

BETTERWARE DE MEXICO, S.A.B. DE C.V.
(BWMX:\$37.93)
March 22, 2021

Company Update
Rating: Buy
Price Target: \$53.00

Market Data					
52- Week Range	\$5.58 - \$45.69				
Rating	Buy				
Price	\$37.93				
Price Target	\$53.00				
Market Cap. (MM)	\$1,388.2				
Shares Out. (MM)	36.6				
Dividend	\$1.90				
Dividend Yield	5.0%				
Average Daily Volume	85,675				
MXN EPS					
FY DEC	2020	2021		2022	
	Estimates	Previous	Current	Previous	Current
Q1	4.71	-	10.82E	-	-
Q2	8.17	-	12.33E	-	-
Q3	13.22	-	17.62E	-	-
Q4	17.36	-	18.55E	-	-
Annual	44.50	-	59.41E	-	73.79E
MXN Revenues (mil)					
FY DEC	2020	2021		2022	
	Estimates	Previous	Current	Previous	Current
Annual	7,260.4	-	10,953.8E	-	13,692.2E
MXN EBITDA					
FY DEC	2020	2021		2022	
	Estimates	Previous	Current	Previous	Current
Annual	2,165.8	-	3,226.7E	-	4,080.3E
Valuation Ratio					
	FY20	FY21	FY22		
P/E	17.6x	13.2x	10.6x		
EV/EBITDA	13.2x	8.8x	6.7x		

Founded in 1995, Betterware, via a merger with DD3 Acquisition Corp. in March 2020, is the first Mexican company directly trading on a U.S. stock exchange. The company is a leading home organization direct-to-consumer player in Mexico. Through its 9 catalogs (annually), apps and online offerings and a network of Distributors and Associates, Betterware serves over 3 million households in over 800 communities in Mexico. The company has averaged top line CAGR of over 40% since 2015.

Note: All compensation received for coverage is in cash not stock (or stock warrants); see full disclosures at the end of the report.

Acquisition of GurúComm Further Leverage of Betterware Network; Reiterate Buy

Summary

We are reiterating our Buy rating, \$53 price target and estimates for Betterware after the company announced the acquisition of 60% of GurúComm, a leading Mobile Virtual Network Operator, for Ps. 45 million (approximately \$2.1 million). While small, and not a driver of higher near term estimates, we believe the acquisition of GurúComm demonstrates: 1) the company's continued commitment to capture a wider share of their customers "wallet" beyond housewares; 2) a focus on increasing digital driven sales; 3) a play on a still growing market and, most importantly, 4) highlights the myriad of leverageable opportunities for Betterware's "last mile" delivery services. As such, we continue to view BWMX, trading at under 7X our FY22 EV/EBITDA as a compelling play on the Mexican consumer.

Key Points

- **Prior to the open today Betterware announced the acquisition of 60% of GurúComm**, a leading Mobile Virtual Network Operator ("MVNO") for PS. 45 million, valuing the enterprise at Ps. 75 million. The acquisition, which was paid for out of the company's cash balances, includes the GurúComm management teams and operations. GurúComm will now operate as Betterware Connect.
- **An interesting business opportunity.** The MVNO market launched in Mexico in March 2018. MVNOs are basically a wireless service provider without the infrastructure, which the MVNO wholesales from a network operator, allowing MVNOs offer all the services of an integrated wireless communications network (i.e. mobile voice, data and hotspots) at materially lower prices. Currently, MVNOs in Mexico have a 2% share of the overall wireless market; we estimate there are approximately 20 MVNO providers in Mexico, including Walmart Mexico (WalMex).
- **Mexico remains under penetrated in terms of cellular usage.** According to GSMA, the global mobile communication industry association, Mexico is among the least penetrated Latin American mobile markets, with only 63% mobile penetration in 2019 versus 70% in Argentina and Brazil, 71% in Columbia and 82% in Chile (versus 85% in the United States). Further, 56% of Mexican mobile service is in 3G, by far (with the exception of Costa Rica) the lowest level of leading edge coverage. As such, we believe there remains material opportunities for overall expansion (and upgrades) of the Mexican mobile communications markets.

Leveraging MVNO to expand Betterware services. While the acquisition of GurúComm will allow Betterware to offer cellular communication services to their distribution network and customer base, it will also eventually result in the rollout of Smart Home and Smart Device offerings and Home-based software solutions. Further, by expanding the digital capacities of the company's customer base, it will allow for further usage of Betterware's expanding online purchasing capabilities.

Betterware Connect creates another selling opportunity for Betterware's distribution network. As with the planned category expansion and online shopping capabilities, the addition of MVNO services creates another selling opportunity for the company's distribution network. Further, given the ongoing (probably monthly) payment streams, wireless services could be a lucrative emerging business for associates and distributors.

GurúComm highlights the value of Betterware's "last mile" capabilities. The company's network of over 1.3 million distributors and associates represents a powerful leverageable asset. Given that the Betterware customer already trusts the company to maintain what is probably their most important and valuable asset (their home) and will see (and trust) the Betterware distributor multiple times in the year, we believe there is a compelling opportunity to expand the Betterware offerings to encompass more of their customer's needs. We view GurúComm as a key test of the company's ability to materially expand and maintain their customer's trust in the brand.

No change to estimates. We view Betterware Connect as an emerging trend that, in the near term, will be immaterial, but is a key test of the company's ability to expand the depth and categories of offerings and become an even more important part of their core customer's lives which, longer term, should drive continued double-digit top and bottom line growth. We reiterate our Buy rating on BMWX.

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Betterware de Mexico, S.A.B. de C.V. (1) Income Statement, FYE December (000's of Mexican Pesos except per share items)	2019A					2020A					2021E				2022E					
	YEAR	Q1A		Q2A		Q3A		Q4A		YEAR	Q1E		Q2E		Q3E		Q4E		YEAR	YEAR
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Dec-21	Dec-21	Dec-21	Dec-21	Dec-21	Dec-21	Dec-22	Dec-22
Net Revenue	Ps. 3,084,662	Ps. 952,685	Ps. 1,435,718	Ps. 2,270,838	Ps. 2,601,167	Ps. 7,260,408	Ps. 2,095,907	Ps. 2,297,149	Ps. 3,179,173	Ps. 3,381,517	Ps. 10,953,746	Ps. 13,692,183								
Cost of Goods Sold - Retail	1,280,829	418,069	694,503	1,030,781	1,147,641	3,290,994	964,117	1,056,688	1,430,628	1,521,683	4,973,116	6,161,482								
Gross Profit	1,803,833	534,616	741,215	1,240,057	1,453,526	3,969,414	1,131,790	1,240,460	1,748,545	1,859,834	5,980,630	7,530,700								
Administrative Expenses	281,535	120,642	92,983	160,022	245,564	619,211	190,728	186,069	263,871	284,047	924,715	1,150,143								
Selling Expenses	551,300	135,095	182,685	241,894	293,681	853,355	251,509	275,658	381,501	405,782	1,314,450	1,670,446								
Distribution Expenses	121,155	40,473	75,043	107,973	107,534	331,023	102,699	107,966	146,242	157,900	514,807	629,840								
EBITDA	849,843	238,406	390,504	730,168	806,747	2,165,825	586,854	670,767	956,931	1,012,105	3,226,658	4,080,270								
Depreciation & Amortization	37,598	8,970	10,605	8,789	17,132	45,496	11,000	11,500	12,000	12,500	47,000	50,000								
Operating Income	812,245	229,436	379,899	721,379	789,615	2,120,329	575,854	659,267	944,931	999,605	3,179,658	4,030,270								
Interest Expense (2)	85,429	40,399	11,528	0	8,082	60,009	5,000	5,000	5,000	5,000	20,000	20,000								
Interest (Income)	(7,028)	(2,710)	(2,777)	(4,099)	0	(9,586)	0	0	0	0	0	0								
Unrealized Loss in Financial Derivatives	15,680	(70,879)	(6,572)	50,710	0	(26,741)	0	0	0	0	0	0								
Foreign Exchange	13,330	51,837	(31,760)	16,136	(5,811)	30,402	0	0	0	0	0	0								
Income (Loss) Before Taxes	704,834	210,789	409,480	658,632	787,344	2,066,245	570,854	654,267	939,931	994,605	3,159,658	4,010,270								
Income Tax (Benefit)	232,692	65,289	128,167	203,080	152,164	548,700	176,965	202,823	291,379	308,328	979,494	1,243,184								
Net Income	Ps. 472,142	Ps. 145,500	Ps. 281,313	Ps. 455,552	Ps. 635,180	Ps. 1,517,545	Ps. 393,889	Ps. 451,445	Ps. 648,552	Ps. 686,277	Ps. 2,180,164	Ps. 2,767,087								
Diluted EPS	Ps. 15.63	Ps. 4.71	Ps. 8.17	Ps. 13.22	Ps. 17.36	Ps. 44.50	Ps. 10.82	Ps. 12.33	Ps. 17.62	Ps. 18.55	Ps. 59.41	Ps. 73.79								
Diluted Shares (000)	30,200	30,909	34,451	34,459	36,585	34,101	36,400	36,600	36,800	37,000	36,700	37,500								

Margin Analysis

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Gross Margin	58.5%	56.1%	51.6%	54.6%	50.0%	54.7%	54.0%	54.0%	55.0%	55.0%	54.6%	55.0%
Administrative Expenses	9.1%	12.7%	6.5%	7.0%	8.2%	8.5%	9.1%	8.1%	8.3%	8.4%	8.4%	8.4%
Selling Expenses	17.9%	14.2%	12.7%	10.7%	11.0%	11.8%	12.0%	12.0%	12.0%	12.0%	12.0%	12.2%
Distribution Expenses	3.9%	4.2%	5.2%	4.8%	5.0%	4.6%	4.9%	4.7%	4.6%	4.7%	4.7%	4.6%
EBITDA Margin	27.6%	25.0%	27.2%	32.2%	31.0%	29.8%	28.0%	29.2%	30.1%	29.9%	29.5%	29.8%
Operating Income Margin	26.3%	24.1%	26.5%	31.8%	30.4%	29.2%	27.5%	28.7%	29.7%	29.6%	29.0%	29.4%
Pre-Tax Margin	22.8%	22.1%	28.5%	29.0%	30.3%	28.5%	27.2%	28.5%	29.6%	29.4%	28.8%	29.3%
Net Income	15.3%	15.3%	19.6%	20.1%	24.4%	20.9%	18.8%	19.7%	20.4%	20.3%	19.9%	20.2%
Tax Rate	33.0%	31.0%	31.3%	30.8%	31.0%	26.6%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%

Quarterly % Chng. Analysis

Net Sales - Sequential		20.5%	50.7%	58.2%	14.5%		-19.4%	9.6%	38.4%	6.4%		
YoY	33.1%	27.5%	82.1%	199.4%	225.0%	135.4%	120.0%	60.0%	40.0%	30.0%	50.9%	25.0%
Gross Profit		18.2%	38.6%	67.3%	17.2%		-22.1%	9.6%	41.0%	6.4%		
YoY	32.8%	20.6%	63.4%	172.8%	221.4%	120.1%	111.7%	67.4%	41.0%	28.0%	50.7%	25.9%
EBITDA		5.1%	63.8%	87.0%	10.5%		-27.3%	14.3%	42.7%	5.8%		
YoY	48.2%	17.2%	94.3%	234.1%	255.5%	154.9%	146.2%	71.8%	31.1%	25.5%	49.0%	26.5%
Operating Income - Sequential		6.5%	65.6%	89.9%	9.5%		-27.1%	14.5%	43.3%	5.8%		
YoY	48.3%	17.8%	97.7%	243.6%	266.5%	161.0%	151.0%	73.5%	31.0%	26.6%	50.0%	26.8%
EPS - Sequential		53.6%	73.5%	61.9%	31.3%		-37.7%	14.0%	42.9%	5.2%		
YoY	57.8%	18.8%	114.0%	175.8%	466.7%	184.6%	129.9%	51.1%	33.3%	6.8%	33.5%	24.2%

(1) On March 13, 2020 Betterware de Mexico merged into DD3 Acquisition Corp., with Betterware the surviving entity; as such, all historic financial results prior to 2Q20 are pro forma.

(2) Excludes Ps. 18,900 prepayment commission in 2Q20.

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Betterware de Mexico, S.A.B. de C.V. (1) Pro Forma Income Statement, FYE December (000's of US\$ except per share items)	2019A					2020A					2021E				2022E	
	YEAR Dec-19	Q1A Mar-20	Q2A Jun-20	Q3A Sep-20	Q4A Dec-20	YEAR Dec-20	Q1E Mar-21	Q2E Jun-21	Q3E Sep-21	Q4E Dec-21	YEAR Dec-21	YEAR Dec-22				
Exchange Rate (2) - US\$/Ps.	\$ 0.0520	\$ 0.0498	\$ 0.0429	\$ 0.0453	\$ 0.0480	\$ 0.0464	\$ 0.0500	\$ 0.0500	\$ 0.0500	\$ 0.0500	\$ 0.0500	\$ 0.0478				
Exchange Rate (2) - Ps./US\$	Ps. 19.25	Ps. 20.09	Ps. 23.33	Ps. 22.09	Ps. 20.85	Ps. 21.55	Ps. 20.00	Ps. 20.00	Ps. 20.00	Ps. 20.00	Ps. 20.00	Ps. 20.92				
Net Revenue	\$ 160,268	\$ 47,432	\$ 61,537	\$ 102,795	\$ 124,733	\$ 336,497	\$ 104,795	\$ 114,857	\$ 158,959	\$ 169,076	\$ 547,687	\$ 654,486				
Cost of Goods Sold - Retail	66,547	20,815	29,767	46,661	55,033	152,276	48,206	52,834	71,531	76,084	248,656	294,519				
Gross Profit	93,721	26,617	31,769	56,134	69,701	184,222	56,589	62,023	87,427	92,992	299,031	359,967				
Administrative Expenses	14,628	6,007	3,985	7,244	11,775	29,011	9,536	9,303	13,194	14,202	46,236	54,977				
Selling Expenses	28,644	6,726	7,830	10,950	14,083	39,589	12,575	13,783	19,075	20,289	65,722	79,847				
Distribution Expenses	6,295	2,015	3,216	4,888	5,157	15,276	5,135	5,398	7,312	7,895	25,740	30,106				
EBITDA	44,155	11,870	16,738	33,053	38,686	100,346	29,343	33,538	47,847	50,605	161,333	195,037				
Depreciation & Amortization	1,953	447	455	398	822	2,121	550	575	600	625	2,350	2,390				
Operating Income	42,201	11,423	16,283	32,655	37,864	98,225	28,793	32,963	47,247	49,980	158,983	192,647				
Interest Expense (3)	4,439	2,011	494	0	388	2,893	250	250	250	250	1,000	956				
Interest (Income)	(365)	(135)	(119)	(186)	0	(440)	0	0	0	0	0	0				
Unrealized Loss in Financial Derivatives	815	(3,529)	(282)	2,296	0	(1,515)	0	0	0	0	0	0				
Foreign Exchange	693	2,581	(1,361)	730	(279)	1,671	0	0	0	0	0	0				
Income (Loss) Before Taxes	36,621	10,495	17,551	29,815	37,755	95,616	28,543	32,713	46,997	49,730	157,983	191,691				
Income Tax (Benefit)	12,090	3,251	5,493	9,193	7,297	25,234	8,848	10,141	14,569	15,416	48,975	59,424				
Net Income	\$ 24,531	\$ 7,244	\$ 12,057	\$ 20,622	\$ 30,459	\$ 70,382	\$ 19,694	\$ 22,572	\$ 32,428	\$ 34,314	\$ 109,008	\$ 132,267				
Diluted EPS	\$ 0.81	\$ 0.23	\$ 0.35	\$ 0.60	\$ 0.83	\$ 2.06	\$ 0.54	\$ 0.62	\$ 0.88	\$ 0.93	\$ 2.97	\$ 3.53				
Diluted Shares (000)	30,200	30,909	34,451	34,459	36,585	34,101	36,400	36,600	36,800	37,000	36,700	37,500				

Margin Analysis

Gross Margin	58.5%	56.1%	51.6%	54.6%	55.9%	54.7%	54.0%	54.0%	55.0%	55.0%	54.6%	56.0%
Administrative Expenses	9.1%	12.7%	6.5%	7.0%	9.4%	8.6%	9.1%	8.1%	8.3%	8.4%	8.4%	9.0%
Selling Expenses	17.9%	14.2%	12.7%	10.7%	11.3%	11.8%	12.0%	12.0%	12.0%	12.0%	12.0%	13.0%
Distribution Expenses	3.9%	4.2%	5.2%	4.8%	4.1%	4.5%	4.9%	4.7%	4.6%	4.7%	4.7%	4.7%
EBITDA Margin	27.6%	25.0%	27.2%	32.2%	31.0%	29.8%	28.0%	29.2%	30.1%	29.9%	29.5%	29.8%
Operating Income Margin	26.3%	24.1%	26.5%	31.8%	30.4%	29.2%	27.5%	28.7%	29.7%	29.6%	29.0%	29.4%
Pre-Tax Margin	22.8%	22.1%	28.5%	29.0%	30.3%	28.4%	27.2%	28.5%	29.6%	29.4%	28.8%	29.3%
Net Income	15.3%	15.3%	19.6%	20.1%	24.4%	20.9%	18.8%	19.7%	20.4%	20.3%	19.9%	20.2%
Tax Rate	33.0%	31.0%	31.3%	30.8%	19.3%	26.4%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%

Quarterly % Chng. Analysis

Net Sales - Sequential		15.5%	29.7%	67.0%	21.3%		-16.0%	9.6%	38.4%	6.4%		
YoY	32.9%	21.9%	49.2%	163.2%	203.7%	110.0%	120.9%	86.6%	54.6%	35.6%	62.8%	20.0%
Gross Profit		13.3%	19.4%	76.7%	24.2%		-18.8%	9.6%	41.0%	6.4%		
YoY	32.6%	15.3%	33.8%	139.8%	196.6%	96.6%	112.6%	95.2%	55.7%	33.4%	62.3%	95.4%
EBITDA		0.7%	41.0%	97.5%	17.0%		-24.2%	14.3%	42.7%	5.8%		
YoY	47.9%	12.1%	59.1%	193.7%	228.1%	127.3%	147.2%	100.4%	44.8%	30.8%	60.8%	94.4%
Operating Income - Sequential		2.1%	42.5%	100.5%	16.0%		-24.0%	14.5%	43.3%	5.8%		
YoY	48.1%	12.7%	61.9%	202.1%	238.3%	132.8%	152.1%	102.4%	44.7%	32.0%	61.9%	96.1%
EPS - Sequential		47.2%	49.3%	71.0%	39.1%		-35.0%	14.0%	42.9%	5.2%		
YoY	57.5%	13.6%	75.3%	142.5%	423.0%	154.1%	130.9%	76.2%	47.2%	11.4%	43.9%	70.9%

(1) On March 13, 2020 Betterware de Mexico merged into DD3 Acquisition Corp., with Betterware the surviving entity; as such, all historic financial results prior to 2Q20 are pro forma.

(2) Average Historic Rates based on Noon Buying Rates in the City of New York for Cable Transfers between Mexican Peso and U.S. Dollar. Source: Federal Reserve Bank of New York.

(3) Excludes Ps. 18,900 prepayment commission in 2Q20.

Analyst Certification

I, Eric M Beder, certify that the views expressed, including (but not limited to) price target, rating and financial estimates, herein accurately reflect my personal views on the security and company (or companies) mentioned in this report.

Valuation/Risk

Value: Our \$53 price target translates to 9.4X our 2022 EBITDA projection of Ps. 4.1 billion.

Risks: Risks to our \$53.00 price target include, but are not limited to: 1) the company competes against players with materially more financial resources; 2) approximately 89% of the company's products are sourced from China 3) recent results have been materially positively impacted by COV- 19; 4) the company's products are primarily purchased from suppliers in USD, exposing the company to FX risks; 5) the company is focused on expansion to other countries; 6) as a direct seller, the company's ability to operate is regulated by local and federal laws and 7) the company's customers remain economically affected.

Ratings Distribution (in Percentages) & Investment Banking Disclosure Chart Information

Rating	Count	Ratings Distribution*
Buy - rated	6	100.00%
Neutral - rated	0	0.00%
Sell - rated	0	0.00%

Rating System

SCC uses the following three- tiered rating system for securities covered in their research reports:

- Buy: We generally expect "Buy" rated stocks to have an above- average total return over the next 18 months. We recommend that investors buy the securities at the current valuation.
- Neutral: We generally believe "Neutral" rated stocks will have an average total return over the next 18 months.
- Sell: We generally expect "Sell" rated stocks to have a below- average total return over the next 18 months.

About the Research Analyst

Before co- founding Small Cap Consumer Research in January 2018, **Eric M. Beder** was a Consumer Equity Research Analyst for over twenty years at leading investment banks such as Ladenburg Thalmann, Brean Murray, Wunderlich Securities and B. Riley/FBR, among others; Mr. Beder is a three time *Wall Street Journal Best on the Street* winner (in the Apparel and Specialty Retail categories) and two time *Starline/FT Award* winner for stock picking in the Textiles, Apparel & Luxury Goods categories. Prior to transitioning to an equity research analyst role, Mr. Beder worked in the commercial real estate and investment banking field. Mr. Beder received his M.B.A. from The Haas School of Business at the University of California- Berkeley and his B.S., with a major in Accounting/Finance, from The Wharton School of the University of Pennsylvania.

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