resources and our labor in a more thoughtful way because there's opportunities here to now reskill some of our employees and assign them tasks that will support these initiatives that we believe are not only needed by our members today, but are going to strengthen our company for the long term.

So while we're watching expenses and we're being vigilant about that and taking -- as responsible and as compassionate an approach as we possibly can, we're also not shy about making the right investments in the right areas that are going to get us through this stronger than we were coming into it.

Jonathan Paul Braatz
Kansas City Capital Associates

Okay. Okay. The second question, Sherry, what are you seeing or maybe it's a little bit early, on the membership -- or new membership count. I saw that in Colombia, memberships were down year-over-year, up elsewhere. But how are your markets? how are the -- how are your -- how is memberships rolls as we get further and further into this COVID-19, are we seeing any material difference in the trend that we've seen over the last couple of years?

Sherry S. Bahrambeygui
CEO & Director

Well, I can't -- I don't have in front of me, March, but in terms -- I don't think we report anything in a partial month. So we're in April right now. So I can't really share anything more on that. But certainly, people right now are behaving differently in terms of what they're buying, how much they're buying, we're seeing surges, and then we're seeing changes in terms of average ticket and so on. But it's too soon for me to be able to share any kind of trend that I could predict or see emerging as a result of the membership.

Jonathan Paul Braatz
Kansas City Capital Associates

Okay. All right. One last question. If the product mix shifts more to necessities as opposed to other items that aren't so essential. How does that influence your gross margins? How is -- a mix shift like that?

Sherry S. Bahrambeygui
CEO & Director

Well, I mean we're constantly trying to manage margins appropriately. We are continually looking for ways to make sure that we are getting the best value for the member consistent with the Six Rights. As we see a greater need for essentials and basic necessities, we're leveraging local vendors as well and suppliers to make sure that we are able to deliver the products that they need. So at this point, it's, again, too soon to tell what will come out of this phase of a dramatic shift in the way that people are shopping. And the demand as well as the supply and -- but beyond that, I really don't have any more to share in terms of foresight.

Jonathan Paul Braatz
Kansas City Capital Associates

Okay. All right. A lot of imponderables out there, and I wish you the best luck. It's a difficult environment.

Sherry S. Bahrambeygui
CEO & Director

We really appreciate your well wishes, and we're doing the best we can and we're feeling good about our ability to get through this and take care of our members and learn a lot in the process.

Operator
This concludes our question-and-answer session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.