BeFra

Second Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

Andres Campos, *President and Chief Executive Officer*

Rodrigo Munoz, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Cristina Fernandez, *Telsey Advisory Group*

Eric Beder, *Small Cap Consumer Research*

PRESENTATION

Operator

Welcome to BeFra's Second Quarter 2025 Earnings Conference Call.

Speaking on today's call are BeFra's President and Chief Executive Officer, Andres Campos, and Chief Financial Officer, Rodrigo Munoz.

Before we begin, the Company would like to remind participants that this call may contain forward-looking statements, which are subject to various risks and uncertainties that could cause actual results to differ materially than expectations. Please consider these statements alongside the questionnaire language and Safe Harbor statement in today's earnings release, as well as the risk factors outlined in BeFra's SEC filings. BeFra undertakes no obligation to update any forward-looking statement.

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 Relations section of the Company's website.

I will now turn the call over to BeFra's President and CEO, Andres Campos. Please proceed, Mr. Campos.

Andres Campos

Thank you, Operator, and good afternoon, everyone.

I'm pleased to share our results for the second quarter of 2025, a quarter that highlights the resilience and agility of our business. Following a challenging first quarter, we returned to top-line and EBITDA growth, along with a strong quarter-over-quarter rebound and a positive free cash flow generation. These results are a clear signal of our ability to effectively navigate economic uncertainty, respond with agility, and build momentum across our businesses towards our long-term goals.

BeFra's consolidated revenue grew 5.1% year-over-year and 1.8% quarter-on-quarter, driven by all of our business units. Importantly, we expanded our associate base from 1.12 million at the end of Q1 2025 to 1.13 million by the end of Q2 2025, a 0.5% Q-on-Q growth, also driven by growth across all business units.

Betterware Mexico returned to sequential growth with revenue up4% quarter-over-quarter, a strong recovery from the 9.8% year-over-year decline in Q1, narrowing that gap to a negative 1.1% versus last year in the quarter. The sequential improvement was not simply due to a modest consumption rebound in Mexico, but rather the result of aggressive pricing strategies and product investments that achieved the following in the quarter.

First, affordability and accessibility. We revised the pricing of our line products, the core of our average orders, making them more competitive without relying heavily on promotions that cut into margins. This made our most popular items more attractive, boosting seller engagement as well as sales. We also simplified some products as another way to increase affordability.

Second, a return to associate-based growth. As a result of a new incentive program launched at the beginning of the year, we achieved net associate growth for the first time since Q1 2021, expanding from 649,000 to 670,000 associates, a 3.3% growth quarter-on-quarter. Our distributor base also grew, increasing 3.5%. This is important as distributors are key drivers of team activity, retention, and growth.

A more attractive points program also attracted more associates to Betterware during the quarter. In addition, we have rolled out a new personal tagging system, enabling more targeted sales support and initiatives that help increase associate productivity, retention, and ticket size.

Third, innovation. New product launches in our Home Solutions and Kitchen categories led Betterware sales growth this quarter, with seasonality concepts such as heat, insect, and rain control outperforming the previous year.

Fourth, technology. We improved the functionality of our sales app, improving the backorder process and making digital payments much easier.

Betterware Mexico also achieved a strong profitability, with an EBITDA margin of 19.9%, and contributed to generating strong cash flow for the quarter.

Now, turning to our Beauty and Personal Care business, Jafra Mexico started delivering double-digit growth again and returned to profitability, with its revenue up 10.9% year-on-year and its EBITDA margin expanding to 21.2%. Three key drivers behind this performance were; first, category strength. Our main source of category growth this quarter came from our rebranding efforts, which are the highlight of 2025.

Fragrance rebranding led growth, boosted by the success of Navigo and Double Nature, while skincare was also positively impacted with the revitalization of Royal Jelly, our main franchise in that category. The branding efforts gave these products a modern look and also incorporated new sizes to make them more attractive to the consumer. Looking forward, we are particularly excited about the rebranding of our Royal Body brand in the third quarter, as well as the upcoming launch of a new spot remover under our higher-end BioLab Skin Care brand.

Second, salesforce productivity. Jafra's associate base increased 2.3%, while the average monthly ticket rose more than 9%. This was driven by a revamped leadership program, compelling incentives, and a refreshed brand identity that is resonating strongly with our seller community.

Third, margin investments. Like Betterware, we also adjusted pricing to drive volume and increase competitiveness. While this slightly impacted margins in the short term, we expect the mid- to long-term benefits to include higher household penetration and an improved sales mix comprising more higher-margin products.

Now, turning to Jafra U.S., while revenue decreased 8.9% year-on-year in U.S. dollars, we delivered a 15.6% rebound quarter-over-quarter versus the first quarter of 2025. At the same time, the associate base grew 8.5% sequentially, while engagement improved significantly. We are excited about this progress and look forward to more sequential growth going forward.

Given the enormous opportunity of the American market for Jafra U.S., and after some years of understanding the business and the market, we have undergone deep transformation activities aimed to achieve constant growth. This includes, first, a compensation plan revamp. In April and May, we rolled out our new incentives plan, which fosters growth and activity and includes a new loyalty program as well. We believe this new compensation plan will be key for growth in the coming quarters and years.

Second, U.S. market-specific innovations. We will begin launching innovations targeting the U.S. market, starting in Q3 2025, namely our "around the world" fragrance collection. We continue working with our innovation team to bring newness that caters for U.S. market niches more directly.

And third, a new catalogue design, which we will launch in September of this year.

Turning briefly to geographic expansion, one of BeFra's growth pillars, we are pleased to announce that we successfully launched Betterware Ecuador in May, surpassing our second Q goal by reaching 2,500 active associates. This early success stems from replicating our proven Mexico playbook.

At Betterware Guatemala, our new management team is already showing better results, with Q2 sales returning to positive growth. These developments reinforce our conviction on Central America and the

Andean region of Latin America as important markets, which should add growth to the group in the midterm. They represent a total addressable market equal to Mexico's. Accordingly, we are currently assessing the Colombian market for entry in 2026.

With that, I'll turn it over to Rodrigo to go over the financials in more detail.

Rodrigo Munoz

Thank you, Andres, and good afternoon, everyone.

I will not get into some of other key figures of the quarter. Please have in mind that all figures that I'll be referencing are in Mexican pesos, our functional and reporting currency, and that all period comparisons are year-over-year unless otherwise stated. Additional details are available in our earnings release published earlier on our Investor Relations website.

Our consolidated growth margin was 67.1%, mainly in line with last year's results and reflecting our commercial investments in proactive pricing strategies at Betterware and Jafra Mexico. Betterware Mexico's gross margin was 55.2%, down 127 basis points year-over-year due to proactive pricing strategies that Andres explained before. But we expect to see a continuation of the shift in consumer purchases towards a higher mix of line items and fewer promotional ones, which is projected to further improve margins in the second half of the year.

Jafra's Mexico gross margin was 75.3%, down 167 basis points versus last year’s quarter due to pricing changes made to support underweighted categories such as skincare and cosmetics, which were not priced competitive before. It is important to mention that last year's gross margin showed non-recurring effects and the level achieved in the second quarter of 2025 are in line with our expectations and above historical gross margin.

Jafra U.S. gross margin improved to 76%, supported by a more favorable mix of higher margin products and procurement savings. Consolidated EBITDA increased 3.5% year-over-year to 679 million pesos, with a margin of 19.1%, experiencing a strong quarter-over-quarter rebound after temporary effects seen in Q1 2025 and returning to our normal profitability levels of 19%. Betterware's Mexico EBITDA margin remained healthy, despite the gross margin commercial investment, thanks to higher SG&A efficiencies and improved supply chain management.

Jafra's Mexico EBITDA increased 14.2% year-over-year, driven by revenue growth and disciplined expense control, while the EBITDA loss of the U.S. business is narrowed. A continued improvement in the top line, paired with disciplined cost controls, is expected to bring Jafra U.S. to the break-even point by year-end.

Free cash flow rose to 592 million pesos in this quarter, bringing year-to-date conversion to 44.2% of EBITDA and 87% conversion for the second quarter. After a challenging first quarter, we expect this trend to continue, aiming to reach our historical conversion level of around 60% of EBITDA to free cash flow in total year 2025.

Consolidated EPS grew 7.7% year-over-year, supported by the increases in revenue and EBITDA, lower financial costs in Mexico, and a 45 million pesos decrease in income tax as a result of a positive adjustment related to the tax audit report of 2024.

Debt leverage improved, with our net debt-to-EBITDA ratio at 1.97 times, down from 2.08 times in Q1 2025, but still higher than the level reported in Q2 2024 of 1.8 times. The increase was mainly due to undertaking incremental short-term debt in Q1 in response to lower operating cash flow from non-recurring events explained before.

In light of the quarter's free cash flow and considering current and expected market conditions, our Board of Directors is proposing a 200 million peso dividend for Q2 2025, subject to ratification at the Ordinary

General Shareholders Meeting on July 31st. This would mark our 22nd consecutive dividend since our IPO in 2020, underscoring our unwavering commitment to delivering sustainable long-term shareholder value.

We remain committed and are maintaining our full year guidance for 2025. As always, we will continue to closely monitor our approach.

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

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, dial in by phone, then press star, then one on your telephone keypad. Make sure your mute function is turned off, and if you are using a speakerphone, please pick up the handset before pressing the keys. To withdraw your question, press star, then two. At this time, we will pause momentarily to assemble our roster.

Our first question is from Christina Fernandez with Telsey Advisory Group. Please proceed.

Cristina Fernandez

Hi, Andres, Rodrigo, everyone. I have a couple of questions. First, I wanted to see if, taking a step back and looking at the quarter, the sequential improvement versus 1Q, how much should you attribute to a better macro and consumer environment versus the Company-specific initiatives that you discussed on the call?

Andres Campos

Hi, Christina. This is Andres. How are you? I think that we have seen, in general, a drop in consumption, I would say, in the fourth quarter of last year, a little bit, and more so in the first quarter of this year. We saw a slight stabilization or slight rebound in consumption in the second quarter. That's a reality, but it was just a slight stabilization or recovery. We believe that while this helped, we also took internal measures, which is what weighs more in our result. We have always said that with a stable consumption trend, we can really deliver growth, as we have done before, and outperform the markets. We do attribute more to our internal strategies.

As we spoke, in both Jafra and Betterware Mexico, we worked very hard on our merchandising techniques, on our pricing techniques, promotion techniques, and even on our product techniques to make our portfolio more accessible to the consumer and to perfect some of our strategies in terms of pricing products and all our commercial strategies. We think that this really kicked in and helped to deliver such a strong result for Q2.

Cristina Fernandez

Thanks. Following up on that commentary, you kept your guidance for the year, 6 to 9% revenues and EBITDA growth, it implies an acceleration from what you saw in the first half. What are the key drivers to get to that number for the full year?

Andres Campos

Yes, Andres again. I think that in the macroeconomic environment and consumption, we do expect stability, not necessarily a rebound in consumption, but we do predict stability in consumption trends. Then second, we were able to see in the second quarter that with this stability, we can really achieve growth in our revenues. It is very important to state that Q2 was the first Q since 2021 that we grew in associates in Betterware Mexico. We also grew in associates for Jafra, Mexico. We also grew in associates at Jafra U.S. versus Q1. Seeing this ability to not only grow our revenue, but also grow our associate base is a positive sign of what we can achieve in the coming quarters.

I want to state that, obviously, there's still some uncertainty in the macro environment. Obviously, there's still some room of uncertainty. If the macro environment gets worse, that will not help and it will be more challenging. But stating again, with a stable macro environment, we can achieve this growth going forward.

Cristina Fernandez

Yes, understood. The last question I had was on the Betterware segment, in the letter, you talked about finding efficiencies to return to a 23% to 24% EBITDA margin. What areas are there more efficiencies to get back to those figures?

Andres Campos

Yes. The first part where we expect an improvement is in the gross margin. There's two, well, there's actually three factors behind us expecting this. The first factor is a strong peso against the dollar that you have seen. I think today it was close to 18.50, no? The second one is lower freight costs. Freight costs have come down. Even now in peak season, they are at low rates and we expect this to continue at lower and more stable rates at that point. The third point is that our internal strategy of making our line items more accessible and relying less on promotional activity that cuts into our margin is going to help us to, in the mix of our revenue, have a higher margin mix and those help margins. With these three things in mind, the first thing that we are expecting is for a margin improvement.

Now, the second thing that we're working on is also expense reduction and expense efficiencies. This is something that we do continuously. Obviously, it's not like we're seeing a big factor or a special factor, it's just a matter of constantly looking into productivity in our expenses, into efficiency in our expenses, and we think we can continue to find these different efficiencies. Together with both, we believe we can drive our EBITDA margin up and have a strong EBITDA margin in the second half of this year.

Cristina Fernandez

Thanks so much, Andres.

Andres Campos

Thank you, Cristina.

Operator

As a reminder, if you have a question, please press star, then one. Our next question is from Eric Beder with Small Cap Consumer Research. Please proceed.

Eric Beder

Hey, Andres. How are you?

Andres Campos

Hi, Eric.

Eric Beder

I want to talk a little bit about some of these other things. Obviously, you're still a major player in the Chinese market in terms of getting your product. What opportunities are you seeing there, given some of the shifts in the U.S. in terms of how they're producting from China and other pieces in terms of you being able to kind of fill some of those gaps maybe and get better economic terms?

Andres Campos

Yes, I think that we are seeing opportunities to work more profoundly with our suppliers, work more profoundly with the factories that we work with to improve the design of the products or find ways to make our products more efficient. I think we are not seeing yet, I think the right word is like a cataclysmic change that opens up a very relevant opportunity, but we are seeing opportunities, and this is helping us to improve our products, to improve our costs, and I think that's something that is helping, helping both from the cost side of the products and also from our innovation capabilities, that we're being able to innovate faster and better every day.

Eric Beder

Great. When you look at inventory, I saw that you've made material progress, and you mentioned it in the remarks on the piece. Now, how should we think about the opportunities here in terms of terms and other pieces for the inventory, and where should it be going for the rest of the year, let's say, and going into 2026 in terms of productivity and be able to improve the productivity on the inventories?

Rodrigo Munoz

Hi, Eric. This is Rodrigo. Again, we're looking at very good assumptions for the inventory. If you see actually quarter-to-quarter this year, we're actually getting down again to the same rates that we had in 2024. As you may remember, we had an open inventory on the last quarter of year 2024, but that's already coming down as we speak. We right now are about $200 million lower than we started the year.

Eric Beder

Okay.

Rodrigo Munoz

It will continue to decline. as part of our strategy is to still push the products that we have on inventory and try to reduce on our purchases so we can get back to our normal position in inventories.

Eric Beder

Okay. The Betterware catalog, we've seen the last few months that you started to really ramp up on this 30th anniversary celebration. How should we be thinking about that as a potential nice driver here? It seems to be a new section and lets you expand out in terms of some of the products. How should we be thinking about that going forward as an opportunity?

Andres Campos

Yes, Eric. This is Andres again. I think that the main drivers for revenue growth this year are the ones we spoke about in the earnings release and talking about our price strategies, our promotion strategies, everything. Pricing strategies, product strategies, our incentive program strategsy are the main drivers behind it. But we definitely think that celebrating our 30-year anniversary has given us the chance to reinforce trust and certainty with our salesforce, with our associates, with our distributors. This brings a lot of confidence and trust to them to continue working with us and to have a more solid trust, not only in the past but in the future of the Company, which builds upon all these strategies to help us grow. We are taking advantage of this being such an important anniversary that reinforces the trust of our associates and distributors going forward.

Eric Beder

Congrats on the quarter and good luck for the rest of the year. Thank you.

Andres Campos

Thank you, Eric.

Rodrigo Munoz

Thank you.

Operator

There are no further questions at this time. I would like to turn the floor back over to management for closing remarks.

Andres Campos

Thank you, Operator.

While the external environment, particularly in Mexico and in the U.S., remains challenging, I want to emphasize that this is not a reflection of BeFra's fundamentals. On the contrary, we remain a highly financial disciplined group and our 2Q results demonstrate a strong rebound against the first quarter, showing the resilience and flexibility of our commercial model.

Our revenue is growing, our salesforce is expanding, our profitability recovered strongly and remains robust, our international footprint is growing, we are generating cash, and our brands continue to build consumer trust. Strong fundamentals, along with a solid foundation supported by BeFra's strategic pillars, give us a good starting point to achieve a positive second half of the year.

We would also like to invite you to explore our new corporate presentation, now available on our Investor Relations website, where we provide further detail on our business model, our strategy, and the key levers that drive our performance.

Thank you again for your trust and continued support. We look forward to updating you on the next quarter. Have a great evening, everyone.

Operator

Ladies and gentlemen, this concludes BeFra's Second Quarter 2025 Earnings Conference Call. We would like to thank you again for your participation.