



FEBRUARY 19, 2021

BWMX - \$45.51 Moderate Risk

Price Target (Current) \$55.00

Price Target (Previous) \$42.00



Market Statistics	02/18/2021
Market Capitalization (\$MM):	\$1,442.8
Enterprise Value (MM):	\$1,418.2
Shares Outstanding (MM):	34.5
Avg. Daily Trading Volume (Shrs, 000s):	52.3
Short Interest/Float:	0.0%
Insider Ownership (% of Total Shrs Out):	91.1%
Dividend Yield:	3.0%
Stock Exchange:	NASDAQ

Price Performance	02/18/2021
52-Week Range:	\$5.58 - \$43.51
YTD % Change:	342.3%
YTD % Change Relative to Index:	338.1%
Implied Return to Price Target:	24.3%



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

BWMX - Strong Trends Continue; Raising PT

TAG View: Betterware's strong 4Q20 sales and EBITDA results, together with our view that the momentum can continue into 2021, give us the confidence to raise our 12-month price target to \$55 from \$42. Our new price target is based on applying a higher EV/EBITDA multiple of 13x (up from 10x to reflect the strong business momentum) on our higher 2021 EBITDA forecast of MX\$3.2B, up from MX\$2.9B 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, new product introductions, and technology improvements. From a profit standpoint, the recent move to a much larger, centralized campus and distribution center in 4Q20 should yield efficiencies and cost savings, which are not completely baked in its 2021 outlook, which implies there could be some upside to the company's already strong outlook. Beyond 2021, we estimate Betterware can drive sustained DD 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.

2021 Guidance and Estimate Changes

Strong 2021 Guidance: For 2021, Betterware expects total sales growth of 39%-53% to MX\$10.1B-MX\$11.1B, with triple-digit growth in 1H21 and double-digit growth in 2H21, adjusted EBITDA growth of 39%-52% to MX\$3.0B-MX\$3.3B, equating to adjusted EBITDA margin of 29.7% at the midpoint. The company projects capex of MX\$460MM, including investments in the new campus (~MX\$115MM), technology (~MX\$150MM), and a new distribution center, likely in Mexico City. Betterware plans to pay total cash dividends of MX\$350MM per quarter, totaling MX\$1.4B for the year.

New TAG Estimates: We are raising our 2021 EBITDA estimate to MX\$3.2B from MX\$2.9B, reflecting sales growth of 49% to MX\$10.8B vs. MX\$10.1B previously and EBITDA margin expansion of ~15 bps to 30.0% vs. 29.1% previously. For 2022, we now project EBITDA of MX\$3.9B vs. MX\$3.7B previously, reflecting sales growth of 20% to MX\$13.0B vs. MX\$12.6B previously and a flat EBITDA margin at 30.0% vs. 29.1% previously.

Key Initiatives

Expansion in Mexico: Betterware's market (neighborhood) penetration in Mexico rose to 20% at the end of 2020, driven by associate growth of 195% YoY to 1.23MM and distributor growth of 187% to ~60,000. Over the next five years, the company aims to reach a market penetration of 40%, boosted by growth in associates and distributors, product innovation and expansion into new categories, and catering to different demographic segments (currently focused on C- and D+ income levels).

Valuation Metrics (FYE Dec)	2020E	2021E	2022E
P/E Ratio	20.9x	16.0x	13.3x
EV/Sales	4.0x	2.7x	2.2x
EV/EBITDA	13.4x	8.9x	7.5x

Balance Sheet and Growth Metrics	2020E	2021E	2022E
EPS (Operating)	43.36	56.61	68.23
Debt/EBITDA	0.3x	0.2x	0.1x
Total Sales YoY %	135.4	48.8	20.1

Total Sales			Adjusted EBITDA		
Period	Current	Previous	Period	Current	Previous
1Q20	MXN953	-	1Q20	MXN238	-
2Q20	MXN1,436	-	2Q20	MXN391	-
3Q20	MXN2,271	-	3Q20	MXN730	-
4Q20	MXN2,601	-	4Q20	MXN807	-
2020	MXN7,260	-	2020	MXN2,166	-
1Q21E	MXN2,620	MXN2,382	1Q21E	MXN826	MXN752
2Q21E	MXN2,728	MXN2,154	2Q21E	MXN738	MXN544
3Q21E	MXN2,725	MXN2,611	3Q21E	MXN867	MXN780
4Q21E	MXN2,731	MXN2,957	4Q21E	MXN809	MXN863
2021E	MXN10,804	MXN10,103	2021E	MXN3,241	MXN2,938
1Q22E	MXN2,882	MXN2,620	1Q22E	MXN910	MXN844
2Q22E	MXN3,137	MXN2,584	2Q22E	MXN850	MXN660
3Q22E	MXN3,406	MXN3,395	3Q22E	MXN1,083	MXN1,012
4Q22E	MXN3,551	MXN3,991	4Q22E	MXN1,048	MXN1,151
2022E	MXN12,976	MXN12,590	2022E	MXN3,891	MXN3,667

Source: FactSet, company reports, and TAG estimates.

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New Campus: Betterware's new campus in the outskirts of Guadalajara is now fully operational. 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 prior facilities. Since this new campus is already running near full capacity, the company expects there to be a need for additional distribution capacity in the near to medium term. Therefore, Betterware is exploring options to rent another new DC, likely near Mexico City, which is already baked into its capex outlook for 2021.

Marketing: In January 2021, Betterware rolled out its largest marketing campaign, which included 60-second and 20-second video advertisements, radio commercials, OOH (out-of-home) media, and social media content. Betterware expects this campaign to expand its customer base and increase awareness.

Technology: Betterware is pleased with its progress on technology improvements. The company rolled out its new, transactional website in December 2020, which provides greater accessibility, ease of purchase, and better connectivity between customers and associates. Betterware has seen a 500% increase in the number of customers transacting through the website in the sixth week since launch, compared to the first week of its launch. In 4Q21, the company also plans to relaunch its app, Betternet 3.0, which should provide a better user experience.

International Expansion: Betterware's launch in the Guatemalan market through a concession partner has been successful, given solid sales and profits so far. The company operates in Guatemala through a joint venture in which it owns 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 5%-10% the size of Mexico and is therefore not expected to be a meaningful contributor to financial results. Despite that, the company plans to report results and provide guidance separately for Guatemala beginning in 1Q21. This expansion 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 ~20% of potential markets.

Strong 4Q20 Result: 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 (including 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 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

BETTERWARE FINANCIAL MODEL

	2018	2019	1Q20	2Q20	3Q20	4Q20	2020	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	2,601	7,260	2,620	2,728	2,725	2,731	10,804	12,976
Total Gross Profit	1,358	1,804	535	741	1,240	1,454	3,969	1,523	1,531	1,597	1,554	6,204	7,484
Administrative Expenses	249	319	130	104	169	263	665	330	251	216	262	1,060	1,263
Selling Expenses	454	551	135	183	242	294	853	241	402	399	390	1,432	1,733
Distribution Expenses	103	121	40	75	108	108	331	137	159	135	118	550	683
Total SG&A Expenses	807	992	305	361	519	664	1,849	708	812	750	771	3,042	3,679
Total Operating Income (Loss)	552	812	229	380	721	790	2,120	814	719	847	783	3,163	3,805
Net Interest Income (Expense)	(80)	(78)	(38)	(28)	4	(8)	(69)	5	7	6	6	24	35
Pretax Income	449	705	211	391	77	203	881	819	726	853	788	3,186	3,840
Taxes (Benefit)	150	233	65	122	203	152	543	287	254	299	276	1,115	1,344
Net Income from Continuing Operations	299	472	146	268	-126	51	338	532	472	554	512	2,071	2,496
Diluted Shares Outstanding	30.2	34.1	29.9	34.5	34.5	34.1	34.1	36.6	36.6	36.6	36.6	36.6	36.6
Reported EPS (MX\$)	MXN 9.91	MXN 13.85	MXN 4.87	MXN 7.79	-MXN 3.66	MXN 1.49	MXN 9.93	n/a	n/a	n/a	n/a	n/a	n/a
YoY % Change	44.1%	39.8%	22.8%	104.2%	(176.4%)	(51.5%)	(28.3%)						
Adjusted EPS (MX\$)	n/a	MXN 14.30	n/a	n/a	MXN 13.22	MXN 18.64	MXN 43.36	MXN 14.55	MXN 12.89	MXN 15.16	MXN 14.01	MXN 56.61	MXN 68.23
YoY % Change							203.2%			14.6%	(24.9%)	30.6%	20.5%
SELECT METRICS, GROWTH RATES, AND MARGINS													
Active Associates (000s)	325	417	475	740	1,200	1,230	1,230	1,292	1,356	1,424	1,495	1,495	1,749
YoY Growth (%)	61.7%	28.3%	35.7%	94.7%	179.1%	195.0%	195.0%	171.9%	83.3%	18.7%	21.6%	21.6%	17.0%
Active Distributors (000s)	18	21	26	42	59	60	60	63	66	69	73	73	85
YoY Growth (%)	50.0%	15.6%	35.5%	107.9%	185.9%	187.0%	187.0%	143.4%	56.7%	17.9%	21.6%	21.6%	17.0%
Total Sales Growth YoY (%)	59.8%	33.1%	27.5%	82.1%	199.4%	229.0%	135.4%	175.0%	90.0%	20.0%	5.0%	48.8%	20.1%
Gross Margin	58.6%	58.5%	56.1%	51.6%	54.6%	55.9%	54.7%	58.1%	56.1%	58.6%	56.9%	57.4%	57.7%
YoY bps change	(287)	(15)	(321)	(592)	(532)	(133)	(381)	200	450	400	100	275	25
SG&A Ratio	34.8%	32.1%	32.0%	25.2%	22.8%	25.5%	25.5%	27.0%	29.8%	27.5%	28.2%	28.2%	28.4%
YoY bps change	(387)	(267)	(124)	(801)	(941)	(443)	(668)	(500)	460	470	270	268	20
Operating Margin	23.8%	26.3%	24.1%	26.5%	31.8%	30.4%	29.2%	31.1%	26.4%	31.1%	28.7%	29.3%	29.3%
YoY bps change	99	252	(197)	209	409	310	287	700	(10)	(70)	(170)	7	5
Tax Rate	33.4%	33.0%	31.0%	31.3%	264.1%	75.0%	61.6%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
OTHER KEY METRICS (MX\$MM)													
Adjusted EBITDA	574	851	238	391	730	807	2,166	826	738	867	809	3,241	3,891
Adjusted EBITDA Margin	24.8%	27.6%	25.0%	27.2%	32.2%	31.0%	29.8%	31.5%	27.1%	31.8%	29.6%	30.0%	30.0%
YoY bps change	26	282	(230)	171	334	231	225	650	(13)	(33)	(139)	16	(1)
Cash and Cash Equivalents	177	214	278	521	1,155	650	650	1,119	1,357	1,085	1,026	1,026	2,016
Inventory	302	346	319	520	1,113	1,274	1,274	1,038	1,040	1,169	1,274	1,274	1,529
YoY Growth	113.0%	14.3%	(9.3%)	50.5%	217.8%	268.7%	268.7%	225.0%	100.0%	5.0%	0.0%	0.0%	20.0%
Total Debt	653	678	448	424	600	630	630	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	93	1,833	959	704	193	382	2,238	2,831
Capital Expenditures	21	183	40	151	171	352	714	140	115	115	90	460	300
Depreciation and Amortization	26	38	9	11	7	17	44	11	19	21	26	78	86
Free Cash Flow	352	430	218	430	747	(218)	1,177	819	589	78	292	1,778	2,531
Dividends and Capital Stock Increase	235	343	(95)	100	288	536	830	350	350	350	350	1,400	1,540
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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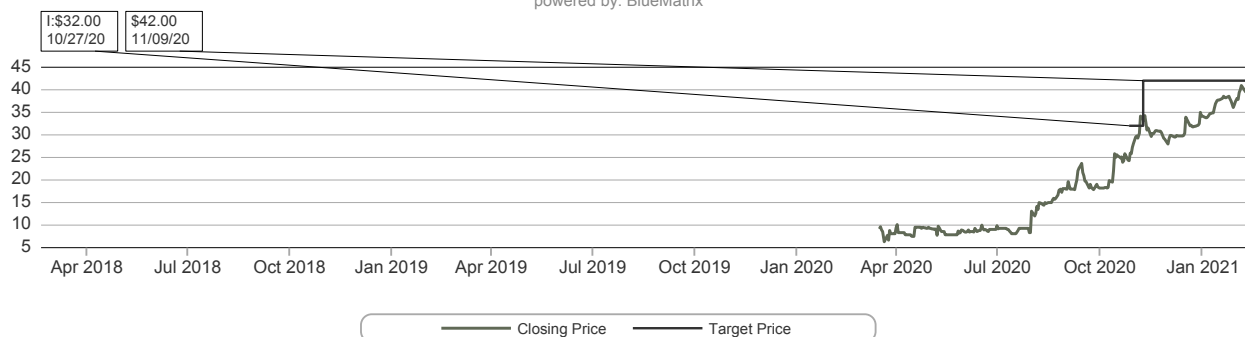
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Telsey Advisory Group (TAG) received a flat fee of \$150,000 renewable annually from Betterware de México, S.A.P.I. de C.V., the company discussed in this report.

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
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Moderate Risk	2	50.00%	0	0.00%
High Risk	0	0.00%	0	0.00%

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