Betterware de Mexico, S.A. de C.V.

Fourth Quarter and Fiscal Year 2021 Earnings Conference Call

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PRESENTATION

Operator

Thank you and welcome to Betterware's Fourth Quarter and Fiscal Year 2021 Earnings Conference Call.

With me on the call today are Betterware's Executive Chairman, Luis Campos, Chief Executive Officer, Andres Campos, and Corporate Chief Financial Officer, Carlos Doormann.

Before we get started, I would like to remind you that this call will include forward-looking statements, which are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Any such statement should be considered in conjunction with the cautionary statements and the Safe Harbor statement in the earnings release and risk factors discussed in reports filed with the SEC. Betterware assumes no obligation to update any of these forward-looking statements or information. A reconciliation and other information regarding non-GAAP financial measures discussed on the call can be found in the earnings release issued yesterday, as well as the Investors section of the Company's website.

Now, I would like to turn the call over to the Company's Executive Chairman, Luis Campos.

Luis Campos

Thank you, Operator. Good morning, everyone and thank you for joining us today.

I will begin my remarks by providing a short summary of the historic growth the Company has been able to achieve for over 20 years. Then Andres will discuss Betterware's performance since the pandemic began, and the effect of the changing business environment on our operations. Andres will also share our perspective for the business for 2022 and beyond, as well as the commercial and operational initiatives under way to adapt to current conditions. Carlos, in turn, will discuss our results for the quarter and for the year. Finally, I will briefly discuss JAFRA's acquisition and our plans for when it is approved.

Slide 5 shows that even before 2020, Betterware was able to achieve CAGR above 20% in net revenue, EBITDA, and network of associates and distributors. Even in periods of uncertainty, such as from 2005 to 2010, including the financial crisis, our revenues and EBITDA grew at more than 20% CAGR. There have been certain years in the past when our growth has slowed and even our revenues have declined. For example, in 2008 and 2009, but in the long term, our business has always thrived.

Particularly, since 2014 our growth rate accelerated, proving the strength of our business model based in three strategic pillars: product innovation, technology, and business intelligence, and paving the way for growth in the years to come. In this way, from 2014 to 2019 we were able to grow at 39% CAGR in net revenue, 46% in EBITDA, and 44% in our associates and distributors base. In summary, for the last 20 years we have been able to profitably grow at high rates due to our business model's key features. Namely, high cash flow generation, asset light business model with low Capex requirements, and our flexibility to adapt to different environments.

Now, Andres will give you a brief overview of 2020 since the pandemic began, what happened during 2021 when external environment changed our expectations throughout the year, and the commercial and operational initiatives we have in place for 2022 after carefully reflecting about the last two years.

Andres Campos

Thank you, Luis, and good morning to everyone. Thank you for joining us today.

Twenty-twenty was an extraordinary year for our business. We were able to capture the opportunity and grow at unprecedented levels in a short period of time from Q1 '20 to Q1 '21, thanks to the flexibility of our business model. Along with it, during this period we benefited from several tailwinds. First, the increase in demand for our products. As people spent longer periods of time at home, they realized their need for home solutions and found them in Betterware. In fact, the total estimated market size for our products expanded 57%, from 99 billion pesos per year in 2019 to 156 billion pesos per year in 2020.

Second, as many people lost their jobs due to the uncertainty during the beginning of the pandemic, Betterware was able to provide an attractive source of income when these people needed it the most. According to INEGI, Mexico's National Institute of Statistics and Geography, 10.3 million people left the economically active population from December 2019 to June 2020, resulting in an 18% decline in economically active population in Mexico.

These tailwinds, together with our tech-based model, attractive capital, and attractive benefit program accelerated our growth to unprecedented levels. Our average network of associates and distributors base expanded 183%, resulting in a growth of 205% in net revenue and 287% in EBITDA. While this was a positive period, it turned comparisons of 2021 with respect to 2020 quite challenging, especially regarding the second half of the year.

As shown in Slide 9, 2021 started strong, and in Q1 '21 we achieved our strongest quarterly results yet, with a 205% growth in net revenue. Multiple factors indicated that the trends that started in 2020 due to COVID would continue through 2021. During Q2 '21, strong results continued as we grew 81% compared to the same period of 2020 when our accelerated growth had started. During the third quarter after the summer ended, it became clear to us that as people returned to their pre-pandemic activities the consumption trends that had prevailed during 2020, and the unusually strong demand for home solutions would normalize.

In addition to a shift in consumption trends, from the third quarter and going forward, consumption environment in Mexico softened versus the first half of the year. Therefore, for the fourth quarter, on top of the harder comparison base, our business was impacted by sluggish consumption in Mexico and by external factors related to supply chain disruptions prevailing globally. This led to lower-than-expected net revenues, 11% below Q4 ‘20 comparable net revenue.

Slide 10 depicts the effects of this return to normality after the worst months of the pandemic in 2020. In the second half of 2021, unemployment returned to 4% after peaking at 5.4% and the economically active population recovered and surpassed its pre-pandemic levels after having declined 18% from December ‘19 to June ‘20, according to INEGI.

As people returned to their normal economic activities, some of the associates and distributors that joined our network during 2020 decided not to continue with Betterware, thus resulting in a higher-than-average churn rate and a consequent mild decline in our average network of associates and distributors of 11%, comparing Q1 ‘21 to Q4 ‘21. It is relevant to highlight that even when these macroeconomic indicators have fully recovered, we have been able to practically maintain the level of sales force that we gained during 2020. This is a testament that Betterware is a good second income opportunity for millions of people, and as our churn rates normalize, we will return to growth in our sales network.

Coupled with the effects of the return to normality, during the second half of ’21, our business was negatively impacted by two main external shocks, as Slide 11 shows. First, weaker consumption trends relative to what we saw during the first half of the year, and a redirection of consumer spending towards products and services that they were not spending on during the pandemic, including traveling, eating out, and expenses related to the in-person back to school season. Second, supply chain disruptions worsened globally, which affected practically every business in the world, and our business was not immune to it.

By the end of Q3 ‘21, we were optimistic that the situation would not have significant impacts, but the external situation was much worse than what we previously expected. During the second half of the year, and during the fourth quarter, we incurred higher air freight expenses due to the shortage of containers. Restrictions in energy use in China were stricter than previously expected, which led to the partial and total closure of the factories of some of our suppliers and impacted our ability to fulfill demand. Higher container prices continued, impacting our costs and margins. All of these factors impacted our results for the fourth quarter of ‘21, as Carlos will discuss later in the call.

As for our associates and distributors, we are confident that we start 2022 with a much stronger network. If we go to Slide 13 of the presentation, we can see that the trend of our network of associates and distributors through 2020 and 2021. When the pandemic started in March 2020, economically active population decreased sharply and our sales network experienced accelerated growth. Since June 2020, economically active population has been recovering steadily, and in fact, in Q3 ‘21 it surpassed its pre-pandemic levels. As this happened, our network of associates and distributors continued with its growth trend and practically maintained the level achieved by the end of 2020, 2.7 times the size it was by Q4 2019.

Our current base of associates and distributors shows strength in many ways. If we go to the next slide, our sales network derives strength from an adequate mix of seniors and newcomers. The number of associates and distributors with tenure of more than a year has been growing steadily since 2017. In

2021 it increased almost 100%, both for distributors and associates compared to 2020. Historically, people with longer tenures place orders of higher value. Our most senior people, incorporated over 10 years ago, place orders which are on average around 3 times higher in value than those who joined in the last year, which explains our strong focus on retention.

We have also managed to maintain higher than average weekly activity rates for over 34% of associates and over 80% of distributors. As for attraction, adding up new recruits is likewise fundamental to growth. During 2021, even when people went back to their normal economic activities, we were able to attract large numbers of associates and distributors. In fact, during 2021 we attracted 3.1 times the number of associates and 3.3 times the number of distributors that we had attracted during 2019. Our proven ability to retain and acquire talented and committed people will continue being a key source of future growth and productivity, which allows us to reach our target 40% household penetration by 2025.

As described in Slide 16, in order to adapt to the current environment and having in mind that some of the external headwinds that impacted our results during 2021 will continue through 2022, we are adjusting our commercial and operational initiatives.

First, commercially. First, we executed a general price increase of 12% since catalog one to offset cost pressures coming from higher input costs globally. This is aligned to competitors' actions in the market and therefore we expect to preserve our competitiveness and profitability. Due to the softer consumption environment, we will increase the share of lower-price items in our catalogs.

Third, with the increased frequency of our catalogs started in September 2021, we gained flexibility to adapt to changes in consumption trends and patterns.

Fourth, as people have gone back to normality, we will increase the in-person attractions with our sales network and we believe that a hybrid business model, combining personal contact and technology, is the way to grow going forward.

Five, we also target to increase the share of new products per catalog, from 10% to around 20%, which will incentivize incremental purchases per customers. Six, we have adjusted our initiatives program to focus on retention and recruitment of new distributors and associates, as growth in our sales network is instrumental to growth in our revenues and profitability.

On the other hand, operationally. Number one, to hedge the exposure to additional increases in freight costs we have signed contracts for approximately one third of our expected shipment costs for 2022 and 2023. We are also accelerating our plans to manufacture a larger share of our products in Mexico to diversify from China manufacturing. This will also allow for efficiencies in our inventory levels.

Third, in terms of exposure to the U.S. Dollar, we plan to hedge 100% of our expected operating needs. As of today, we have hedged approximately 85% of 2022's needs.

Last, with our pick and pack tower finished, we expect to achieve additional operational efficiencies during 2022. All these initiatives will allow us to return to growth and recover our profitability levels during the year.

Having said that, in 2022 we still face uncertainties and tough comparisons, especially for the first half of the year. Given the flexibility of our business model, we are confident that we can adapt to any market condition and return to year-on-year growth by the second half of 2022 with our growth rates accelerating going forward. Therefore, we expect our net revenue and EBITDA for 2022 to be in line with 2021, assuming no significant deterioration in the external environment. Over the long term, our target is to reach 40% of household penetration in Mexico, which will remain in place.

Now, Carlos will briefly discuss our financial results for the quarter and the year.

Carlos Doormann

Thank you, Andres, and good morning, everyone.

All the factors previously described by Andres, a decline in our associates and distributors base, softer consumption environment and worldwide supply chain disruptions impacted our results for the fourth quarter of 2021, as shown in Slide 19.

Net revenues were 11% lower than comparable net revenues of fourth quarter of 2020, but 176% higher than net revenues of Q4 2019.

Gross margin for the quarter contracted by 220 basis points, explained mainly by 100 basis points impact due to the increased use of air freights and 170 basis points impact due to the increase in sea freight costs.

EBITDA was 43% lower than the comparable EBITDA for Q4 2020, impacted by freight expenses and increased promotions to incentivize sales due to a softer consumption environment. Compared to Q4 2019, EBITDA for the quarter was 85% higher.

Net Income was 322% higher than Q4 2020, which was negatively impacted by non-cash expenses related to warrants. On a two-year basis, net income showed a 131% increase compared to net income in Q4 2019.

As for the full year results as shown in Slide 20, net revenues increased 41% relative to comparable net revenues for 2020, but 225% higher than net revenues for 2019.

Gross margin expanded 151 basis points, despite cost pressures related to global supply disruptions and global inflation, which reflects our ability to efficiently manage costs.

EBITDA grew 33% relative to comparable EBITDA for 2020, explained by growth in net revenues, and partially offset by higher air and sea freight costs, and higher operation expenses due to revamped operating structure to support increased new level of operations. Compared to 2019, EBITDA grew 229%.

Net Income grew 440% compared to prior year, which in 2020 was negatively impacted by non-cash expenses related to warrants. On a two-year basis, net income showed a 287% increase compared to net income in 2019.

After a full year of consolidation of our network of associates and distributors, we are pleased with our full year results, especially considering the extraordinary growth in 2020 which resulted in tough comparisons for this year.

Now, moving on to Slide 21. We finished 2021 with a strengthened business, which is reflected in our balance sheet, and will allow for continued future growth while maintaining our conservative financial approach. In terms of leverage, we finished 2021 with a net debt to EBITDA ratio of 0.1 times, slightly higher than the ratio presented in 2020. A conservative total debt to total assets ratio of 0.3 times and a negative day's cash conversion cycle, which reflects efficient working capital management, a key feature of our asset light, high cash flow generator business. We start 2022 with a strong balance sheet and a strengthened associates and distributors base, as Andres described, which make us confident on the future growth prospects of the Company, both organic and inorganic.

I will now turn the call over to Luis, so he can discuss the latest developments in terms of inorganic growth.

Luis Campos

Thank you, Carlos.

As you know, in January 18 we announced this transformational deal, which is subject of approval by COFECE, Mexican antitrust regulatory agency. We expect it to be approved sometime during the first half of 2022. The acquisition of JAFRA's operations in Mexico and the U.S. represents a great opportunity for us at an attractive multiple of entry of 5.5 times expected 2022 EBITDA and an attractive beauty and personal care market, with estimated market size of $100 billion per year in the U.S. and Mexico. JAFRA is a great company with a talented management team, which will be accretive since the first year, as we expect it to add $0.34 to our earnings per share, even before considering identified synergies. This acquisition will increase our diversification by categories and by geographies and give us the opportunity to replicate Betterware's three business pillars to accelerate JAFRA's revenue growth and profit potential, leveraging on Betterware's omnichannel capabilities to accelerate JAFRA's digital transformation.

We have a clear strategy to be executed once the acquisition is approved. First, commercially we will replicate our three strategic pillars in JAFRA to accelerate its growth. In terms of product innovation, we will leverage on our know-how and our proprietary innovation tools to strengthen JAFRA's skin care category, while we plan to introduce new categories as times go by. In technology, we will also leverage on our digital platforms and replicate our ecommerce model and provide JAFRA's consultants of an additional tool for them to increase their sales and earnings. In business intelligence, we will deploy our big data capabilities to optimize JAFRA's product offering and rewards program.

Financially, we have already identified synergies and expense reduction opportunities that will allow us to increase JAFRA's operating margins. We will also apply Betterware best practices to its working capital to improve JAFRA's cash conversion cycle. As our strategies start to play out and JAFRA's revenues start to grow, additional operational leverage is possible due to the low current capacity utilization of its manufacturing facility in Queretaro. All this together will allow us to bring JAFRA's EBITDA margin as close as possible to Betterware's in the next three years.

It is relevant to mention that JAFRAs acquisition does not impact our current dividend payment. As mentioned in yesterday's release, we are proposing to pay a dividend for 350 million pesos, to be approved in our next ordinary shareholders meeting. We will also execute our share repurchase program approved by the Board last year, as we have been limited in exercising our buyback plans since July last year, due to the possessing of material non-public information related to the due diligence process of the JAFRA acquisition. We are confident that our advantageous business model has strong growth prospects and opportunities, both for JAFRA and Betterware, and will allow us to continue to return value to our shareholders. JAFRA's know-how and presence in the U.S. market for over 65 years will pave the way for Betterware to enter into this attractive market by the second quarter of 2023 and continue expanding our business. For us, the best is yet to come.

I will now turn the call over to the Operator and we'll take any questions you may have.

Operator

Thank you. We will now be conducting a question-and-answer session.

Our first questions come from the line of Joe Feldman with Telsey Advisory Group. Please proceed with your questions.

Joseph Feldman

Yes, hi guys. Thanks for taking a couple questions. First, I wanted to ask on the 2022 outlook for this year where you're forecasting revenue and EBITDA to be flattish, you made a comment about assuming something about the market trends. I guess, what gives you confidence it will be flattish versus even down? Just given that this second half, supply chain pressures were a little more than you expected, and the Mexican economy was a little softer. I'm just worried that do you feel you gave a low enough bar here for 2022? What would cause it to be worse than the guidance you gave?

Andres Campos

Hi Joe. How are you? This is Andres. Two answers to your question. The first one is the return to growth. As you mentioned, we do expect to return to growth starting on Q3 2022, and more so on Q4 2022. As we mentioned in our presentation on Slide 16, we have several commercial actions that we're taking in place to return to growth. At the same time, we believe that Mexico has come back to normality, most of all. Now it is on our side with all these strategies to return the sales force and the revenue to growth.

Obviously, there are some headwinds from consumption in Mexico, due to inflationary impacts but we believe we have the right strategies in place to manage and to return to growth. Also, on the margin side from the EBITDA margin, in Q4 we have some extraordinary effects that we not normally have. Number one, we had an effect from promotions that we made on Q4 of 2021 to try to revamp the sales force. On the other hand, we had some costs from impact from the freight costs due to the Chinese factory capacity reductions from energy cuts.

In January of 2022, we increased prices by 12%. This helps a lot to decrease the impact from the increase in costs from China and the increasing costs from containers. In this sense, we expect our profitability and our EBITDA margin to return to 30% in Q1 2022. Just to note of this, January actually confirms this. In January, we are around 30% in profitability again. That said, both in return to growth and return to normal profitability, we have all the strategies in place to come back.

Joseph Feldman

That's very helpful. The second question I was going to ask was about the price increases. I know it's been only a month and a half so far, but have you seen any impact in terms of negative impact, whether on demand or on volume? Maybe people are accepting the price increase but buying less items. I was just curious what you're seeing from the impact of that.

Andres Campos

As you know, most of Mexico had general price increases in different products, including our category. But as we mentioned in Slide 16, this is not the only action we took. We spoke about price mix, in which we increased the number of products in a low-price range, among other different things. This is—all of this together we expect during '22 to bring us back to growth.

Joseph Feldman

Got it. Okay. Then I guess one last question was about with regard to any inventory constraints that you guys have had, like do you—how will that impact the first half of '22? Presumably, I know you called that out as an impact on sales. I'm wondering if it will linger into this year to start the year.

Andres Campos

Can you repeat what your question on inventory is?

Joseph Feldman

Well, yes, sure. I got the sense that in terms of supply chain pressure and the costs that you had and maybe inventory where you had some constraint on the level of inventory that you were able to bring in. I'm wondering if that had much of an impact on fourth quarter sales and also if that will have a negative impact on the first half because you just may not have enough product to sell that you normally would have because of the supply chain.

Andres Campos

Okay, now I understand. It is not something that worries us for the first quarter of 2022. We are okay with inventory.

Joseph Feldman

Okay.

Andres Campos

You know, the Chinese power outages are through, and factories are working normally again. We don't expect any impacts from inventory in Q1 2022.

Luis Campos

I will add something, Joe. We increased our inventory base from approximately 85 days to more than 110 days in order to protect our sales in case something happened. However, the factories are running normally now. In case they also stop for some reason, we are covered in the inventory.

Joseph Feldman

Yes, that's great. Thank you, guys, and good luck with this quarter.

Andres Campos

Thank you, Joe.

Operator

Thank you. Our next questions come from the line of Eric Beder with SCC Research. Please proceed with your questions.

Eric Beder

Good morning.

Andres Campos

Hi Eric.

Eric Beder

Hi. Can you talk a little bit about the expansion of production into Mexico? What categories of products are those and how do you expect that to impact your margins and your availability to offer product going forward?

Andres Campos

Yes, sure. As we mentioned in Slide 16, our plans are to reach about 20% share of manufacturing in Mexico by the end of 2022. This is mainly in the plastic injection industry and in the sewing (phon) product industry. The polypropylene prices have come down in America in general. They were very high last year but now they are coming down and this opens a window for Mexican manufacturers to be even more competitive as with regards to Chinese manufacturers, especially so with the freight costs and the container costs as they are now.

We do expect this to help the profitability of the business and also makes us more flexible with inventory levels. As we spoke, we are in Q1 2022. We have recovered our EBITDA margins to the realms of 30%. This confirmed in January, so we expect this to be—to continue going forward into 2022.

Eric Beder

Okay. When you look at—so on one hand you are increasing the level of newness. Also, in the catalogs we've seen that you highlighted products that have come back, I guess after a certain period of time not being in the catalog. What has been the response to your customers or distributors in terms of those products? Are they more aggressive in buying them? Is this, I know something you're expanding. Are you seeing it actually starting to work?

Andres Campos

Yes. You know, as you know, our two avenues of growth that we have always spoken about are household penetration and share of wallet. Once we have reached a home in terms of household penetration, it is very important to maintain a level of newness that is attractive for that house to keep seeing the catalog and buying again. This level of newness that you notice, starting in catalog one of 2022 where we have a mix of completely newcomers and some bring backs, makes that home a lot more susceptible to buy again. We believe this is going to continue helping us a lot as a strategy, along with all the other strategies that we have mentioned.

Eric Beder

Okay and final question. You mentioned in the presentation that you have basically finished the upgrade of the distribution center in terms of picking packing. I know that you're also planning, at least you previously mentioned that you're going to do 3PL facility in Mexico City. How do those flow into the ability to, I guess a) respond better and b) potentially drive higher margins going forward? Thank you.

Andres Campos

Yes, thank you, Eric. You know, we are consolidating the operation here with the pick and pack tower in Guadalajara. With regard to the Mexico City distribution center, the strategy is still in place, but we have postponed the launch for when we start reaching growth again in our sale distributor and associate network. We expect during this year, as we expect to return to growth during Q3 and Q4 of this year, with all the strategies we mentioned on Slide 16, we do expect to revamp the Mexico City distribution center launch as we start revamping growth.

Eric Beder

(Multiple speakers).

Andres Campos

Just to mention, Eric, you know we do expect all the consolidation in the Guadalajara campus with the pick and pack tower. We do expect this consolidation to also contribute to improve our EBITDA margins obtained from productivity of this working fully.

Eric Beder

Well, great and again, good luck in 2022.

Operator

Thank you. Our next questions come from the line of Luis Yance with Compass Group. Please proceed with your questions.

Luis Yance

Hi guys. Thanks for taking my questions. A couple on my side and I appreciate the color you gave us in terms of the headwinds you experienced in the fourth quarter. But one thing I'd like to understand is, you know at the end of October last year, you were expecting to be at the low end of the range in terms of your full year guidance. That meant roughly $800 million on EBITDA, and you did pretty much half of that. Just trying to understand what changed in such a short period of time because at that point you had this ability and what had happened in October. I'm guessing you had some visibility in what was going to happen in November. Why such a large difference in just a matter of weeks and if the miss was going to be so large, why you didn't issue a press release updating your guidance, given the new developments?

Then a broader question along that is you think that there was a mistake from a market communications standpoint because it looks like, I mean, the stock looks like it's going to be super weak today. Just trying to think about what happened. What's your conclusion about that and how should we expect communication to improve as we move forward, given those situations? I mean, you just mentioned that January looks pretty good. Just wondering if there is a chance we get another big surprise as you report. Just trying to get your thoughts around that. That would be my first question.

Andres Campos

Yes, hi Luis. This is Andres. I mean to the first part of this is that the guidance implied more around $600 million to $700 million of EBITDA in the quarter. Now, that said, as we mentioned, first of all we had an extraordinary effect from aggressive promotions that we had during the fourth quarter of 2021, which we did not expect to have such an impact. We expected those promotions to have an impact on the revenue, which it didn't. This is something we did not foresee, obviously at that moment and in the end, it happened, and it was close to $180 million in impact to the EBITDA of that quarter. We tried these promotions to revamp demand. They were extraordinary promotions than we normally have, and we learned that it didn't impact the revenue as we expected, so we stopped after that fourth quarter. Those will not continue going forward. This was the main effect that impacted the EBITDA, and we did not foresee it when we gave that guidance.

The second thing is the freight costs. The Chinese factories closed for a longer period of time, and they shortened their capacities for a longer period of time than we expected. Our ability to obtain containers that were available to bring the product to Mexico was also more difficult to achieve than we expected. This also, if you see our gross profit margin, it impacted our gross profit margin more than we expected. These two together really decreased the EBITDA margin in Q4 and made it a very different quarter than any of the rest of the quarters that we have seen before.

But obviously as we stated, we expect this to recover in Q1 2022 to around 30% levels of EBITDA and we can confirm that January we are already back in the 30% EBITDA margins that we had before. These were, as I mentioned, really extraordinary things that happened in Q4 that we did not foresee. We are back confirming in January to this 30%.

Just to mention, one of the things that helps us to increase this profitability is the 12% price increase that we did in January. We expect for this to continue going forward and for profitability and EBITDA margins to remain normal for the rest of 2022.

Luis Yance

Thanks Andres, for the answer there. My second question, it’s regarding also your guidance. I mean, you already increased priced 12% but your guidance assumes pretty much flattish revenues. What does that mean in terms of your assumption around associates? I mean, I know you mentioned second half you start growing but as you mentioned, last three quarters we’ve seen sequentially less associates relative to the previous quarter. Just wondering where are you in that sense so far this quarter? Does that mean some sort of stabilization around the average associate levels we saw in the fourth quarter? Or does it mean it declines further in the first half and then starts growing and you’re pretty much going to end up with the same associate level that you have right now, just to get a sense of the way you see your associates level evolving.

Andres Campos

Yes, sure. As we mentioned, we do expect to return to growth, more around third quarter and fourth quarter of 2022. We believe that we have the strategies in place to return to this growth. As I mentioned before, Mexico has gone back to normal. Schools are already in-person schools since September of this year and pretty much people have gone back to normal life. Now, that going back to normal impacted us during 2021. That’s the reason why many of our associates that we had gained in 2020, as they went back into their normal lives, they left Betterware, so we had higher churn rates than normal during 2021 as people went back to normal.

But now people are back to normality and schools are back to normality. People are back on their jobs. We think that we now have everything in place to take action on our internal strategies. These will help us to come back to growth in the more so in the third quarter of this year and fourth quarter. With the going back to growth, in those two quarters, if when we do the math we see a flat sales when we compare 2022 to 2021. Twenty-one was from more sales to less, now we expect this to go from less to more in the last two quarters.

Luis Yance

That means sales will decline in the first half, right?

Andres Campos

Not necessarily. I mean, it means more of a stabilization during the first two quarters and return back to growth in the third and fourth quarters.

Luis Yance

Great, thank you. My last question on capital allocation. You mentioned on your prepared remarks that the dividend of $350 million is kind of going through. You're no longer, I'm guessing, on the blackout period in terms of buybacks, which I understood was related to the information you had about JAFRA. But now that that's behind. The quarter is behind and now that that was awhile ago and nothing has been executed, can we expect you to start executing, I don't know, as soon as today and exercise the buyback program now that the stock is down so much? Out of the $50 million, do you expect that to be fully exercised in the first half of this year, or how should we think about that? I guess a related question on dividends, right. You declared last year $1.4 billion in dividends. Should we expect a similar or even higher amount this year, or how should we think about your dividend policy as we go forward?

Luis Campos

Hi. This is Luis Campos. How are you? Number one, we confirm that we are going—we plan to distribute the same $1.4 billion this year as we did last year. The first $350 million will be approved by the shareholders meeting, in the shareholders meeting. They pay later after that meeting. But yes, we plan four of these dividend payments for this year.

The other thing is we are going to begin with our repurchase plan right after now. Then we couldn't do it because of this confidential information regarding JAFRA's acquisition, but now we can do it and we will proceed.

Luis Yance

Great. Thanks a lot, Luis, and thanks for all the answers.

Andres Campos

Thank you.

Operator

Thank you. Our next questions come from the line of Nicolas Donoso with Compass Group. Please proceed with your questions.

Nicolas Donoso

Hi, how are you? Can you hear me?

Andres Campos

Yes, we can hear you.

Nicolas Donoso

Only, hi. How are you? Only one clarification. Your guidance does not assume any contribution from JAFRA, right for this year?

Carlos Doormann

Yes, the guidance—this is Carlos Doormann. Thanks for the question. Just to confirm that our guidance refers only to Betterware as a standalone business. It doesn't include any contribution from JAFRA.

Nicolas Donoso

Another question. Do you feel comfortable thinking that you can achieve $50 million or $54 million in EBITDA in JAFRA? Is that still the number?

Luis Campos

We cannot disclose any numbers from JAFRA since this is a private company. I mean, then we cannot tell more than what we have told when we announce the acquisition, okay, until we close the deal, hopefully in this first half of the year. After that we could be able—we will be able to disclose more information to you regarding the combined companies, both revenues and EBITDA.

Nicolas Donoso

Thanks. My last question, the target that you have about 2 million associates by 2025 is still there?

Andres Campos

Can you repeat the question? Sorry.

Nicolas Donoso

The target that you have about to have 2 million associates by 2025 is still there or?

Andres Campos

Yes. Yes, yes, yes. I mean, we do maintain, as we mentioned, we do maintain our target of reaching 40% household penetration, and obviously to do so, we need the number of associates. We do maintain that target. To give a reminder, the household penetration is one avenue of growth. We do expect to reach it and we also have the second avenue of growth, which is increasing the share of wallet. We are maintaining this.

Nicolas Donoso

Okay, many thanks.

Andres Campos

Yes.

Operator

Thank you. Our next questions come from the line of John Shafter with Clear Harbor. Please proceed with your questions.

Jonathan Shafter

Hi folks. My question, most of them have been asked at this point but I believe when you announced the JAFRA deal about a month ago, there was an implicit 2022 guidance in the form of the gross debt that would be outstanding to expected 2022 EBITDA for the combined companies. Can you reconcile that guidance with the new guidance that you're putting out today?

Carlos Doormann

This is Carlos Doormann. Thank you for your question. Yes, you're right. There was this implicit figure, no, for the guidance when you talk about Betterware. It was not explicit, but it was implicit in that ratio. Just now we are opting for more conservative guidance for the year, considering inflationary environment that is undergoing in Mexico, which of course we anticipate it will have an impact on the acquisition power of our customers. That's why we're—while, we have all those initiatives in place, no, we are confident that when we achieve this guidance, we're opting now for a more conservative one.

Jonathan Shafter

Okay, I just want to make sure I understand. I appreciate that. The prior guidance you are still, you have reasonable optimism on your ability to reach it, but you are being cautious is the only reason that you decided to opt to be increasingly cautious when you're updating your guidance now. There's nothing that fundamentally changed in that period.

Carlos Doormann

Right. Yes, I confirm, no.

Jonathan Shafter

Yes.

Carlos Doormann

I will express that we are confident that we can surpass the guidance that we're now giving. But just on a technical note, we were not really giving an explicit guidance but an implicit one, no, just to be clear on that.

Jonathan Shafter

Yes. Okay.

Carlos Doormann

Thank you.

Operator

Thank you. There are no further questions at this time. I would like to turn the call back over to Luis Campos for any closing comments.

Luis Campos

Yes, just one quick comment. We are very enthusiastic about entering the U.S. market with Betterware. Betterware, we plan to enter the U.S. market in some time in the second quarter or beginning of the third quarter of next year. We have been studying this for the past couple of years. Many elements indicate we can win in the market. We have a team already working on this launch and JAFRA's platform and know-how of the market can speed up our—the time to enter and the success in this market.

Except for that, thank you for joining us today. We look forward to speaking with you when we report our first quarter results and meeting with many of you at upcoming investor conferences. Thank you. Have a good day.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.