



NOVEMBER 09, 2020

BWMX - \$34.16 Moderate Risk

Price Target (Current) \$42.00

Price Target (Previous) \$32.00



BETTERWARE DE MÉXICO, S.A.P.I. DE C.V.

BWMX - Raising PT to \$42 on Stronger Growth and Profit Outlook

Market Statistics	11/06/2020
Market Capitalization (\$MM):	\$1,043.9
Enterprise Value (MM):	\$1,040.3
Shares Outstanding (MM):	34.5
Avg. Daily Trading Volume (Shrs, 000s):	36.0
Short Interest/Float:	0.4%
Insider Ownership (% of Total Shrs Out):	91.1%
Dividend Yield:	4.2%
Stock Exchange:	NASDAQ

Price Performance	11/06/2020
52-Week Range:	\$5.58 - \$37.82
YTD % Change:	205.0%
YTD % Change Relative to Index:	196.3%
Implied Return to Price Target:	37.7%



TAG View: Betterware's wide 3Q20 beat on both sales and EBITDA, together with our view that the momentum can continue into 2021, give us the confidence to raise our 12-month price target to \$42 from \$32. Our new price target is based on applying a lower EV/EBITDA multiple of 10x (down from 12x to reflect some conservatism) on our much higher 2021 EBITDA forecast of MX\$2.9B, up from MX\$1.9B previously. Over the next few quarters, we expect Betterware to continue to benefit from higher consumer spending on the home, given the "nesting" effect related to COVID-19, the strong growth in its distribution network of distributors and associates, and new product introductions. From a profit standpoint, the move to a much larger campus and distribution center in 4Q20, should yield efficiencies and cost savings. Beyond 2021, we estimate Betterware can drive sustained 20%-30% annual sales growth, fueled by growth in associates and distributors, further penetration of the Mexican market (from 20% currently), leverage of its business intelligence platform, expansion of its product portfolio into new home categories, and entry into neighboring countries in Central and South America.

While we are positive on Betterware's fundamentals, investors should consider a number of risk factors. These include a limited history as a public company, low trading liquidity, exposure to Mexico's economic policies, and fluctuations in the USD/MXN foreign exchange as ~90% of products are purchased from Chinese vendors in USD while sales are reported in Mexican pesos. Furthermore, there is inherent execution risk as Betterware expands into new regions and markets.

Raised 2020 Guidance: For 2020, the company now projects total sales of ~135% to MX\$7.25B vs. MX\$5.12B previously and EBITDA growth of 123%-147% to MX \$1.9B-MX\$2.1B, up from MX\$1.45B previously, equating to an EBITDA margin of 26.2%-28.9% vs. 28.3% previously. Betterware's EBITDA margin outlook takes into account gross margin pressure related to MXN/USD exchange rate volatility and uncertainty associated with consumer confidence in Mexico in 4Q20, and could prove conservative, given the strong sales growth. For 4Q20, the company's 2020 outlook implies total sales growth of 228% to MX\$2.60B and EBITDA of MX\$540MM-MX \$740MM, both well above our prior estimates.

New TAG Estimates: We are raising our 2020 EBITDA estimate to MX\$2.1B from MX \$1.5B previously, reflecting sales growth of 138% to MX\$7.3B vs. MX\$5.2B previously and EBITDA margin expansion of ~150 bps to 29.1% vs. 28.5% previously. For 2021, we now project EBITDA of MX\$2.9B vs. MX\$1.9B previously, reflecting sales growth of 38% to MX\$10.1B vs. MX\$6.8B previously and a flat EBITDA margin at 29.1% vs. 28.3% previously.

Service Levels Back to Normal Levels: The acceleration of customer demand led to supply chain constraints in 3Q20, with longer delivery windows and higher freight expenses (a 210-bp headwind on gross margin). In response, Betterware added new pick and pack lines in its warehouses and purchased additional forklifts and trucks. Currently, delivery timeframes are back to pre-COVID-19 levels.

Valuation Metrics (FYE Dec)	2019	2020E	2021E
P/E Ratio	40.5x	15.3x	11.7x
EV/Sales	7.0x	2.9x	2.1x
EV/EBITDA	25.4x	10.1x	7.3x

Balance Sheet and Growth Metrics	2019	2020E	2021E
EPS (Operating)	15.63	41.38	54.00
Debt/EBITDA	0.8x	0.3x	0.2x
Total Sales YoY %	33.1	138.2	37.5

Total Sales			Adjusted EBITDA		
Period	Current	Previous	Period	Current	Previous
1Q19	MXN747	-	1Q19	MXN204	-
2Q19	MXN788	-	2Q19	MXN201	-
3Q19	MXN759	-	3Q19	MXN219	-
4Q19	MXN791	-	4Q19	MXN227	-
2019	MXN3,085	-	2019	MXN851	-
1Q20	MXN953	-	1Q20	MXN238	-
2Q20	MXN1,436	-	2Q20	MXN391	-
3Q20	MXN2,271	-	3Q20	MXN730	-
4Q20E	MXN2,688	MXN1,383	4Q20E	MXN778	MXN415
2020E	MXN7,347	MXN5,175	2020E	MXN2,137	MXN1,475
1Q21E	MXN2,382	MXN1,620	1Q21E	MXN752	MXN482
2Q21E	MXN2,154	MXN1,723	2Q21E	MXN544	MXN460
3Q21E	MXN2,611	MXN1,684	3Q21E	MXN780	MXN480
4Q21E	MXN2,957	MXN1,729	4Q21E	MXN863	MXN487
2021E	MXN10,103	MXN6,756	2021E	MXN2,938	MXN1,909

Source: FactSet, company reports, and TAG estimates.

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Consolidating Operations in New Campus: Betterware's new campus in the outskirts of Guadalajara is slated to be fully operational by the end of November. This facility consolidates all warehousing and distribution needs, as well as optimizes space and inventory management, with 2.5x higher storage capacity and 5.0x higher assortment capacity than its current facilities.

Initial Stages of International Expansion: After conducting a test for roughly a year and being pleased with the results, Betterware is officially launching in the Guatemalan market through a concession partner. The company will operate in Guatemala through a joint venture in which it will own a majority 70% stake. While this is the first step in Betterware's expansion outside of Mexico, Guatemala represents a small market opportunity that is 8%-10% the size of Mexico and is therefore not expected to be a meaningful contributor to financial results. However, the test has given Betterware proof that its business model can work outside of Mexico. In 2021, Betterware is likely to begin testing expansion into Colombia and Peru, which are much larger markets (together 50%-60% the size of Mexico) and can be more meaningful long-term drivers of growth. Overall, we expect the pace of international expansion to be gradual, with the majority of Betterware's growth coming from further expansion in Mexico, where its penetration is still relatively low at ~10% of potential markets.

Strong 3Q20 Result: In 3Q20, the company's adjusted EBITDA rose 234% to MX\$730MM vs. our estimate of MX\$431MM. Total sales were up ~200% to MX\$2.3B, well above our forecast of MX\$1.4B, driven by associate growth of 179% to 1.2MM and distributor growth of 186% to 58,600, with strength across all product categories. From a profitability standpoint, the adjusted EBITDA margin expanded ~335 bps to 32.3% vs. our forecast of 30.7% and the operating margin expanded ~410 bps to 31.8% vs. our estimate of 29.9%. The SG&A expense ratio (incl. depreciation) declined ~940 bps to 22.8% vs. our projection of 24.6%, resulting from leverage on administrative and selling expenses on the strong sales growth, partially offset by higher distribution expenses. The gross margin compressed ~530 bps to 54.6%, although it was slightly better than our estimate of 54.4%, due to devaluation of the Mexican peso vs. the US dollar (-320 bps), as product purchases are denominated in US dollars while sales are in pesos, and higher air freight costs (-210 bps) as Betterware expedited shipments to meet demand.

KEY FINANCIAL METRICS					
FYE December	3Q20	3Q20	Change	3Q19	Change
MX\$ MM	Act.	Est.	A vs. E	Act.	A vs. LY
Total Sales	MXN 2,270.8	MXN 1,403.2	MXN 867.6	MXN 758.5	199.4%
Gross Margin	54.6%	54.4%	19	59.9%	(532)
Total Operating Expenses	22.8%	24.6%	(188)	32.3%	(941)
Operating Income	31.8%	29.9%	208	27.7%	409
Tax Rate (% of Pretax Income)	30.8%	31.0%	(18)	28.9%	192
EBITDA	MXN 730.2	MXN 431.3	MXN 298.9	MXN 218.6	234.1%
EBITDA Margin	32.2%	30.7%	156	28.8%	334

Source: Company reports and TAG research and estimates

BETTERWARE FINANCIAL MODEL

	2018	2019	1Q20	2Q20	3Q20	4Q20E	2020E	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E
INCOME STATEMENT HIGHLIGHTS (MX\$MM)	TOTAL	TOTAL	MAR	JUN	SEP	DEC	TOTAL	MAR	JUN	SEP	DEC	TOTAL	TOTAL
Total Sales	2,317	3,085	953	1,436	2,271	2,688	7,347	2,382	2,154	2,611	2,957	10,103	12,590
Total Gross Profit	1,358	1,804	535	741	1,240	1,403	3,919	1,384	1,209	1,517	1,632	5,743	7,181
Administrative Expenses	249	319	130	104	169	187	589	300	220	220	236	976	1,199
Selling Expenses	454	551	135	183	242	340	900	219	339	409	463	1,429	1,803
Distribution Expenses	103	121	40	75	108	117	340	125	125	129	134	514	663
Total SG&A Expenses	807	992	305	361	519	644	1,829	644	684	758	833	2,919	3,664
Total Operating Income (Loss)	552	812	229	380	721	759	2,090	740	525	759	800	2,824	3,517
Net Interest Income (Expense)	(80)	(78)	(38)	(28)	4	9	(53)	10	7	6	7	29	51
Pretax Income	449	705	211	391	659	768	2,028	750	532	765	807	2,853	3,568
Taxes (Benefit)	150	233	65	122	203	238	629	232	165	237	250	884	1,106
Net Income from Continuing Operations	299	472	146	268	456	530	1,399	517	367	528	557	1,968	2,462
Diluted Shares Outstanding	30.2	30.2	29.9	34.5	34.5	36.5	33.8	36.5	36.5	36.5	36.5	36.5	36.5
Diluted EPS (MX\$)	MXN 9.91	MXN 15.63	MXN 4.87	MXN 7.79	MXN 13.22	MXN 14.54	MXN 41.38	MXN 14.20	MXN 10.06	MXN 14.47	MXN 15.27	MXN 54.00	MXN 67.54
YoY % Change	44.1%	57.7%	22.8%	104.2%	175.9%	374.5%	164.8%	191.7%	29.2%	9.5%	5.1%	30.5%	25.1%
SELECT METRICS, GROWTH RATES, AND MARGINS													
Active Associates (000s)	325	417	475	740	1,200	1,440	1,440	1,584	1,663	1,746	1,834	1,834	2,229
YoY Growth (%)	61.7%	28.3%	35.7%	94.7%	179.1%	245.3%	245.3%	233.5%	124.8%	45.5%	27.3%	27.3%	21.6%
Active Distributors (000s)	18	21	26	42	59	70	70	77	81	85	90	90	109
YoY Growth (%)	50.0%	16.7%	35.5%	107.9%	185.9%	234.9%	234.9%	200.4%	93.4%	45.5%	27.3%	27.3%	21.6%
Total Sales Growth YoY (%)	59.8%	33.1%	27.5%	82.1%	199.4%	240.0%	138.2%	150.0%	50.0%	15.0%	10.0%	37.5%	24.6%
Gross Margin	58.6%	58.5%	56.1%	51.6%	54.6%	52.2%	53.3%	58.1%	56.1%	58.1%	55.2%	56.8%	57.0%
YoY bps change	(287)	(15)	(321)	(592)	(532)	(500)	(513)	200	450	350	300	350	19
SG&A Ratio	34.8%	32.1%	32.0%	25.2%	22.8%	24.0%	24.9%	27.0%	31.8%	29.0%	28.2%	28.9%	29.1%
YoY bps change	(387)	(267)	(124)	(801)	(941)	(600)	(725)	(500)	660	620	420	399	21
Operating Margin	23.8%	26.3%	24.1%	26.5%	31.8%	28.3%	28.4%	31.1%	24.4%	29.1%	27.1%	28.0%	27.9%
YoY bps change	99	252	(197)	209	409	100	212	700	(210)	(270)	(120)	(50)	(2)
Tax Rate	33.4%	33.0%	31.0%	31.3%	30.8%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%
OTHER KEY METRICS (MX\$MM)													
Adjusted EBITDA	574	851	238	391	730	778	2,137	752	544	780	863	2,938	3,667
Adjusted EBITDA Margin	24.8%	27.6%	25.0%	27.2%	32.2%	28.9%	29.1%	31.6%	25.3%	29.9%	29.2%	29.1%	29.1%
YoY bps change	26	282	(230)	171	334	24	151	654	(194)	(230)	24	(0)	5
Cash and Cash Equivalents	177	214	278	521	1,155	2,413	2,721	1,269	1,314	766	1,861	1,861	3,433
Inventory	302	346	319	520	1,113	587	587	543	676	1,447	793	793	991
YoY Growth	113.0%	14.3%	(9.3%)	50.5%	217.8%	70.0%	70.0%	70.0%	30.0%	30.0%	35.0%	35.0%	25.0%
Total Debt	653	678	448	424	600	592	592	592	592	592	539	539	465
Debt to EBITDA	1.1x	0.8x	0.5x	0.4x	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x	0.1x
Cash from Operations	338	605	257	569	914	2,020	3,760	(1,202)	295	(298)	1,344	140	2,602
Capital Expenditures	21	183	40	151	171	432	794	50	50	50	50	200	230
Depreciation and Amortization	26	38	9	11	7	19	45	11	19	21	63	114	151
Free Cash Flow	352	430	218	430	747	1,588	2,963	(1,252)	245	(348)	1,294	(60)	2,372
Dividends and Capital Stock Increase	235	343	(95)	100	288	330	624	200	200	200	200	800	800
Share Repurchase	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: Company Reports and TAG Research

ADDENDUM**Important Disclosures:**

Valuation Method for Target Price: Price-to-Earnings, enterprise-value-to-EBITDA, P/E to growth, price to free cash flow, and discounted cash flow analysis.

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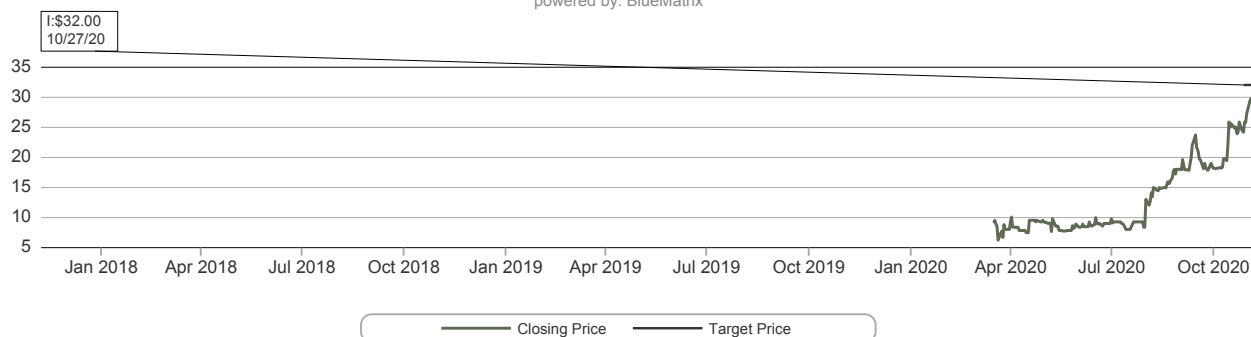
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Betterware de México, S.A.P.I. de C.V. Rating History as of 11/06/2020

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* Telsey with ratings are effective as of 09/11/14

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution	Count	*Investment Banking
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Moderate Risk	2	66.67%	0	0.00%
High Risk	0	0.00%	0	0.00%

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