Betterware de México, S.A.P.I. de C.V
Fourth Quarter 2024 Earnings Conference Call
March 4, 2025

Corporate Participants

Luis Campos, *Executive Chairman*
Andres Campos, *Chief Executive Officer*
Alejandro Ulloa, *Chief Financial Officer*

Conference Call Participants

Eric Beder, *SCC Research*

Presentation

Operator

Thank you, and welcome to BeFra's Fourth 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 we begin the 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 those 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 the Investors section of the Company's website.

Now I'd like to turn the conference over to the Company's Chairman, Luis Campos. Thank you. You may begin.

Luis Campos

Thank you, Operator. Good afternoon, everyone.

2024 was a year filled with important achievements and continued strong momentum for BeFra. We delivered double-digit revenue growth of 11.1% in Q4 2024, compared to the same period last year. This growth was fueled by the exceptional results of Jafra Mexico, which achieved a remarkable 22.2% growth in the quarter. And despite a challenging operating environment, Betterware Mexico demonstrated resilience and continued to grow for the fifth straight quarter, exceeding last year results by 1.5% in the quarter.

This strong finish to the year propelled BeFra to 8.4% revenue growth for the full year 2024 compared to 2023. Both Jafra Mexico and Betterware Mexico contributed to this success, with Jafra achieving a 13.0% increase and Betterware a 4.6% increase. While our consolidated revenue was in the middle of our 2024 guidance range, we faced unexpected and temporary external headwinds that hindered profitability. Despite EBITDA increasing 2.0% to $2.8B vs 2023, this was slightly below the low end of our guidance range, which was $2.9B. This slight shortfall was primarily due to the unexpected challenges in Betterware Mexico's international supply chain, where we suffered headwinds in the second semester from the sharp Mexican peso depreciation, freight price increases, availability of products, and growing product import duties, but was partially offset by a 15.4% increase in Jafra Mexico's EBITDA.

Changing gears and looking ahead to 2025, I want to point out three relevant milestones that we will reach this year:
Number one, Betterware Mexico will celebrate its 30th anniversary. This milestone reflects a long history of outstanding growth. Over the past 23 years, Betterware Mexico has achieved a remarkable CAGR of 18% in revenue and 19% in EBITDA, and expanded its Associate base from 5,000 to 675,000, reaching an estimated 8 million Mexican households today. With an estimated 4.0% market share in the household product market, we are ready to seize the significant opportunity to deepen our market penetration and drive additional growth in the years to come.

Number two, it will be 5 years since our U.S. IPO. Despite the difficulties these 5 years have laid forward, this period has been marked by achieving accelerated growth for the group. Since the IPO, BeFra has multiplied revenue by 4.6 times, which represents a 35.5% CAGR, and EBITDA by 3.3 times, a 26.7% CAGR. At the same time, the value of BeFra assets has increased 2.4 times, and the company has paid a total of $4.8B pesos in dividends. All of this reflects our commitment and ability to consistently deliver strong results.

Number three, it's been 3 years since the acquisition of Jafra. This strategic move brought a valuable brand, increased category diversification, and demonstrated our ability to execute on our M&A strategy. Under BeFra's leadership, Jafra has experienced a resurgence in growth and profitability, with sales multiplying by 1.4 times, profitability by 1.6 times, and EBITDA margins expanding from 13.0% to 20.7% at Jafra Mexico. While new acquisitions are part of our long-term strategy, Jafra's success makes us confident on our underlying hypothesis of adding value to new brands through our operating model.

With these achievements as our foundation, we are poised to continue our legacy of excellence, driving sustainable growth and unlocking new opportunities in the years ahead.

Before I pass the call over to Alejandro and Andres, I would like to communicate that Andres has been appointed by the board as President and CEO of the BeFra Group. After 13 years of experience and great results, including as Betterware Mexico's CEO since 2018, I have full confidence in his vision and our exceptional team. The strong foundation of growth that we have built, mainly a proven and resilient business model, will continue to drive success. I am certain that 2025 will be a year of even more achievements and help solidify our leadership in the industry.I will remain onboard as Non-Executive Chairman of BeFra's Board and will support Andres and the whole team in making all strategic decisions.

With that, let me hand the call to Alejandro, and I will return later with some closing remarks.

Alejandro Ulloa

Thank you, Luis. Good afternoon, everyone.

As a reminder, all figures I'll reference today are in Mexican Pesos, our functional and reporting currency. Additional details are available in our earnings release published earlier.

Before I begin my review of our quarterly and full-year results, I would like to briefly comment on two relevant accounting changes that we have made, derived from our 2024 audit revision by PWC. Specifically, and in compliance with IAS 2 and IAS 8, we are reclassifying labor and indirect manufacturing costs for $430M pesos in 2024 from operating expenses to cost of goods sold in our Jafra Mexico business. This measure affects Q2 2022 onward but has no impact on net revenue, EBITDA, or net income.

Finally, as we laid out in our earnings release document, we are presenting Adjusted EBITDA and Earnings Per Share for 2024, eliminating the accounting and non-cash loss derived from the sale of the non-strategic land that Jafra owned, which accounted for a total of 696M pesos.

That said, and returning to our most recent financial results, consolidated net revenue grew 11.1% in Q4 2024 compared to the same period in 2023, derived by the strong performance of Jafra Mexico and relatively stable results from Betterware Mexico, partially offset by Jafra US results. Jafra Mexico's revenue surged 22.2% in Q4, fueled by commercial strategies that successfully revitalized the brand and strengthened its market presence, a clear testament to its growth potential and competitive positioning. Despite external headwinds, Betterware Mexico achieved 1.5% net revenue growth in the quarter, thanks to diverse effective commercial strategies, but this was tempered by rising product import duties and freight costs that impacted our ability to be more competitive, and by a slight decline in associate engagement and activity following the second quarter stockouts of key products. Net revenues at Jafra US decreased 17.6% in USD, mainly due to lost momentum related to the implementation of Shopify+ in the second half of the year, where we experienced adoption difficulties with some Associates. This came after we had successfully stabilized this business earlier in the year, following years of decline. The revenue decrease was partially offset by the depreciation of the Mexican peso, with revenue decreasing 6% in pesos.

For the full year, our group delivered an 8.4% increase in net revenues, primarily due to:

Number one, Betterware Mexico, which grew 4.6%, supported by strong performance in the first half of the year and continued growth in the second half. Number two, Jafra Mexico, which achieved an outstanding 13.0% net revenue increase, marking its second consecutive year of double-digit growth since the acquisition, and number three, Jafra US, only slightly below last year's results, with a decrease of 2.7% in US dollars, and decreasing only 0.3% in Mexican pesos. Our consolidated gross margin improved slightly, rising 116 basis points to 67.3% in Q4. This was largely fueled by a 675 basis-point expansion in Betterware Mexico's gross margin, which derived from better promotional performance, despite FX volatility, higher freight costs, and product import duty increases. However, this was partially offset by a 469 basis-point contraction in Jafra Mexico's gross margin due to prior years synergies and cost reductions that positively impacted Q4 2023 and are now distributed throughout the whole year in 2024. Adjusting for this, our Q4 2024 gross margin was in line with the previous year.

For the full year 2024, our gross margin expanded by 70 bps to 67.9%, driven by Jafra Mexico's strong 131 bps increase to 76.3%, surpassing expectations due to a more favorable product mix, differentiated pricing strategy, and continued efficiency benefits from scale. Betterware Mexico maintained a stable margin despite external cost pressures, supported by strategic pricing and optimization of certain costs.

Despite significant external challenges, Betterware Mexico demonstrated strong resilience and effective risk management throughout the year. While our pricing strategy had a moderate impact on sales, the company successfully navigated market volatility in supply chain costs, maintaining full-year profitability nearly in line with the prior year.

In Q4, consolidated Adjusted EBITDA declined 5.8%, with a 367 bps margin contraction, primarily due to Jafra Mexico's EBITDA declining 17.3%, also derived from prior years' synergies and cost optimization benefits that were reflected in Q4 2023, creating an unfavorable year-over-year comparison. However, the decline was partially offset by Betterware Mexico's strong performance, where EBITDA surged 31.8%, with a 508 bps margin expansion, derived from better performance of promotional initiatives and expense control in Q4 2024, that created in this case a favorable year-over-year comparison.

For the full year, Adjusted EBITDA increased 2.0%. This was mainly due to a 9.6% decline in Betterware Mexico's EBITDA, bringing its margin down 341 basis points to 21.6%, partially offset by a 15.4% increase in Jafra Mexico's EBITDA, and margin expansion of 42 basis points to 20.7%. Betterware's margin contraction was derived from higher operating expenses linked to supply chain disruptions, as well as other administrative expenses, all of which we will reduce during 2025. On the other hand, Jafra US experienced an EBITDA loss of $458,000 USD for the full year, but it is important to note that this was mainly due to one-time expenses of approximately $1M USD related to legal settlements, without which it would have risen above the breakeven point with EBITDA of around $500K USD.

Free Cash Flow declined by 21.6% for the year, primarily driven by an extraordinary cash inflow in 2023, derived from increasing supplier payment terms in Jafra Mexico, which resulted in an extraordinary 87% increase in the FCF/EBITDA ratio for 2023. Despite this, our 2024 cashflow represented 67% FCF conversion on EBITDA, which is within our normal historical range.

Adjusted Earnings Per Share grew by 10.5% in Q4 and 17.3% for the full year, driven by lower interest expense, and gains on derivative instruments.

During the year, we remained focused on strengthening our financial position, reducing total net debt, and closing the year with a net debt-to-EBITDA ratio of 1.76x—slightly lower than the end of 2023. Our target for 2025 is to lower our net debt-to-EBITDA ratio to 1.5x or below, maintaining a balance sheet that is both healthy and strategically positioned to support future growth.

Given its confidence in our growth trajectory, the Board of Directors has proposed a dividend of 250 million pesos for Q4, subject to ratification at the Ordinary General Shareholders' Meeting on March 7th. This would mark our 20th consecutive dividend since our 2020 IPO, underscoring our unwavering commitment to delivering sustainable, long-term shareholder value with total dividends paid in 2024 of almost $1,000 MN Pesos.

Looking ahead to 2025, we expect mid-to-high single-digit growth for both net revenues and EBITDA, in the range of 6% and 9%. We remain excited about our ability to capitalize on new growth opportunities while generating robust cash flow and maximizing shareholder value. Our focus continues to be on delivering long-term, sustainable success, ensuring we maintain strong, consistent performance for years to come.

Let me now pass the call to Andres who will review our strategies to achieve these goals.

Andres Campos

Thank you, Alejandro, and good afternoon, everyone.

As Luis mentioned earlier, 2025 is a year of celebrations, but more importantly, the consolidation of strategic focus and transformation. While we honor our past, we remain firmly committed to the future, embracing innovation, operational excellence, and new opportunities for sustainable growth.

BeFra centralizes our renewed vision, encompassing a portfolio of successful brands under a unified strategic framework while preserving the unique qualities and characteristics of each.

The foundation of our confidence in the future lies in the strength of our business model, built upon two core elements: Great Brands and One Essence.

First, Our Brands – we are not merely competing in the direct selling market, they are standing alongside the giants of the consumer goods industry. By focusing on innovation, quality, competitive pricing, and creative marketing, we are confident in our ability to compete in broader, high-potential markets. The opportunity is vast, not just in our current categories but also in others we intend to explore.

Number two, Our Essence - it is a unique channel through which we commercialize our brands, providing a unique opportunity for millions of people who operate within the vast and growing gig economy. We are not just offering flexibility and income opportunities; we are redefining what it means to participate in this space. The appeal of our model spans generations, ensuring its relevance and growth in the years to come.

Looking ahead, the transformational path for BeFra is built upon five priority fronts:

The first one, Conquer Mexico: We intend to consolidate our Mexican operations, where both brands have significant opportunities. For Betterware Mexico, our focus is on expanding our reach to more homes and increasing our share of wallet. We currently have 25% home penetration in Mexico and an estimated 4% market share overall, representing a significant growth opportunity. To achieve this, we will continue refining our proven business model to enhance operational efficiency and scalability.

On our consumer focus vertical, agile product innovation and revenue growth management strategies to maximize sales volume and profitability, developing exciting new products and niche categories that offer compelling value propositions to surprise and delight consumers. We will also be actively pursuing sales communication channels, including modern digital ones, to reach and engage consumers. We will also be developing agile, attractive and creative communication strategies to enhance brand awareness and drive consumer engagement.

On the sales force vertical, we will be simplifying and enhancing the attractiveness of our sales incentive program. We will also be implementing upgrades to our B+ app, to better connect and interact with our sales force. Finally, we will also launch a new online training program for our sales force with a renewed Learning Management System tool. For Jafra Mexico we will continue replicating our model to capture the opportunity in Mexico's beauty market and expand our 4% market share to become the number one direct sales beauty brand in Mexico.

On the consumer vertical, we will do brand refreshments of our core lines, making them more modern and vibrant. We will also continue with product innovation that builds upon our most successful lines, and / or captures new niches in which we do not participate today. We will also implement a refined pricing strategy that will maintain a balance between competitiveness and profitability. We will continue building brand awareness with our customers. And finally, for our catalog, we will enrich content through additional pages, together with a higher number of catalogs per associate, to increase reach.

On the sales force vertical, we will enhance our effectiveness by embracing digital transformation with the integration of Jafra+ to increase and improve our sales force's digital capabilities. We will recalibrate our promotional plan to improve productivity and retention. We will invest in a segmented loyalty program with differentiated incentives for our sales force. And finally, we will also provide communication, promotions, events, and training sessions to our entry-level distributors to improve their productivity and engagement.

Our second front is International Expansion: we will continue positioning our brands in the US market through our model. Betterware US remains in its early stages of penetration, but it's already seeing promising signs of growth, such as growing recruitment and the beginning of brand awareness. In the case of Jafra US, we have successfully stabilized sales and our sales force, enabling us to capture growth again. It is important to state, though, that recent political disruptions in the United States could affect our US operations in the short term, specifically derived from possible increases of product import duties on Mexican and Chinese manufactured products, as well as the effects on Hispanic Market consumption in the US Market. That said, we are taking all necessary countermeasures to mitigate these effects and continue our expansion.

Additionally, we are expanding into Latin America, where we are transitioning from Peru to Ecuador as our first Andean region market, given specific opportunities that could enable us to enter this market much faster. We are prepared to launch our operation in Ecuador in June 2025 and should be expanding to Peru and Colombia in the years to come.

Our third front is Inorganic Growth. Leveraging our success with Jafra, we will continue pursuing additional inorganic growth by actively exploring companies that offer the opportunity to develop new product lines that complement our existing brands, that present new business categories, or that could accelerate our entrance into international markets.

Our fourth front is Solid and Centralized Services that create operational and cost synergies. We continue transforming support areas, namely finance, technology, talent, business intelligence, and operations, into modern advisors with centralized processes, fostering synergies between different business areas while always keeping the consumer and our sales force at the center.

Our fifth and last front is Sustainability and Impact. We will continue to strengthen our mission to create opportunities for people to build better lives, incorporating sustainability strategies under the motto of our 3 Ps, which are: People, Planet & Profit. We will upload a detailed presentation on each of these strategies onto our new Investor Relations website, so you can review the details of each of these three P's.

Within BeFra's core and along the five priority fronts, we are building a company that is not only future-ready but future-defining. Through the strength of our brands, the resilience of our model, and the power of innovation, we are confident in our ability to generate lasting value for our investors, partners, and customers.

I will now turn the call over to the operator for any questions, and afterwards, Luis will return with some closing remarks. Thank you.

Operator

Great. Thank you. We will now begin the question-and-answer session. To ask a question, dial in by phone and then press *1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the star key. To withdraw your question, please press *2 on your telephone keypad. One moment, please, while we poll for questions.

Our first question is from Eric Beder from SCC Research. Please go ahead.

Eric Beder

Good afternoon. Congratulations on a strong end to the year. A few questions here. First, let's talk about inventory. Inventories, year-over-year, rose. How much of that was the desire to have more product, and what should be the normalized inventory levels going forward?

Andres Campos

Hi Eric. Sure. This is Andres. For Betterware Mexico, as you'll remember, we mentioned that in the first half of the year, we experienced some inventory shortages due to growth, and we also saw a difficult situation in the second semester because of rising freight costs and possibilities of supply chain disruption. So during the second semester, we built up inventory in Betterware. I will let you know in a second what normal inventories should look like. Okay? If you can just give me a second. I'll come back with the answer for the inventory.

Eric Beder

Okay

Operator

Once again, if you'd like to ask a question, it is *1 on your telephone keypad. Once again, that's *1 if you'd like to ask a question.

If there are no further questions, I'd like to turn the floor back to Management for any closing comments.

Andres Campos

Just before the closing remarks, just to answer the question, we would expect that instead of the 2,500 million pesos that we have by the end of 2024, it should have been around 2,000 million pesos in 2024.

With that, I will pass it over to Luis for closing remarks.

Luis Campos

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

As we look ahead with our 2025 strategy and onwards, this marks the beginning of an exciting new chapter of our company, one of deep transformation, extensive expansion, and renewed growth. Over the past year, we have taken deliberate steps to strengthen our foundations, ensuring that we are well-positioned to capitalize on new opportunities. Our strategic initiatives, operational improvements, and disciplined execution have put us on a clear path to sustainable, long-term success. I have no doubt that now more than ever, the best is yet to come.

Have a great evening everyone and goodbye.

Operator

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