

11-Jan-2021

Betterware de México SAPI de CV (BWMX)

ICR Conference

CORPORATE PARTICIPANTS

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

Andres Campos

Chief Executive Officer & Director, Betterware de México SAPI de CV

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning. I'd like to welcome Betterware de México. Betterware is an exciting growth story with unique advantages in the household products sector. The company's powerful operating platform, two-tier distribution model, and compelling product innovation has fueled strong market share and a consistent track record of growth.

Here with us from the company are Luis Campos, Chairman; and Andres Campos, CEO. Before I turn the presentation over to the company's Chairman, I wanted to make sure you read the company's safe harbor statement.

With that, let me turn the presentation over to Mr. Campos.

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

[Music] (00:00:51-00:01:53)

Hello, everyone. Thank you for having us today.

We understand all of you are familiar with our company. So, we want to focus this morning on the main aspects that make our model unique and will enable us to deliver strong growth. Our two-tier work-from-home tech-enabled sales platform has become very attractive to anyone looking for a primary or secondary income opportunity in Mexico. Thus, we have close to 1.2 million associates and distributors as of Q3 2020. That said, we only have a 20% household penetration in Mexico, leaving this opportunity to continue to deliver strong double-digit growth. We are a high-growth company with a strong and increasing profits operating through an asset-light and high free cash flow conversion structure. All of this is obviously backed by a strong management team we have put together.

The unique business model we have built, together with the assembly of a great management team, has led us accumulate 20 years of constant growth. Sales force, revenue, and EBITDA have grown at approximately 20% CAGR since 2001.

In the last [ph] 30 years (00:03:58) sales force revenue and EBITDA have grown, as I said before, 20% CAGR. In the last six years, we have polished the model even more, adding new capabilities in innovation, technology, and business intelligence, which have led us to accelerate growth to more than 40% CAGR in sales force and revenue

and 48% in CAGR in EBITDA. The strategies we have developed for the past six years, and especially in the last three years, [indiscernible] (00:04:43) over further down in the presentation, help us accelerate our growth into triple-digit numbers during 2020.

In Q3, revenue grew almost 200%. Likewise, EBITDA grew 234% despite a devaluated comparable peso and extraordinary costs from air freights needed to meet the demand. It's important to stand out that our revenue growth was supported by 179% growth in distributors and associates.

Now, I will turn the presentation to our CEO, Andres Campos, who will speak about the strategic pillars that make our model unique and differentiated.

Andres Campos

Chief Executive Officer & Director, Betterware de México SAPI de CV

Hello, everyone, and good morning. Thank you, Luis. We are transforming the way people shop for household products. We've transformed the typical direct sales model into a powerful technology and business intelligence-enabled direct-to-consumer platform.

These are the three pillars that sets our model apart. Let me start by talking about how we've built a strong product line. Customers are craving for new, but great innovation is not a matter of sudden creativity. Great innovation is the result of a robust and disciplined methodology. We go deep into understanding our customers, engaging into anthropological studies of the Mexican household and understanding their lifestyles and what they value. We leverage on our more than 1.2 million associates and distributors to gather feedback and ideas from their constant customer interactions. We also identify customer needs in every corner and activity of the house. This helps us develop more and better products every day.

We plan to launch new product categories on 2021, which we will communicate to the market as we introduce them. We have also developed a proprietary software, Betterware pipeline, which gives our marketing team control and agility throughout the innovation process.

Finally, we developed strong sources for ideas and product design capabilities. Additional to our in-house team, we have developed two independent platforms. The first one, Betterware Design Partners where freelance industrial designers work on specific product ideas and designs with Betterware. The second platform is Betterware Design Lab where more than 1,500 students from the top 12 industrial design universities in Mexico have the opportunity to put their learning to work. It's amazing to see what young generations are capable of.

Our next pillar is technology. We have created two proprietary technologies that set the stage apart in the way we sell directly to the customer. We have our mobile app for distributors and associates through which they operate everything. On the other hand, we've just launched our new transactional website. Consumers that don't know an associate can now buy online, and our distributors and associates will deliver all the service, including free delivery, cash collection on delivery, and great post-sales service. And our distributors and associates are thrilled with this since they receive full economic benefits on these purchases.

But technology doesn't stop there. We've invested heavily into our technological capabilities. First of all, we are aware that technology evolves constantly, and thus we update versions of our proprietary softwares. As you can see in this presentation, we will launch version 3.0 of our sales force mobile app this year and our version 2.0 of our marketing pipeline software. At the same time, we are investing resources to develop AI capabilities.

During 2020 we launched a sophisticated Chat-Bot. With it, we are able to communicate, solve problems, and coach all of our distributors and associates much more efficiently. We've also began working with [ph] Nym (00:10:09), a German artificial intelligence technology, that will help us concrete all AI capabilities into the future. Also, during 2020, we launched a new distribution control software. This software helps us control and communicate every detail throughout the distribution process to our distributors. As you can see, technology has been and will continue to be a strong differentiator within our direct-to-consumer business model.

Finally, our third pillar, business intelligence. Our operations generate millions of data points including products, places, purchasing behaviors, price elasticities, and many other operating transactions. We understand thoroughly our market potential within more than 50,000 neighborhoods and almost 3,000 municipalities and more than 800 towns and cities in Mexico. We translate this into actionable tools such as our mapping software. With our mapping software, we map our distribution network and our market potential by neighborhood, enabling our distributors to focus their recruitment efforts where we lack penetration. We also carry out extensive analysis on product innovation and pricing decisions to strengthen every decision we make. Finally, our business intelligence team is also in charge of all the [ph] backend (00:12:03) behind artificial intelligence technologies and initiatives.

Now, that we've understood these three pillars, we would like to speak about growth opportunities that lay forward for Betterware. First of all, organic growth. Organically, we have two ways to grow: number one, household penetration where we reach approximately 20% of potential households today and expect to expand our reach to all potential households; number two, increasing share of wallet per houseware where we can also increase the 20% share that we have today through product innovation and introduction of new categories. As you can see, we have a strong potential to sustain a strong double-digit organic growth into the future.

With that, I will turn it over to our Chairman, Luis, for final comments.

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

Well, finally, I would like to highlight that we are firmly positioned and will continue working on our three pillars in order to increase every year our household, market penetration, and our strong product offer to the consumers. On the other hand, we are very confident that we can replicate our business model, both geographically, basically to Peru and Colombia, in the years to come, because Peru and Colombia account now for almost two-thirds of the Mexican market and culturally they are very similar countries to Mexico, and in M&A on companies where we can guarantee that our model can accelerate its sales and EBITDA growth, which means we can replicate our model.

Thank you very much for the opportunity to share these important insights. And we will now open the conference to Q&A. Thank you.

QUESTION AND ANSWER SECTION

Q

Hi, everyone. I'm going to kick it off with a couple of questions. Luis, can you explain the growth that you believe is sustainable into 2021? You've had such strong triple-digit growth in the year that's just ending, and I'm curious as to whether you can continue that momentum in the next year.

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

A

Yes, [ph] Alison. (00:15:18) We are very confident regarding our growth is very solid. As we said during the presentation, the COVID probably accelerate a little bit the process. But most of our growth, as of the end of the third quarter and most of our growth in year 2020, will come from our three pillars, our strongest strategy. And we plan to continue strengthening these three pillars in such a way we can deliver in 2021 strong double-digit growth.

Q

Thank you. And then a question from the audience is on your dividend policy. Can you talk about your dividend policy? Is that an ongoing policy?

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

A

Yes. As we said when we reported our Q3 results, we plan to continue with our dividend policy. And we plan to continue with this in 2021 and hopefully in the years to come.

Q

Thank you. Another question from the audience from Mount Curve Capital Management, can you explain your strategy to expand into Peru and Colombia? When will it happen? Will you build organically there or through M&A?

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

A

Well, we have plenty of space for growth in Mexico, as Andres was saying. We are about 20%. We have about 20% market penetration in Mexico and we have a long way to go here. However, we will begin exploring possibilities to enter Colombia and Peru in 2021 and 2022 and hopefully get there sometime at the end of 2022 or beginning of 2023. We have to find the right partners in Colombia and Peru.

In my experience it helps a lot to have a good partner in a foreign country. Then this is the first thing we have to do. And once we get the right partner, we are going to enter there.

Q

Great. Thank you. And you have [ph] such (00:18:04) strong market share. I know you've got a lot of opportunity to expand in Mexico. But what makes your business unique and advantageous versus others? Who do you compete against and why are you so much further ahead?

Andres Campos

Chief Executive Officer & Director, Betterware de México SAPI de CV

A

So, I've spoken, during the presentation, the three pillars, which are innovation, technology, and business intelligence combined are what really sets us apart from any other competitor or from any other peer. Our competition is mainly against retail. But really we are the only ones who have put together a line focused on home organization and home solutions. So, this is something that makes us very unique.

Q

Great. Thank you. Can you also talk about just how your business works in terms of the associates and distributors? How long do they typically work for Betterware? What's your retention rate and how do you incent them to continue working?

Andres Campos

Chief Executive Officer & Director, Betterware de México SAPI de CV

A

Yeah. So, let me start off by saying the basics. Both distributors and associates are independent workers where distributors are focused on forming a group of associates, and through that selling with the associates to the final customer. And how this normally works is that every week they will place an order to Betterware according to what they have sold to end consumers. And with this weekly order, Betterware will deliver to the distributor, distributor to the associates, and so on. Normally there is – within the associates we have among some of the highest retention rates in the industry. But obviously in associates there is a lot of rotation from new associates and associates that come out. Within distributors, we have many distributors that have been with us for more than 15 years, so we have high retention rates with the distributors.

Q

Thank you. In terms of your product offering, how much of your products are driven by ongoing products that have been with you for a while versus new products? And does pricing also play a role in your growth?

Andres Campos

Chief Executive Officer & Director, Betterware de México SAPI de CV

A

Well, obviously innovation, as we were saying, is an important part of our business. At any given time, about 50% of revenue comes from products that were launched 12 months earlier or before and 50% of revenue comes from products that have been launched in the last 12 months. So, innovation does play a big role, but we also have that 50% of products that stay for a long time being very attractive to consumers.

Q

Thank you. The web platform sounds very exciting. Are you already seeing the benefits from that new web platform? Can you share any anecdotes or stories how that's beginning to work for the company?

Andres Campos

Chief Executive Officer & Director, Betterware de México SAPI de CV

A

Well, I believe that it's too early to give any details about how this platform is doing because it's [ph] been out (00:22:29) for about two weeks only. But we do expect this platform to be very important in the medium and long term. You know that Internet e-commerce is still with a very low penetration in Mexico. But with this website we are prepared to engage consumers through a very unique platform as these digital platforms take a more important role in Mexican e-commerce.

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

A

However, I would like to add something. In these two weeks, two, three weeks, the transactions are growing every week. It's very early, as Andres said. But we believe in the future it will mean an important source of income for our distributors and the company.

Q

Thank you. Another question from the audience is on your new distribution center. How is that working to help make the company more efficient? Are you starting to see the benefits there?

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

A

We are right in the transition. People are moving to the new distribution center. We are going to finish with the transition by the end of February. And, yes, we expect to see some benefits even this year and we will keep you posted about that. We have quite an idea of the kind of positive impact it will have. But we will tell about that probably by the end of the first quarter of this year.

Q

Okay. Great. And then can you talk about capital expenditures? The business seems to have very strong cash flow. You've got the dividend. Will there be incremental capital expenditures needed to support your growth in the future?

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

A

You will see even this year some, let's say, extraordinary investment in capital. But this will be because we still are going to invest in equipping the new distribution center. We are automating a lot of our operation. Then we will be investing on that this year in the first quarter, first and second quarter. And probably beginning in 2022 we will come back to normal capital expenditure as we had before we invested in the new distribution center.

Q

Okay. Great. And then just one more from me, in terms of your sales of your products, would you say that, for the most part, all of them are replenishment? And do you find that the consumer are consistently buying and reordering those same products or are you seeing them buy new products?

Andres Campos

Chief Executive Officer & Director, Betterware de México SAPI de CV

A

So, I mean, every week we see that customers are buying the new products. As I say, it basically maintains as a balance. As I was saying, 50% of the revenue comes from items that were from 12 months earlier and 50% from new items. But obviously, consumers expect new and they want new. And this is what we're focused on to make sure they continue to buy the products from us. So, this is an important matter.

Unverified Participant

Okay. And then just in the last couple of minutes, is there anything [indiscernible] (00:27:00) you'd like to share with the investors that are listening today?

Luis Campos

Executive Chairman, Betterware de México SAPI de CV

Well, I'll probably take the opportunity to say that we will continue working very close to the operation and we will continue strengthening our product innovation, technology, and business intelligence pillars. And in addition to our organic growth initiatives, we will be very active looking for companies in Mexico where we can replicate our business. This is in terms of M&A. And as I said before, we will also work on paving the road for our geographical expansion into Colombia and Peru. Then we will be active in both organic and inorganic growth. And thank you for your time this morning.

Unverified Participant

Thank you.

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