

Betterware de México, S.A.P.I. de C.V

First Quarter 2025 Earnings Conference Call

April 24, 2025

Corporate Participants

Andres Campos, *Chief Executive Officer*
Rodrigo Muñoz, *Chief Financial Officer*
Luis Campos, *Chairman of the Board*

Conference Call Participants

Eric Beder, *SCC Research*
Cristina Fernandez, *Telsey Advisory Group*

Presentation

Operator

Thank you, and welcome to BeFra's First Quarter 2025 Earnings Conference Call.

Speaking on today's call are BeFra's Chairman of the Board, Luis Campos, President and Chief Executive Officer, Andres Campos, and Chief Financial Officer, Rodrigo Munoz, recently appointed as successor for Alejandro Ulloa in March 2025.

Before they begin their remarks, the Company would like to remind you that today's call may include forward-looking statements which are subject to risks and uncertainties that could cause actual results to differ materially from those expectations. Any such statements should be considered in conjunction with the cautionary statements and the Safe Harbor statement in the earnings release issued today and risk factors outlined in BeFra's SEC filings. BeFra undertakes no obligation to update any forward-looking statements.

A reconciliation of and other information regarding non-GAAP financial measures discussed on the call can also be found in the earnings release as well as in the Investor section of the Company's website.

I'd like to turn the call over to BeFra's President and CEO, Andres Campos. Thank you. You may begin.

Andres Campos

Thank you, Operator, and good afternoon, everyone.

As we begin this call, and before we get into the numbers of the quarter with Rodrigo, I'd like to reflect on two very important things that this quarter brings to mind so you know exactly where our minds and actions are at.

The first thing is our approach to the current volatility and uncertainty around the world, of which the countries where we operate have not been exempt, thus affecting our ability to yield stronger results in the short term.

Beginning with Mexico, consumer trends have shown important softening signs, which have affected all categories alike but have deepened in more discretionary categories like household goods. Although we believe that Mexico continues to have great potential in the mid to long-term, short-term consumption has been affected by soft economic trends, U.S.-created uncertainty, and the weakened Mexican peso in relation to last year. We've also seen disruption in consumption in the U.S., especially in January and February, although we do see a possible comeback in March.

Finally, we've also seen disruption in China, where we manufacture 80 plus percent of our Betterware products, and where tariffs have escalated by the day. All of these have challenged our short-term actions and results, resulting in a revenue decline of 2.9% in the quarter versus last year, and a short-term gross margin contraction affecting our profitability overall.

And although 2025 will be a difficult year to navigate, we'd like to stand out relevant features of our business that have helped us navigate challenging times in the past and will help us navigate these new ones.

Number one, we operate with very low fixed expenses and an asset-light model in all business fronts, which allows us to protect profitability and cash flow in difficult times.

Number two, our commercial model has high resiliency, where distributors and associates alike increase their efforts to maintain sales going, outpacing other channels without extra cost to them or to the Company but their time and effort.

Number three, we are now a diversified group with two brands in two strong categories; both home and beauty.

Number four, our agile internal culture where we are all ready to adapt, improve, and adjust. Although volatility in the market can present challenging quarters, we adapt quickly and swiftly, achieving resilient revenue and profits as quarters go by.

That said, I'd now like to speak about the second thing that this quarter brings to mind, which is that the long-term growth fundamentals of our business remain strong, and thus we must not lose that perspective in all decisions we make. Both of our brands are playing in strong categories - household and beauty goods - which have shown secular trends of growth around different markets. On the other side, our commercial model based on person-to-person selling - powered by incentive intelligence, technological tools, and gig economy trends - will continue to prove as an effective model going forward for those who know how to manage it.

That said, I'd like to pass the word on to Rodrigo, our CFO, so he can explain some specifics in our results. Then I'll come back to tell you some of the commercial strategies we are carrying out in each business to tackle the challenges and opportunities that lay ahead.

Rodrigo Muñoz

Thank you, Andres, and good afternoon, everyone.

This being my first conference call with BeFra Group, I would like to state that I am grateful and honored to contribute to BeFra's promising future. After great experiences in diverse consumer product companies, like Alsea and Devlyn, I am excited for this new phase. I look forward to proactively help the Company achieve its promising goals as well as helping all of our investor community to better understand our business.

I will now dive into some relevant figures in the quarter, so we understand the details and context. Please have in mind that all figures that I'll be referencing are in Mexican pesos, our functional and reporting currency, and all periods comparisons are year-over-year unless otherwise stated. Additional details are available in our earnings release published earlier.

Consolidated net revenues decreased 2.9% year-over-year, due mainly to the short-term challenging macroeconomic environment, as Andres mentioned earlier. During this quarter, the FX posted additional challenges with the Mexican peso depreciated around 20% year-over-year from an average of 17 pesos in quarter one 2024 to 20.4 in quarter one 2025. Although we have absorbed some of this impact in our gross margin, we decided to increase some prices, impacting our volumes and engagement levels. This resulted in a 9.8% decrease in Betterware Mexico revenue versus last year, as well as an associates base decline.

In contrast, it affected the growth strength of Jafra, decreasing growth from double to single digits. Our commercial teams continue to work very hard to navigate these times, as they have done in the past, maintaining a good balance between short-term solutions and long-term strategic focus.

Consolidated gross margin declined by 353 basis points, primarily driven by the impact of the Mexican peso depreciation, which increased the cost of goods that Betterware imports as well as those of some raw materials used by Jafra, such as essence and bottles. At Betterware, the margin impact was intensified by lower sales volumes and increased investments in promotional flyers, which diluted the profitability. Jafra Mexico also saw margin compression driven by investments in volume-driving promotions.

Consolidated EBITDA decreased 29.1%, reflecting the weaker sales volumes and compressed gross margin, particularly at our business units in Mexico. EBITDA for Betterware Mexico fell 31.6%, mainly driven by the drop in sales volumes and margin compression. Jafra's Mexico EBITDA decreased 25.2%, as margin pressure and promotional expenditure weighted

on profitability. That said, it's important to point out that our business remains strongly profitable, with EBITDA margin of 15.3% this quarter, and we are taking all necessary actions to recover our normal EBITDA margin.

Free cash flow was negative for the quarter. Historically, we have converted around 40% of free cash flow versus EBITDA in the first quarter, due to seasonality. Our normal levels are around 60%. However, during the quarter, we experienced extraordinary outflows, mainly in Jafra Mexico, as a result of an increase in working capital, driven by higher inventory levels related to brand renewal strategies as well as innovation preparation for the coming quarters, which we expect to decrease in the coming quarters.

We also experienced higher tax payments derived from the difference of total tax incurred versus provisional tax payments in Jafra, which did not happen in Q1 2024. Thus, we feel confident in our return to normal cash flow generation in the coming quarters.

Consolidated EPS decreased 48.7%, reflecting the combined impact of lower sales and overall profitability with a decrease in EBITDA explained before.

In addition, financial costs had a positive impact on net income, driven by a decrease in the net interest expense, as a result of lower interest rates, and net currency effects that include the implementation of hedge accounting.

Also, profit for the period suffered a negative effect due to higher taxes paid. Despite the short-term challenges, we continue to maintain a healthy financial position, closing the quarter with a net debt-to-EBITDA ratio of 2.08, slightly higher than 1.83 in Q1 2024 and in line with our internal policy.

We maintain our commitment to shareholder returns, but the current economic uncertainty in Mexico and the U.S. calls for prudent cash management. As part of this cautious approach, our Board of Directors is proposing a 200 million peso dividend for Q1 2025, consistent with our strategy to strengthen free cash flow for new organic and inorganic growth opportunities.

Q1 was an atypical quarter, impacted by short-term volatility and challenges. However, looking ahead, we are maintaining our full-year guidance for 2025, with expectations for net revenue and EBITDA growth still in the range of 6% to 9%. While we remain well-positioned to achieve these targets, we will continue to review our daily costs, inventories, and cash flow, as we recognize that the current economic environment will likely continue to present certain challenges that might further impact our performance as the year unfolds. We are monitoring external conditions closely and will continue to evaluate the potential impact on our operations.

I will now turn the call back to Andres to speak about the actions we're internally taking to achieve success.

Andres Campos

Thank you, Rodrigo.

Looking ahead, we're actively executing strategies at Betterware Mexico to reaccelerate growth and improve profitability in the following ways.

Number one, pricing. We are making strategic pricing decisions in all price levels to balance between product affordability and margin protection. We are executing new merchandising techniques to achieve this.

Number two, promotional activity. We are increasing our promotional activity to keep our salesforce constantly engaged.

Number three, salesforce engagement techniques. We are actively looking into more proactive and deeper engagement with our salesforce through data analysis segmentation, to improve sales coaching and communication, also with the aim of rebuilding sales momentum.

Number four, innovation. We continue to work on improving our innovation process and pipeline to continue to surprise and delight customers. We are also doing an extensive revision of product cost structures to find opportunities to make products more accessible to our customers.

Number five, sourcing. We continue to monitor China tension closely, evaluating Plan B manufacturing options that we have developed in Mexico, Southeast Asia, and other regions in the world.

In Jafra Mexico, we will focus on the following actions.

Number one, product mix. We are rebalancing the product mix through strategic price adjustments and promotions to regain lost margins while maintaining volume growth in more resilient categories.

Number two, renovation and innovations. We continue with our renovation plans where we will continue to renovate our biggest brands, reinvigorating their value to customers. We also have an exciting new product pipeline, which will continue to make Jafra a more attractive and successful brand in the market.

Number three, ease of doing business advancements. We continue to execute Betterware's playbook at Jafra with technology, business intelligence, and process improvements, making it easier for distributors and associates alike to do business with us. We are beginning to attract a younger generation whilst remaining attractive to a vibrant Baby Boomer and Generation X salesforce.

Number four, Jafra Queretaro plant improvements. We have a great asset with the Jafra manufacturing plant, owning our manufacturing in Mexico. We will continue to leverage on this advantage both for Mexican and U.S. markets alike.

In summary, the first quarter of 2025 presented significant challenges, due to weakening macroeconomic conditions in both our markets. While we remain cautious, as lower consumption levels may persist, we've taken proactive steps to protect revenue, margins, and ensure financial health.

Finally, and before questions or final remarks, I will now pass the call to Luis Campos, our Chairman of the Board for a final message.

Luis Campos

Thank you, Andres, and thank you again, everyone, for joining us today.

After more than 47 years in the consumer goods industry, you would understand I have experienced a diverse set of challenges and opportunities. Thus, I want you to know that I have full confidence in our business model, our strategies, and more importantly our Management team to navigate these times and come out stronger than ever for better times.

Together with that, our strong culture that we have weaved throughout the years, one of agile movements and long-term mindset, will continue to be the most important asset we have and allow us to gain advantage every step of the way. As macroeconomic conditions improve, or stop deteriorating, the fundamentals of our business remain strong. And we are confident that the resilience of BeFra and the steps we are taking to improve performance will allow us to continue deliver growth and profitability in the coming quarters in line with our original guidance.

I will now pass the call to the Operator for any questions you may have.

Operator

Great. Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star one on your cell phone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

First question is from Eric Beder from SCC Research. Please go ahead.

Eric Beder

Good afternoon. A few things. (Multiple speakers) Hi. Could you talk about the inventory and how we should be thinking about the flows on that? I noticed you noted that it was a little bit high for Q1. How should we be thinking about that going forward as a potential driver of free cash flow?

Andres Campos

Yes. Hi, Eric. This is Andres. Inventory increased a little bit in Q1 (audio interference) from the Jafra business. We are renovating the branding on most of our most important lines approach. And we're also preparing some innovations. So, this was a kind of one-time increase in inventory, and we expect to start decreasing inventory going forward. We do not expect it to continue to increase. Okay?

Eric Beder

Okay. China, on one hand, you have great relationships with your suppliers there and you've used them before. Given what's going on in the States in terms of orders, other pieces, are there opportunities there for you to improve overall returns from your China product going forward? Or, opportunities in terms of flowing product better going forward? Thank you.

Andres Campos

Thank you, Eric. Can you clarify your question on China? I did not understand very well what the actual question is.

Eric Beder

Approximately 80% of your goods come from China. What we've been hearing is that there have been a lot of canceled orders from American players for goods. So, there's extra capacity potentially coming on board. Is that a potential advantage for Betterware going forward?

Andres Campos

Well, at the moment, we cannot state as a fact that it's an advantage. What we have seen is, for instance, number one, container prices coming down. We have confirmed that. This will definitely be an advantage for us, now that container prices are coming down. In terms of the ability to get better prices from our Chinese manufacturers because of less orders from the U.S., etc., we are talking with them but we cannot confirm at the moment.

Eric Beder

Okay. I think the other thing is that you mentioned - the final question - you mentioned FX. I know it affects your shipping and other pieces. Could you kind of remind us on the flow of the FX and where - I believe Q1 was the worst comparison if FX rates stayed the same going forward. Is that correct? Does this become an opportunity in the back half of the year, I believe? Thank you.

Andres Campos

Yes, Eric. Definitely, Q1 was the hardest comparison. In Q1 of last year, we had an average pesos to dollar exchange rate of around 17 pesos per dollar. In Q1 of this year, we were at 20.4. Last year, the second semester, the average was around 20. It already—definitely, the coming quarters will be a more stable comparison to the 20s where we're at right now. Actually, the gross margin that we saw in Q1 2024 was the highest gross margin of that year, and an unusually high gross margin for our Company. It was definitely a tough comparison in terms of profitability.

Eric Beder

Okay. Good luck for the rest of the year. Thank you.

Andres Campos

Thank you, Eric.

Operator

As a reminder, if you'd like to ask a question it's star-one.

Next question is from Cristina Fernandez from Telsey Advisory Group. Please go ahead.

Cristina Fernandez

Hi, good afternoon. I had a couple of questions as well. The first one is if you could talk about how the quarter progressed. It definitely seems like, obviously, your tone's much different today than back in early February. I guess, at what point did you start to see that more marked deceleration? Are you seeing any change in the trend so far in April relative to what you saw in the first quarter or towards the end of the first quarter?

Andres Campos

Hi, Cristina. How are you? This is Andres again. Yes, I think that we did see a softening in consumption as the Q1 progressed, no. It's very hard to say with some weeks of the quarter to say exactly where we're at, but we did see a softening progress. We believe it's still early to talk about the second quarter, I would say. We do believe that the Mexican economy and Mexican consumption, we do not expect it to rebound or to be strong, no. But we do believe that there could be a factor that the decrease stops and that it becomes a little bit more stable.

Consumer confidence has been softening. We could see it stabilize. We don't expect it to rebound. Many consumption trends and even the economy yesterday - the IMF published a decrease in the Mexican GDP growth. So, it's still not stable at the moment, and we do have to wait and see in the coming weeks to see how it progresses there.

Mexico has strong fundamentals, in general. I think that the government and Mexico as an economy has strong fundamentals. But, obviously, the world volatility, especially U.S. tensions about—at the beginning of the year, talking about tariffs to Mexico, immigration policies, and these kinds of things have, I think, hit the Mexican economy and kind of paused investment and paused many things that need to get on track with a more certain environment. I believe that if the world environment and the U.S. policy environment becomes a little bit more stable and obviously, with more certainty, Mexico has a lot of potential to come back, no, on strong fundamentals.

Cristina Fernandez

That's helpful. Then following up on that, in light of the first quarter performance and what you're seeing, obviously, I understand there's a lot of uncertainty, but what gives you confidence to hold the guidance coming out of the first quarter? What are some of the Company-specific initiatives you have that perhaps can help you overcome some of the economic challenges and get back to growth as we move to the next couple of quarters.

Andres Campos

Yes. We have very strong internal fundamentals in our strategy, in the actions that we're taking, and we also have, as we've mentioned before, a lot of room to grow in market share in both brands in Mexico. With strong internal fundamentals and a big opportunity for more household penetration and market share, we believe that we can find growth if things stabilize macroeconomically. We did not want to change our guidance, because we do believe that there is a possibility that things macroeconomically stabilize. I'm not saying rebound positively. I'm just saying stabilize. That could help us with our internal strategies to deliver a strong growth in the coming quarters and be able to achieve our yearly guidance. There's still a case where this happens. Obviously, if macroeconomic factors like consumption, GDP, etc., in Mexico specifically, keep declining or keep softening, we do have to state that it will be hard to achieve it, but if it stabilizes and stops declining, I think we have the internal fundamentals to seize the opportunities and achieve growth.

Cristina Fernandez

That's helpful. That helps explain it. Then, the last question I have which is more of a clarification on the latter, you talk about pausing the expansion into the U.S. I just wanted to understand what you mean by that. Is it kind of leave business as is or at least temporarily, like shut down the U.S. business and maybe revisit it at a later date?

Andres Campos

Yes. Yes, I want to mention that this refers specifically to Betterware U.S., not Jafra U.S. Jafra U.S., we will continue to operate and invest in growth and we see a great future for Jafra U.S. But, specifically for Betterware U.S., with the 145% tariff on Chinese manufactured products, we just believe it was not a good investment to continue to put money into this project. Especially, also with the uncertainty because every day we don't know if there will be even more tariffs or if there will be other things. There's a lot of uncertainty around the U.S.-China relationship. It was still a small business. It was still

only starting to grow, but it was taking a lot of cash investment. I think we mentioned something around there that we expect to save between \$2 million and \$3 million that we will not invest for the rest of the year for that business' growth.

Now what will happen is that you will see the website still running and we do have inventory in the U.S. that we will continue to sell to whomever comes in and buys, but we are going to stop investing in customer acquisition programs and in advertising programs and everything to grow. We will stop investing in growth. We just leave the website there, with minimum expenses, to continue to service the customers who are already there. And with that, we will wait and see what happens. If at some point, there's more certainty and more stability, we may come back and start investing again to expand the Betterware U.S. brand.

Cristina Fernandez

Thank you, Andres.

Andres Campos

Thank you, Cristina.

Operator

This concludes the question-and-answer session. I'd like to turn the floor back to Management for closing comments.

Andres Campos

Thank you, perator. To close, we recognize that the current macroeconomic environment, marked by weaker consumer demands, FX volatility, and global and political uncertainty, has impacted our short-term results. These are real challenges, but we are, as always, addressing them head-on. We're taking swift strategic action across both businesses. Our focus is to continue growing and protecting profitability, while setting the stage for recovery.

Long-term fundamentals remain strong for our businesses. With two solid brands in resilient categories and a proven commercial model, we are well-positioned to capitalize on future opportunities as macroeconomic factors stabilize. We're building for lasting growth and we remain confident in BeFra's ability to emerge stronger from this period of uncertainty.

Thank you and look forward to talking to you on the next quarter. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you again for your participation.