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HARDLINES

COMPANY UPDATE

FEBRUARY 12, 2021

BWMX - $39.20 **Moderate Risk**

Price Target (Current) $42.00

Price Target (Previous) Same

Market Statistics	02/11/2021
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	02/11/2021
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%

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	-	4Q20E	MXN778	-
2020E	MXN7,347	-	2020E	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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BETTERWARE DE MÉXICO, S.A.P.I. DE C.V.

BWMX - Expect Strong 4Q20 Results and FY21 Outlook

Betterware will report 4Q20 earnings after the markets close on Thursday, February 18, followed by a conference call on Friday, February 19 at 9:00 am ET.

TAG View: We expect another strong quarter at Betterware—sales growth of 240% to MX$2.7B and EBITDA growth of 243% to MX$778MM in 4Q20E—reflecting gains from increased consumer spending on home-related products, company-specific initiatives, and superior execution. Beyond 4Q20, we believe Betterware has multi-year growth prospects supported by initiatives, including 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. Moreover, the company's unique distribution model, with ~70,000 distributors and ~1.4MM associates performing last mile delivery, allows the company to keep expenses low and supports a stable EBITDA margin going forward. These initiatives should continue to drive solid growth in sales and earnings—keeping us positive on the story. (Refer to our January 12 note: BWMX - Management Meeting Takeaways). Overall, we maintain our Moderate Risk rating and 12-month price target of $42, which is based on applying an EV/EBITDA multiple of 10x to our 2021 EBITDA forecast of MX$2.9B.

4Q20 Earnings Preview

Sales: We forecast sales growth of 240% to MX$2.7B, driven by associate growth of 245% to ~1.4MM and continued high demand for home products related to the "nesting" impact of COVID-19. Furthermore, we expect some benefit from the newly launched website, which should help the company directly connect with consumers, offer a wider assortment, and build loyalty.

Profitability: We forecast EBITDA margin expansion of ~25 bps to 28.9%, primarily helped by operating expense leverage of ~525 bps to 23.3%, as Betterware leverages significant sales growth. In addition, the move to a much larger campus and distribution center in 4Q20, should yield some efficiencies and cost savings. We expect this to be partially offset by gross margin compression of 500 bps to 52.2%, reflecting the unfavorable movement of the Mexican peso vs. the US dollar, as well as incremental freight and labor costs to support accelerated demand.

KEY FINANCIAL METRICS			
FYE December	**4Q20**	**4Q19**	**Change**
MX$ MM	**Est.**	**Act.**	**A vs. LY**
Total Sales	**MXN 2,687.8**	**MXN 790.5**	**240.0%**
Gross Margin	52.2%	57.2%	(500)
Total Operating Expenses	24.0%	30.0%	(600)
Operating Income	28.3%	27.3%	100
Tax Rate (% of Pretax Income)	31.0%	42.3%	(1,128)
EBITDA	**MXN 777.9**	**MXN 226.9**	**242.8%**
EBITDA Margin	28.9%	28.7%	24

Source: Company reports and TAG research and estimates

FY21 Outlook

We forecast solid sales growth of 37.5% to MX$10.1B, reflecting continued strong growth in 1H21 and moderation in 2H21, primarily due to lapping difficult comparisons. We project flattish adjusted EBITDA margin at 29.1%, as gross margin expansion of 350 bps to 56.8% is offset by the SG&A expense ratio deleverage.

Key Initiatives

On the upcoming earnings call, we expect Betterware to provide an update on key initiatives highlighted in our January 11 management meeting. These include:

Benefits from the New Campus: Betterware's new corporate campus in the outskirts of Guadalajara, Mexico should consolidate all warehousing and distribution needs, as well as optimize space and inventory management. The larger facility also should reduce the movement of items across multiple warehouses and help leverage new technology and automation. Broadly, the new campus should increase inventory visibility and order reliability, improve productivity, and reduce costs. On the earnings call, we expect to understand the benefit in FY21 and beyond.

Mexico Expansion: Betterware has a roadmap to increase its Mexico penetration to ~40% over the next five to six years from 20% currently. Today, the company has a presence in most large cities across Mexico, but has not yet penetrated all neighborhoods in these cities, an area of opportunity. We expect to get an update on the company's plan to hire associates in these Mexican neighborhoods and leverage data to target the business.

International Expansion: On the earnings call, we expect an update on key trends in Guatemala, the first test outside Mexico. Beyond Guatemala, Betterware's goal is to target Colombia and Peru—which together account for two-thirds of the size of the Mexican market. Recall, in 2021, the company plans to identify a local partner in Colombia and Peru, with a broader rollout expected in 2022 and 2023.

Key Risks

We note that investors also should consider a number of risk factors: 1) a limited history as a public company; 2) low trading liquidity; 3) exposure to Mexico's economic policies; 4) foreign currency fluctuations, particularly USD/MXN foreign exchange as ~90% of products are purchased from Chinese vendors in USD while sales are reported in Mexican pesos; and 5) inherent execution risk related to expansion into new regions and markets.

Upcoming TAG-Hosted Meetings with Management on February 22

Telsey Advisory Group will be hosting small group meetings with Betterware on Monday, February 22. Chairman Luis Campos, CEO Andres Campos, and Head of Financial Planning and IR Guillermo Armida will be joining us to discuss the business. Please let us know if you are interested in joining the meetings.

BETTERWARE FINANCIAL MODEL

INCOME STATEMENT HIGHLIGHTS (MX$MM)	2018 TOTAL	2019 TOTAL	1Q20 MAR	2Q20 JUN	3Q20 SEP	4Q20E DEC	2020E TOTAL	1Q21E MAR	2Q21E JUN	3Q21E SEP	4Q21E DEC	2021E TOTAL	2022E TOTAL
Total Sales	**2,317**	**3,085**	**953**	**1,436**	**2,271**	**2,688**	**7,347**	**2,382**	**2,154**	**2,611**	**2,957**	**10,103**	**12,590**
Total Gross Profit	1,358	1,804	535	741	1,240	1,403	3,919	1,384	1,209	1,517	1,632	5,743	7,181
Administrative Expenses	249	319	130	104	169	187	589	300	220	220	236	976	1,199
Selling Expenses	454	551	135	183	242	340	900	219	339	409	463	1,429	1,803
Distribution Expenses	103	121	40	75	108	117	340	125	125	129	134	514	663
Total SG&A Expenses	807	992	305	361	519	644	1,829	644	684	758	833	2,919	3,664
Total Operating Income (Loss)	552	812	229	380	721	759	2,090	740	525	759	800	2,824	3,517
Net Interest Income (Expense)	(80)	(78)	(38)	(28)	4	9	(53)	10	7	6	7	29	51
Pretax Income	449	705	211	391	659	768	2,028	750	532	765	807	2,853	3,568
Taxes (Benefit)	150	233	65	122	203	238	629	232	165	237	250	884	1,106
Net Income from Continuing Operations	299	472	146	268	456	530	1,399	517	367	528	557	1,968	2,462
Diluted Shares Outstanding	30.2	30.2	29.9	34.5	34.5	36.5	33.8	36.5	36.5	36.5	36.5	36.5	36.5
Diluted EPS (MX$)	**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	2,983	(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.

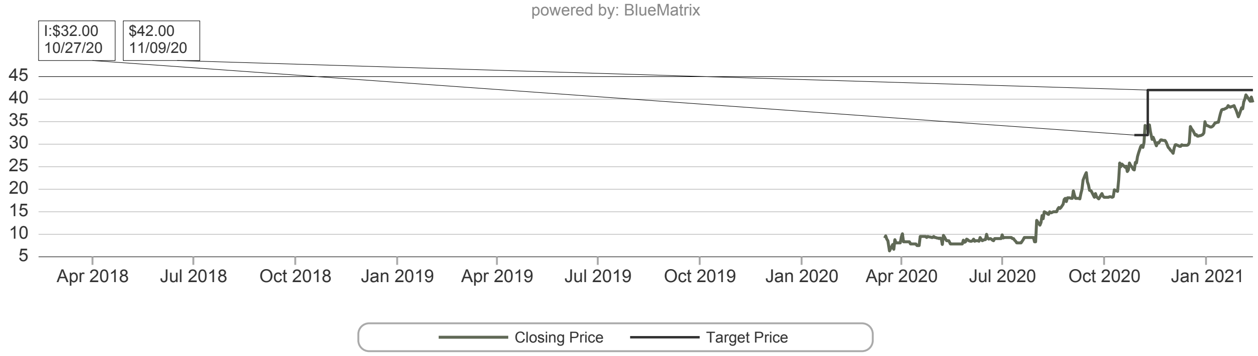
Investment Risks: Telsey Advisory Group's (TAG's) equity research department covers consumer-focused sectors including apparel manufacturers, cannabis, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, home furnishings retailers, home 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
The Research Analysts, Joseph Feldman, Sarang Vora, CFA, Zeyn Burak and Dana Telsey, who prepared the research report hereby certify that the views expressed in this report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

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 02/11/2021
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.

Our recommendation system assumes inherent stock price volatility and an evaluation of company fundamentals relative to the industry and comparable universe over the next 12 months. We divide stocks under coverage into three categories, each defined by a prospective level of risk:

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

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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