



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

First Quarter 2021 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

Luis Campos, *Executive Chairman*

Andres Campos, *Chief Executive Officer*

Diana Jones, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Eric Beder, *SCC Research*

Joseph Feldman, *Telsey Advisory Group*

P R E S E N T A T I O N

Operator

Thank you and welcome to Betterware's First Quarter 2021 Earnings Conference Call.

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

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 statements should be considered in conjunction with the cautionary statements and the Safe Harbor statement in the earnings release and risk factors discussed in the 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 earlier today, as well as the Investors section of our website.

Now, I would like to turn the call over to 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 summary of our performance for the first quarter 2021. Then, Andres will discuss the progress we have made against our strategic pillars to increase efficiency and elevate our operating platform in support of the continued growth we see for the Company. Diana will then review our financial results and our 2021 outlook.

We began the year strongly, reporting first quarter results that reflect our ongoing ability to capitalize on the power of our operating platform, advantageous business model, commercial and technological strategies and continuing product innovation, which has led us to deliver consistent and sustainable growth. To this end, for nearly two decades, we have recorded robust sales and earnings growth. We expect the successful implementation of our strategic initiatives to enable us to continue our favorable performance in the near and long-term.

As it relates to the first quarter, the period was highlighted by triple-digit increases, in revenue, EBITDA and net income, robust cash flow and significant accomplishments toward our strategy. The increase in our revenue was fueled by outstanding growth from our organic core business. Our distributor and associates growth was strong year-over-year, with significant increases in new distributor and associates, and normal business attrition that is typical for the first quarter. We expect the rate of expansion in distributors and associates to accelerate meaningfully as we begin Q2.

The quarter included several accomplishments that we expect we add to our long-term growth potential by leveraging our strengths and advantages. With that, the first quarter saw our largest marketing campaign, the launch of a new web platform that seamlessly and efficiency allows consumers to purchase our products online, significant growth in revenue and margin in Guatemala and the acquisition of 60% of GurúComm, a mobile virtual network operator and software developer—giving us the ability to expand our reach to mobile products and services.

In terms of capital allocation, we remain committed to returning value to shareholders, and our strong balance sheet, including cash and cash equivalents balance of Ps. 565 million as of quarter-end afforded us the opportunity to propose an annual dividend of Ps. 1,400 million to be paid in four installments, of which the first was already paid in March. This implies a dividend of Ps. 9.57 per share for this quarter, which is subject of approval of the next ordinary general shareholders' meeting to be held on May 12, 2021.

In summary, we are very pleased with the very strong start to the year and robust underlying momentum of the business. Our first quarter results have reflected on the strength and consistency of our business model. Continued execution against our strategic pillars and continued demand of our innovative products. As we leverage the strength of our differentiated core business in combination with exciting new business initiatives, including GurúComm, Guatemala expansion, business intelligence and technology investments, among others, we think we are poised to continue to drive market share gains in the near and long-term.

I will now turn the call to Andres, our Chief Executive Officer, who will highlight our progress in our four growth initiatives and plans for 2021.

Andres Campos

Thank you, Luis, and good morning to everyone.

As Luis said, we are very pleased with our first quarter results. We delivered strong financial performance and continued to execute against our key growth initiatives. I will now discuss the progress made in the first quarter of 2021 and the four strategic pillars, starting with market penetration.

In the first quarter, we saw continued growth of our household penetration due to our increasing distributors and associates network. Given our strong competitive positioning as the category leader in Mexico and deep expertise that drives customer loyalty, we believe will continue to increase our market share over time, with opportunity to double our market penetration from 20% to 40% in the next five years.

During the first quarter, we focused on commercial strategies towards consolidating and increasing the efficiency of our sales force. This activity was highly productive for us, driving an 11% increase in sales versus Q4, and a slight increase in our associates and distributors sales force. With this work behind us, we are now accelerating our sales force expansion and expect this to result in stronger rates of distributor and associate growth going forward and assist us to penetrate the vast number of households we do not yet reach.

Turning to our second strategic pillar, which is category expansion; in the first quarter, we launched two catalogs that included the introduction of 50 new products, which were well-received by our customers as reflected in our Q1 results. We have some exciting new product launches in the pipeline for 2021 and are on track to continue the expansion of our recently launched new category of home renovation solutions before the end of the second quarter of 2021. This new category will provide low-cost solutions for customers to improve the states of their homes. This, combined with other category expansion opportunities we have identified, provides continued opportunity for us to increase our customer share of wallet from its current 20%. We will share additional new category expansion plans throughout the year as we have news to share.

Next, business intelligence and technology investment; our business intelligence initiatives and technology investments are aimed at improving the efficiency and elevate our operating platform of the overall business as we continue to scale. To that end, as previously announced, we successfully implemented Power BI, one of the most advanced platforms of data visualization available in the market. We have been pleased with initial results of Power BI, which allows us to optimize the day-to-day monitoring of the business and transform millions of data points into business strategies. We also are advancing our usage of Knime, which is our artificial intelligence and data science platform, which we are beginning to leverage across the business.

In an effort to improve our forecasting methodologies, we continue to work with Bain and Company to help us optimize our service and inventory levels, in turn, allocating capital more efficiently. We have seen initial positive reactions to our new e-commerce platform so far. However, we expect to begin adding to our growth in the second half of 2021 and become increasingly material to the business over the next three to four years. The new transactional site allows greater flexibility and ease of purchase to customers by connecting them directly with Betterware distributors and associates.

We are on track to launch our improved version of our proprietary Salesforce app for distributors and associates named Betternet 3.0 app, along with the 2.0 version of Pipeline, our proprietary product innovation platform, all later this year. In conjunction with our new campus, we have begun consolidating all technologies, which we expect will yield productivity gains in our day-to-day operations.

Last, with respect to our last pillar, geographic expansion. Following our successful pilot test in Guatemala, which generated consistent sales, EBITDA, distributor and associate growth, we continued our entry into this region in the first quarter. The early results of our expansion have been positive, with sales growth of 382% year-on-year, and a significant EBITDA margin expansion to 24.6% in the first quarter, proving that we can replicate our business model in other geographies. We continue to target international expansion in Colombia and Peru over the next two to three years, through both organic and non-organic growth as we assess M&A opportunities in these countries.

In terms of new campus that opened in the fourth quarter in El Arenal, Jalisco, we officially moved all of our collaborators to the new campus at the beginning of March. With the move completed, we expect to begin to benefit from operational efficiencies from consolidation of all warehousing and distribution processes, consolidation of space usage and inventory management efficiency marked by new technology.

Additionally, the consolidation allows for increased collaboration, and therefore, quicker decision-making across our organization. We continue to evaluate our options regarding capacity expansion and expect to have a decision by the end of the second quarter this year. We will keep you posted as we have updates to share.

As Luis mentioned, we launched our largest marketing campaign to-date across Mexico, early in the first quarter on January 16. We are very pleased with initial results and have attracted new customers as the campaign continues to drive brand awareness and showcase how consumers can benefit from our unique household product solutions.

Finally, as you are aware, on March 22, 2021, we announced that we acquired 60% of GurúComm, a mobile digital network operator and communication software developer with an enterprise ratio of Ps. 75 million, or approximately \$3.5 million. For this acquisition, we are well-positioned to leverage our commercial strength and brand awareness to grow our business in three new product categories, which are: number one, mobile and home Internet. The MVNO market is still in its infancy in Mexico, with only 2% share vs. 20%+ share in more mature markets. The creation of Altan as a wholesaler in Mexico enables GurúComm to enter this market. This, combined with our commercial and distribution strength, has us poised to disrupt the market.

Second, smart home; we plan to extend our home solutions offering into home tech solutions, given its natural extension, and that technology is becoming more and more important for daily household functions.

Third, home applications; households are in need of home service solutions that can be solved direct with a Smartphone. We want to be part of this solution.

We believe we are uniquely suited to grow in these technology categories for the home, given that we possess a vast base of distributors and associates and customers that know us and are loyal to our business. As such, we expect a high return on investment, given our low customer acquisition costs. The first date of our service offering will begin in the third quarter of this year, with a second phase to follow late 2022, and finally, a third phase coming in late 2023.

In conclusion, I am very pleased with the progress made on many fronts operationally in this first quarter, as our team continues to execute against our four strategic priorities of market penetration, capital expansion, business intelligence and technology investments and geographic expansion. We are pleased to deliver against these strategies while also making disciplined investments across the business and returning value to shareholders.

As we look to the remainder of the year, we believe we are well-positioned to continue building on our success to-date.

I will now turn the call over to Diana to review our first quarter financial results.

Diana Jones

Thank you, Andres. Good morning, everyone.

I would like to take this time to review our first quarter 2021 results. I will then share perspective on how we are positioned for the remainder of 2021. Please keep in mind that the currency I will refer to when reviewing our results and guidance is in Mexican pesos, which is our functional and reporting currency.

I will provide highlights of our results, which are detailed fully in our 6K filed yesterday. For the first quarter, total net revenues increased 205% to Ps. 2,902 million, from Ps. 953 million in the prior year period. Gross profit increased 212% to Ps. 1,668 million. As a percent of sales, gross margin increased 138 basis points to 57.5%, driven mainly by the appreciation of the Mexican peso compared to the U.S. dollar. Selling expenses as a percent of sales declined to 10.2% of sales compared to 14.2% of sales in the year-ago period, driven by leverage from strong sales growth.

Foreign exchange, gross margin expansion and selling expenses leveraged to a 296% increase in operating income, to Ps. 908 million from Ps. 229 million. Operating margin as a percent of sales increased 721 basis points to 31.3%.

EBITDA for the first quarter of 2021 increased 287% year-over-year to Ps. 923 million, compared to Ps. 238 million in the prior year, and EBITDA margin expands 679 basis points to 31.8% due to the increase in operational leverage. We reported 13.82 in adjusted non-IFRS earnings per share.

Now turning to the balance sheet, as of March 31, 2021, we had Ps. 565 million in cash and cash equivalents, a 103% increase versus the prior year period. Inventory increased 285% year-over-year with the increasing support of our sales expectations and compared to the first quarter last, when inventory that was unusually low driven by the initial surge in sales, driven by COVID-19 and the timing of Chinese New Year.

At year-end, our leverage ratio of net debt to EBITDA was 0.01 times, down from 0.2 times at the end of the first quarter of 2020. In the first quarter, we had Ps. 177 million of capital expenditures, of which Ps. 151 million were invested in the new campus and Ps. 9 million in extraordinary technology investments. We continue to expect Capex in 2021 to be Ps. 460 million, which includes additional equipment for our new campus, technology and other investments. The new campus and extraordinary technology investments will represent approximately 81% of total Capex, which is down from 92% in 2020 and 88% in 2019.

In terms of our outlook for 2021, as disclosed in our press release, we are reiterating our guidance of revenue for 2021 to be in the range of Ps. 10,100 million to Ps. 11,100 million, and expect EBITDA to be in the range of Ps. 3,000 million to Ps. 3,300 million, compared to Ps. 2,164 million in 2020, and EBITDA margins to be approximately 29.7% versus 29.8% in 2020. We believe our strong start to first quarter '21 has us positioned to achieve results closer to the high end of our annual guidance range for both net revenue and EBITDA.

Over the long-term, we expect our stated growth strategy, supported by a strong operating platform and talented team will enable our Company to deliver consistent growth in sales and EBITDA in future periods.

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

Operator

Thank you. Our first question comes from Eric Beder with SCC Research. Please proceed with your questions.

Eric Beder

Good morning, congratulations on a solid start to the year.

Andres Campos

Hi. Hi, Eric.

Luis Campos

Hello, Eric.

Eric Beder

I'm good. When you look at shipping, the shipping cost last year, I know you had some—used some air freight. I know you mentioned in Q1 that the shipping has been a little bit affected by COVID. How are you seeing the shipping normalize, and how can you take advantage of that this year?

Andres Campos

Eric, hi, this is Andres. Shipping has been normalizing. After the Chinese New Year, we have seen it normalizing, and we expect it to remain normalized for the rest of the year.

Luis Campos

Yes, we do not expect extraordinary air freights this year, okay? It should be normal from second quarter to the end of the year, not extraordinary air freights.

Eric Beder

What are you guys seeing in terms of costs and other pieces, and what do you think is your ability, if you have to, to raise prices on goods going forward?

Andres Campos

Yes, so we are keeping a close look on costs, but we do not expect any impacts from this. If there were to be increases, we are able to drive prices up in the coming catalogues. But I reiterate, we don't expect any significant impacts.

Eric Beder

Great. Last question, what are you seeing differently from your customers who are coming online to buy products?

Andres Campos

Sorry, is your question what are we seeing different?

Eric Beder

I'm sorry. You rolled out the new online ordering system.

Andres Campos

Yes. I think it's too early, Eric. As we were mentioning, we really expect the new online to become significant by the end of the year and the next year. I think at the moment, data points are too insignificant to provide any conclusions.

Eric Beder

Okay. Well, guys, congratulations again and good luck for the rest of the year.

Luis Campos

Thank you.

Andres Campos

Thank you, Eric.

Operator

Thank you. Our next question comes from Joe Feldman with Telsey Advisory Group. Please proceed with your question.

Joseph Feldman

Great, thanks. Hi, guys, congrats on the great quarter.

Wanted to ask, what do you think's driving the acceleration in the sales associates? You seem to have picked up quite a few new associates and distributors, and just wondering, is there something going on in Mexico with the economy that we should be aware of (inaudible) for you guys?

Luis Campos

Yes, not really, Joe. In fact, we feel confident that the economy in Mexico will not be disruptive for our business. I think, in terms of economic growth this year in Mexico, this is going to be between 4.5% and 5%, which is what we expect. Consumption remains really strong in Mexico. We believe that it will remain strong for the rest of the year.

What we are confirming is that this mentality, this state of mind in the people regarding organization, cleanness, etc., is continuing, which is something that we believe we will see in the years to come. Really, the challenge for us is continue with a good streaming of very good new products and new product categories. I think this is going to be the challenge and we are going to accomplish our objectives in that respect.

Joseph Feldman

Got it, that's helpful, thank you.

Then another question I had was, what (audio interference)—some of the (inaudible) you had started to sell, and when (audio interference), how will that flow in? Will that be the second half of this year or is that next year?

Luis Campos

We didn't hear very well the question, it was some interruptions there. Can you repeat the question?

Joseph Feldman

Oh, I apologize. Yes, no, I was asking about new products and how the new products that you've introduced are selling, and when you'll start to have more technology in the product? When will we see those new products come into the results?

Luis Campos

Yes, I think we are in line with our expectations regarding the performance of the new products and the new categories that we are going to reinforce in the second quarter, this house renovation. Regarding the technology products, it will take time. As we said a few minutes ago, we will begin with mobile voice and data in Q3 of this year. Then, by the end of last year, we would go to the second stage. By the end of 2023, we will go to the third stage, as we mentioned before.

Then our first objective is to give all of our sales force...

Joseph Feldman

Okay.

Luis Campos

... distributors and associates the opportunity to connect to Betternet Connect, all their mobile phones. Then this would allow us to go into the second stage sometime in the second half of next year.

Joseph Feldman

Got it. That's helpful, thank you.

Then the last one for me, I wanted to ask, with the new customers you're seeing, are they buying different things, or is it pretty similar to what the traditional customer buys?

Luis Campos

The pattern of consumption has not changed. We see the same pattern, but probably a little bit more intensive because of this new state of mind. But in the case of our sales, in terms of product categories, etc. remain the same.

Joseph Feldman

Got it. Thank you, that's great. Good luck with this quarter, guys.

Luis Campos

Thank you, Joe.

Andres Campos

Thank you, Joe.

Operator

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

Luis Campos

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

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.