



FEBRUARY 19, 2021

**BWMX - \$41.88** Moderate Risk

Price Target (Current) \$42.00

Price Target (Previous) Same

Market Statistics	02/18/2021
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	02/18/2021
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%



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

### BWMX - Strong 4Q20 Results and 2021 Guidance

**Robust 4Q20 Results:** Betterware announced strong 4Q20 earnings and 2021 guidance. In 4Q20, adjusted EBITDA rose 256% to MX\$807MM, beating our estimate of MX\$778MM. Total sales also were strong, up ~229% to MX\$2.60B, though slightly below our high expectation of MX\$2.69B, driven by associate growth of 195% to 1.23MM and distributor growth of 187% to 59,700. Betterware launched three catalogs during the quarter and introduced 98 new products. From a profitability standpoint, the adjusted EBITDA margin expanded ~230 bps to 31.0% vs. our forecast of 28.9% and the operating margin expanded 310 bps to 30.4% vs. our estimate of 28.3%. The SG&A expense ratio (incl. depreciation) declined ~440 bps to 25.5% vs. our projection of 24.0%, resulting from leverage on selling expenses (-735 bps) on the strong sales growth, partially offset by higher administrative expenses (+215 bps) and distribution expenses (+80 bps). This was partially offset by gross margin compression of ~130 bps to 55.9%, much better than our estimate of 52.2%, with the pressure coming from higher air freight costs incurred to meet the strong customer demand.

KEY FINANCIAL METRICS					
FYE December	4Q20	4Q20	Change	4Q19	Change
MX\$ MM	Act.	Est.	A vs. E	Act.	A vs. LY
Total Sales	MXN 2,601.2	MXN 2,687.8	-MXN 86.6	MXN 790.5	229.0%
Gross Margin	55.9%	52.2%	404	57.2%	(133)
Total Operating Expenses	25.5%	24.0%	172	30.0%	(443)
Operating Income	30.4%	28.3%	231	27.3%	310
EBITDA	MXN 806.7	MXN 777.9	MXN 28.8	MXN 226.9	255.5%
EBITDA Margin	31.0%	28.9%	228	28.7%	231

Source: Company reports and TAG research and estimates

**Strong 2021 Guidance:** For 2021, Betterware expects total sales growth of 39%-53% to MX\$10.1B-MX\$11.1B (TAG MX\$10.1B), adjusted EBITDA growth of 39%-52% to MX\$3.0B-MX\$3.3B (TAG MX\$2.9B), and adjusted EBITDA margin of 29.7% (TAG 29.1%). The company projects capex of MX\$460MM (TAG MX\$200MM), reflecting investments in infrastructure. Betterware's board proposed to pay total cash dividends of MX\$350MM per quarter, totaling MX\$1.4B for the year, subject to approval at the ordinary general shareholder's meeting on February 18.

**Update on Initiatives:** 1) Betterware continued to expand its household penetration in Mexico, helped by growth in associates and distributors. 2) The company plans to enter new categories in 2021, including home renovation by 2Q21. 3) Betterware aims to improve and relaunch its app for associates and distributors, Betternet 3.0. 4) The company rolled out its new e-commerce platform in December 2020, which provides greater accessibility, ease of purchase, and better connectivity between customers and associates. 5) Betterware continues to target expansion into Colombia and Peru.

**TAG View:** Betterware continues to benefit from its rapid growth in Mexico and higher consumer spending on the home, given the "nesting" effect related to COVID-19. Looking beyond 2021, we estimate Betterware can drive 20%-30% annual sales growth, driven by growth in associates and distributors, further penetration in Mexico (from 20% currently), leverage of its business intelligence platform, expansion into new home categories, and entry into countries in Central and South America. However, there are a number of risks, including a limited history as a public company, low trading liquidity, exposure to Mexico's economic policies, and the USD/MXN foreign exchange rate 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. Our estimates and price target are under review pending further details on the 9:00 am ET conference call.

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	-
4Q20	MXN2,601	MXN2,688	4Q20	MXN807	MXN778
2020	MXN7,260	MXN7,347	2020	MXN2,166	MXN2,137
1Q21E	MXN2,382	-	1Q21E	MXN752	-
2Q21E	MXN2,154	-	2Q21E	MXN544	-
3Q21E	MXN2,611	-	3Q21E	MXN780	-
4Q21E	MXN2,957	-	4Q21E	MXN863	-
2021E	MXN10,103	-	2021E	MXN2,938	-

Source: FactSet, company reports, and TAG estimates.

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**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.

Investment Risks: Telsey Advisory Group's (TAG's) equity research department covers consumer-focused sectors including apparel manufacturers, cannabis, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, home furnishings retailers, home improvement retailers, internet, luxury goods, office supply retailers, off-price retailers, restaurants, specialty apparel retailers, sporting goods retailers, and supermarkets. Risks across or specific to one or more of these sectors include volatility of commodity costs, consumer spending, currency, rising interest rates, weaker consumer confidence and unemployment rates. Additionally, access to capital, supply chain disruptions, commodity costs, private label distribution, currency, geopolitical uncertainty, unfavorable government regulations, lack of appropriate real estate sites, and the use of the World Wide Web to sell merchandise represent unique industry risks.

**Analyst Certification**

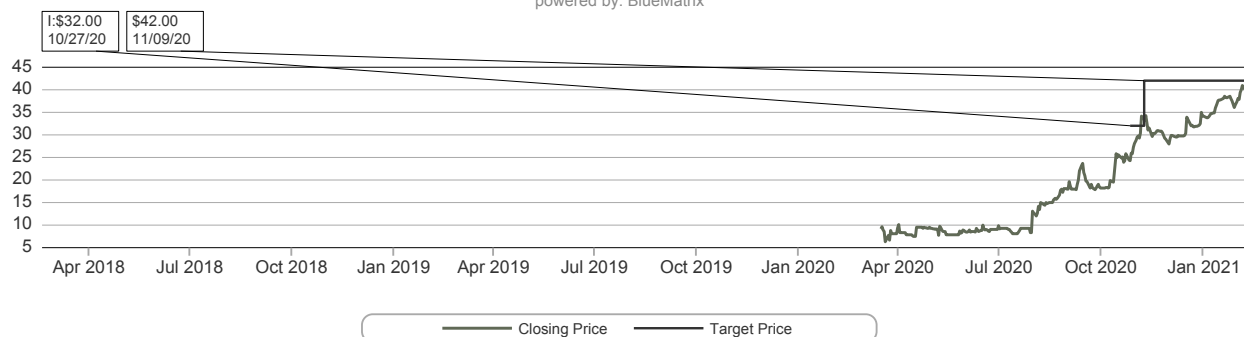
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**Company Specific Disclosures  
Compensation**

Telsey Advisory Group (TAG) received a flat fee of \$150,000 renewable annually from Betterware de México, S.A.P.I. de C.V., the company discussed in this report.

**Betterware de México, S.A.P.I. de C.V. Rating History as of 02/18/2021**

powered by: BlueMatrix



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

**Ratings Distribution & Investment Banking Disclosure**

Rating	Count	Ratings Distribution	Count	*Investment Banking
Less Risk	2	50.00%	0	0.00%
Moderate Risk	2	50.00%	0	0.00%
High Risk	0	0.00%	0	0.00%

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Smaller capitalized stocks, including microcaps, tend to exhibit more price volatility and bear certain inherent risks. These risks include but are not limited to liquidity risk, greater sensitivity to economic cycles, customer concentration, and access to funding. Any of these risks when combined with a lack of liquidity can add to greater short term price volatility.

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**Moderate Risk** – while the company's shares may be subject to high price volatility, the company's fundamentals tend to exhibit moderate risk over the next 12 months relative to the industry and comparable universe.

**High Risk** – while the company's shares may be subject to high price volatility, the company's fundamentals tend to exhibit more risk over the next 12 months relative to the industry and comparable universe.

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