



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

Second Quarter 2024 Earnings Conference Call

CORPORATE PARTICIPANTS

Luis Campos, *Chairman of the Board*

Andres Campos, *Chief Executive Officer and Board Member*

Alejandro Ulloa, *Corporate Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Cristina Fernandez, *Telsey Advisory*

PRESENTATION

Operator

Thank you, and welcome to BeFra's Second Quarter 2024 Earnings Conference Call.

Speaking on today's call are BeFra's Executive Chairman, Luis Campos, Chief Executive Officer, Andres Campos, and Chief Financial Officer, Alejandro Ulloa.

Before they begin their remarks, the Company would like to remind you that today's 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 statements should be considered in conjunction with the cautionary statements and the Safe Harbor statement in the earnings release issued yesterday, and risk factors discussed in reports filed with the SEC. BeFra assumes no obligation to update any of these forward-looking statements or information.

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

Now, I would now like to turn the call over to the Company's Chairman, Luis Campos. Please proceed, Mr. Campos.

Luis Campos

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

In the second quarter, BeFra maintained its growth momentum and the underlying fundamentals remain strong. We achieved 5.3% year-over-year revenue growth, with Betterware Mexico marking its third consecutive quarter of growth, and Jafra U.S. recording its first year-over-year revenue increase since the acquisition of Jafra in 2022. First half results show an 8% growth in net revenue, while EBITDA increased

3%, primarily driven by Jafra Mexico, which has maintained a steady growth pace and strong performance.

Positive results in the period happened under ongoing global supply chain disruptions and temporary market volatility in Mexico experienced after the federal election process. Nevertheless, we remain confident in achieving our 2024 revenue and EBITDA targets, as we will explain.

Looking ahead, we remain positive about the second half of the year. Our performance in the second quarter underscores BeFra's resilience and our ability to effectively navigate challenges. Additionally, we remain firmly committed to increasing shareholder value, as evidenced by our 18th consecutive quarterly dividend payment representing a yield of 10.7% at the end of the quarter.

Now, I will pass the call to Andres to provide more details on BeFra's business unit performance in the second quarter of 2024.

Andres Campos

Thank you, Luis, and good morning, everyone.

As Luis noted, our second quarter results demonstrate our ability to navigate volatile market dynamics. Mexico's recent presidential election introduced temporary volatility during the second quarter, with the peso depreciating 7.5% in June alone. Existing global supply chain disruptions were further exacerbated by geopolitical tensions in the Middle East and by an increasing demand for shipping containers traveling from China to Mexico, causing container prices to surge 11.6%, on average, during the second quarter. Despite these challenges, BeFra a 5.3% increase in net revenues for the quarter, contributing to a 7.8% growth for the first half of 2024.

Over the past 25 years, BeFra has delivered outstanding performance, boasting a net revenue CAGR of 23% and 24.5% for EBITDA as of 2023. These remarkable growth rates underscore our status as a highly profitable growth company. Looking ahead, we are confident on our ability to sustain and build upon our impressive track record.

Turning to Betterware Mexico, net revenue increased 2.2% year-over-year in the quarter, achieving 7% growth for the first half of 2024. Growth was achieved despite the following factors: number one, key product sellouts impacted order fulfillment and salesforce activity levels, primarily due to cautious demand estimation. However, these sellouts underscore our ability to develop innovative offerings that resonate with consumers, and we expect the growth trend to continue; number two, import taxes on 116 SKUs averaging a 17% increase pressured profitability. However, our margins remain within historical averages. Additionally, we're strategically increasing some prices to be aligned to the market; number three, the Associate base experienced a slight decline, prompting target incentives for recruitment and retention. Offsetting this, we saw an 8% increase in average order size per associate, reflecting higher productivity and continued market share gains.

Looking ahead, we are focused on product innovation and enhancing demand forecasting to prevent future sellouts. Improved pricing structures will also be implemented to bolster market share and sustain momentum.

Jafra Mexico capitalized on favorable trends in the beauty market, achieving 8.7% revenue growth in the quarter. This growth was driven by robust performance across all categories. For the first half of 2024, Jafra Mexico posted a 10.1% year-over-year revenue increase, underscoring our effective product strategies and market positioning. We anticipate sustaining double-digit growth at Jafra over the medium and long term.

In October, we will launch a completely redesigned catalog featuring a cleaner, more emotionally engaging design to boost purchases. Additionally, a more effective merchandising plan with enhanced pricing and promotional strategies will further strengthen our market position in Mexico's growing beauty markets.

Now, Jafra U.S. achieved year-over-year growth for the first time since the acquisition, with revenue increasing by 1.2% in Mexican pesos and by 4.4% in U.S. dollars, and a 3.7% expansion in the Associate base. We expect the expanding Associate base to be the primary growth driver, given our current low penetration levels in the U.S. market.

The positive momentum at Jafra U.S. reflects successful market penetration strategies and effective implementation of our business model under a new leadership. This includes a newly designed catalog launched this month, expected to drive additional growth momentum and positively impact the second half of the year. The rollout of Shopify Plus platform in August will also bolster Jafra's digital presence in the U.S. Additionally, we are revamping our field strategy to empower and equip our salesforce with better training and greater motivation.

The strategic acquisition of Jafra has been instrumental in diversifying our product portfolio and providing BeFra with exposure to a rapidly growing market. This move not only mitigates temporary challenges, but also enhances the Group's resilience to market disruptions, thereby bolstering our ability to sustain growth and making BeFra a more economically resilient company. Our various strategic initiatives underline our commitment to adapting and thriving in dynamic market environments. We remain confident in achieving our full year guidance and look forward to leveraging these initiatives to drive sustained growth and profitability.

I will now hand over to Alejandro to provide a detailed review of our financial results.

Alejandro Ulloa

Thank you, Andres, and good morning, everyone.

My remarks will focus on BeFra's second quarter profitability and cash flow. Please note that all figures and projections that we are discussing today are in Mexican pesos, our functional currency. Additional details can be found in yesterday's earnings press release.

BeFra's consolidated gross margin contracted by 103 basis points due to Betterware's less favorable product mix, higher freight costs, new import taxes, and the peso's depreciation experienced in June. It is important to note that periodic volatility in BeFra's quarterly performance is normal in our business. Over the past 10 years, we have consistently maintained an average gross margin of 59%. We anticipate that our performance during the remainder of the year will compensate for this quarter's results and maintain our historical average by year end.

Free cash flow, defined as operating cash flow minus CapEx, decreased by 39% during the quarter, due to a 30% year-over-year reduction in operating cash flow resulting from an unrealized gain in the valuation of the financial hedging instruments and an extended supplier payment period for Jafra Mexico in 2023. Higher capital expenditures for the new Jafra office in Mexico City and software development also impacted cash flow. Despite the decrease, the free cash flow to EBITDA ratio remained consistent with BeFra's historical levels at 70%.

The completed sale of the former Jafra Mexico offices in Mexico City for Ps. 385.7 million will result in additional Ps. 34.1 million in cash flow for the third quarter of 2024, with Ps. 350 million to be collected

over the next three years, as follows: Ps. 140 million the first year; Ps. 125 million the second year; and Ps. 50 million the third year. We also plan to sell another property in Mexico City, previously used as an employee parking lot, valued between Ps. 40 million and Ps. 50 million. All proceeds from these property sales will be allocated to servicing BeFra's outstanding debt.

Our financial position continued to strengthen, with a 2.1% reduction in total net debt, compared to the second quarter of 2023. We closed the quarter with a net debt to EBITDA ratio of 1.8 times, down from 2 times a year ago, and we are targeting a ratio of at least 1.5 times by year end.

Reflecting our financial strength and growth prospects, BeFra's Board of Directors approved a quarterly dividend payment of Ps. 250 million, marking out 18th consecutive quarterly dividend since our IPO in March 2020.

We affirm our full year 2024 guidance, expecting consolidated net revenue growth between 6.1% and 10.7% and EBITDA growth between 6.6% and 13.9%.

We remain confident in our ability to capitalize on growth opportunities, generate robust cash flows and enhance shareholder value over the long term.

I will now turn the call back to the Operator for any questions. Thank you.

Operator

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

Thank you. Our first question comes from the line of Cristina Fernandez with Telsey Advisory. Please proceed with your question.

Cristina Fernandez

Hi, good morning. I wanted to ask about the product availability at Betterware. Have you been able to catch up with those products as you move through the third quarter, and how long do you think it will take to get back on track with having the inventory to meet the demand?

Andres Campos

Hi, Cristina. This is Andres. How are you?

Cristina Fernandez

I'm great, thank you.

Andres Campos

The temporary sellout was a temporary thing during the second quarter. We launched some innovations that were beyond our expectations, and so in the second quarter, we weren't able to fill the demand as we had it, but this is all okay for the rest of the year. It's something that—it hasn't impacted us before in any quarter in history, and we arranged everything so that it doesn't impact us from the third quarter on. So, we don't expect this to continue going forward.

Cristina Fernandez

Okay, thanks, that's good to hear. Then, also, on Betterware, on the profitability side, it seems like the higher ocean freight costs and the import taxes will recur in the back half, if that's correct, so what gives you confidence that the EBITDA margin for Betterware can increase to 26% in the second half, versus what you did in the first half?

Andres Campos

Yes, it's a very good question, because on that, we do expect for the tariffs, the import tariffs and the freight costs to continue during the second semester. We did basically three things, I would say, to compensate for those higher import taxes and freight costs.

Number one is that we negotiated with all of our factories and our suppliers to compensate in price for what is happening. China, in general, has experienced lower demand, and so we were able to negotiate better costs with our suppliers.

Additional to that, we also impacted prices in some of the items that we see that—in which we can impact prices. So, we did that, impacted prices starting in July, and a little bit more in August, in order to also compensate for this. We've lived this type of volatility in the past, either from freight costs or from exchange rates, etc., so we—it's not—it's something that we have lived before and we know the elasticity of demand of the products, so we were able to detect which products could have the price increases.

At the same time, and final, but not least, is we're working on optimizing our expense structure, in general, as a company, so as to compensate, also, and maintain our strong EBITDA margins that we have at Betterware.

Cristina Fernandez

Thanks, that's very helpful colour. Last question is on Jafra, I guess Jafra Mexico, in particular. Can you talk in more detail about the innovation pipeline for the back half, and any specific product categories that will benefit more than others? I know skincare has been an area of focus, but anything else that you can share from a product perspective?

Andres Campos

Yes, sure. We have a very strong pipeline for the second semester across all the categories, obviously, as we do. Some of them are out already today, in July, and now in the August catalog. We have a very strong skincare prospect that we just launched. It's called Jafra Biolab. This is a dermal cosmetics line in skincare, that we think will be pretty impactful both in Mexico and the U.S. market. The only thing about skincare is that skincare is a category where it takes a little bit more time, normally, for consumers to adopt it, but I think that these launches, such as Biolab, will strengthen that category going forward. Apart from that, we are continuing to launch in all categories, fragrances, color and body care.

Cristina Fernandez

Thank you.

Operator

As a reminder, if you would like to ask a question, press star, then one on your telephone keypad. One moment, please, while we repoll for any additional questions.

Thank you. That concludes the question-and-answer portion of today's conference call. I would like to turn it back over to Management for closing remarks.

Luis Campos

Thank you, Operator, and thank you once again to everyone for joining today's call.

We are thrilled with the ongoing growth of Betterware and Jafra Mexico, and excited to see Jafra U.S. entering a growth phase. With the robust commercial strategy we have implemented for the second half of the year, we are confident in achieving our full year guidance set at the beginning of the year. This positions us well to continue our trend of growth and profitability into 2025.

We look forward to seeing you on our next earnings call and to meeting you at upcoming investor engagements. Have a great day, everyone. Thank you.

Operator

Ladies and gentlemen, this concludes BeFra's Second Quarter 2024 Earnings Conference Call. We would like to thank you again for your participation. You may now disconnect.