



FEBRUARY 23, 2021

BWMX - MXN43.95 Moderate Risk

Price Target (Current) \$55.00

Price Target (Previous) Same

Market Statistics	02/22/2021
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	02/22/2021
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 - Takeaways from Management Meetings

On February 22, we hosted a virtual meeting with Betterware de México's Executive Chairman Luis Campos and Director of Investor Relations Guillermo Armida.

TAG View: Betterware's management team sounded positive about its growth potential and business fundamentals, on the heels of its strong 4Q20 results (sales growth of 229% and adjusted EBITDA growth of \$255%) and 2021 outlook (sales growth of 39%-53% and adjusted EBITDA growth of 39%-52%). The company continues to benefit from the "nesting" effect related to COVID-19 and its progress on multiple initiatives, including: 1) further penetration of the Mexican market—targeting 40% over the next five years from 20% currently; 2) greater utilization of data through its business intelligence platform; 3) expansion of its product portfolio into new home categories by introducing over 300 new products a year; and, 4) entry into neighboring countries in Central and South America (recently entered Guatemala; planning to launch in Colombia and Peru in two to three years). Betterware's unique distribution model, with over 60,000 distributors and 1.3MM associates performing last mile delivery, allows the company to keep expenses low and supports a stable EBITDA margin going forward. In addition, centralization of its campus and distribution center in 4Q20 should yield efficiencies and cost savings in 2021 and beyond.

Betterware's unique operating model and solid initiatives should continue to drive double digit growth in sales and earnings—keeping us positive on the story. Overall, we maintain our Moderate Risk rating and 12-month price target of \$55, which is based on applying an EV/EBITDA multiple of 13x to our 2021 EBITDA forecast of MX\$3.2B. While we remain positive on Betterware's fundamentals, investors should consider a number of risk factors, including 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.

Key Initiatives

Successful Selling Model: Betterware's business model and network of distributors and associates is unique. It allows the company to reach the consumer at a low cost by saving on last mile delivery, and we view it as a key contributor to the company's high operating and EBITDA margins. Specifically, Betterware operates a two-level direct selling model—distributors and associates. This distribution model works well in Mexico, where communities are small and scattered across the country, have low retail penetration, and it is difficult to fulfill last-mile delivery. Betterware's distributor and associate network currently reaches over 850 communities. These distributors and associates are incentivized through a discount on the products they sell, which is equivalent to a "commission," and rewards points that can be redeemed to purchase appliances, furniture, and other products. This discount is 12%-16% for distributors and is a fixed 24% for associates. Note, Betterware does not operate a multi-level marketing distribution network. Betterware's distributors and associates are not compensated for recruiting others into the network, nor do they receive a cut from the sales made by other distributors and associates.

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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

Period	Total Sales		Adjusted EBITDA		
	Current	Previous	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	-	1Q21E	MXN826	-
2Q21E	MXN2,728	-	2Q21E	MXN738	-
3Q21E	MXN2,725	-	3Q21E	MXN867	-
4Q21E	MXN2,731	-	4Q21E	MXN809	-
2021E	MXN10,804	-	2021E	MXN3,241	-
1Q22E	MXN2,882	-	1Q22E	MXN910	-
2Q22E	MXN3,137	-	2Q22E	MXN850	-
3Q22E	MXN3,406	-	3Q22E	MXN1,083	-
4Q22E	MXN3,551	-	4Q22E	MXN1,048	-
2022E	MXN12,976	-	2022E	MXN3,891	-

Source: FactSet, company reports, and TAG estimates.

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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 (currently over 1.3MM) and distributor growth of 187% to ~60,000 (currently over 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, expansion into new categories, and catering to different demographic segments (currently focused on C- and D+ income levels).

New Campus: Betterware's new corporate campus on the outskirts of Guadalajara is now fully operational, with 70% of its employees currently working from there and the remaining 30% expected to move to this facility by the end of March. This new campus 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 term. Therefore, Betterware is exploring options to rent a new DC, likely near Mexico City, which is already baked into the 2021 capex guidance of MX\$460MM.

Product Innovation: A key part of the formula for Betterware's success comes from its focus on innovation and offering affordable prices across many home-related categories, including kitchen, bed, bath, space optimization, cleaning, and more. Betterware conducts extensive market research to identify the needs of Mexican households, designs products by leveraging internal design teams, freelancers, and universities, and partners with manufacturers in China to make them, with over 300 new products introduced every year. In 2021, Betterware plans to roll out home renovation products, such as curtains and drapes.

Technology: Betterware continues to make progress with its 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. Betterware expects online penetration to increase slowly, given that ~70% of consumer purchases in Mexico are still cash transactions. In 4Q21, the company also plans to relaunch its app, Betternet 3.0, which should provide a better user experience for associates and distributors.

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 70% stake. While this is the first step in Betterware's expansion outside 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 two to three years, Betterware plans to expand 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 near- to medium-term growth coming from further expansion in Mexico, where its penetration is still relatively low at ~20% of potential markets.

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.

2021 Guidance and TAG Estimates

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 an 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.

TAG Estimates: For 2021, we expect EBITDA of MX\$3.2B, reflecting sales growth of 49% to MX\$10.8B and EBITDA margin expansion of ~15 bps to 30.0%. For 2022, we project EBITDA of MX\$3.9B, reflecting sales growth of 20% to MX\$13.0B and a flat EBITDA margin at 30.0%.

BETTERWARE FINANCIAL MODEL													
INCOME STATEMENT HIGHLIGHTS (MX\$MM)	2018 TOTAL	2019 TOTAL	1Q20 MAR	2Q20 JUN	3Q20 SEP	4Q20 DEC	2020 TOTAL	1Q21E MAR	2Q21E JUN	3Q21E SEP	4Q21E DEC	2021E TOTAL	2022E 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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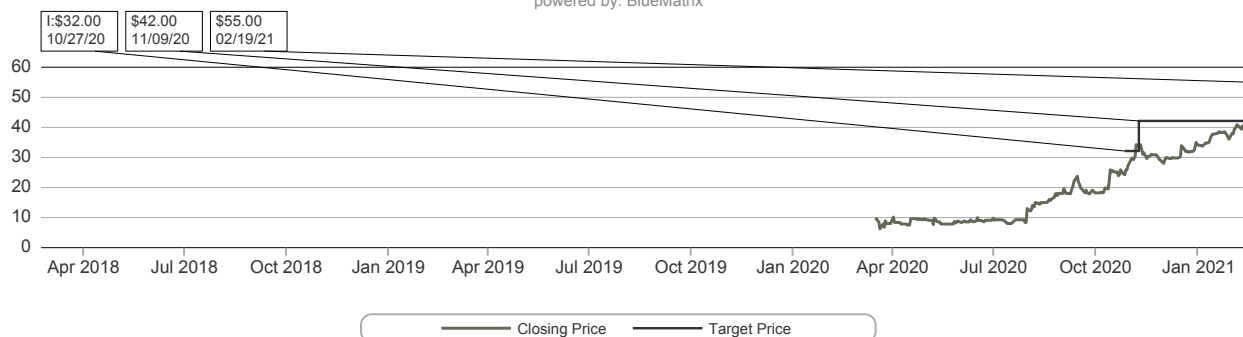
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Betterware de México, S.A.P.I. de C.V. Rating History as of 02/22/2021

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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