

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

## Third Quarter 2024 Earnings Conference Call

### October 30, 2024

#### Corporate Participants

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

#### Conference Call Participants

**Eric Beder**, *SCC Research*  
**Cristina Fernandez**, *Telsey Advisory Group*

#### Presentation

##### Operator

Thank you, and welcome for joining BeFra's Third 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 beginning 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 the Investors section of the Company's website.

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

##### Luis Campos

Thank you, Operator. Good afternoon, everyone and welcome to BeFra's third quarter earnings call.

BeFra delivered once again strong results this quarter with net revenues up 6.6% year-over-year and a 7.4% growth over the first nine months of 2024. Adjusted EBITDA surged by 11.7%, highlighting the continued strength on momentum across our operations. This performance was driven by solid contributions from all our key business units, displaying a crucial role in our overall success. Importantly these results were achieved despite challenging macroeconomic factors like the depreciation of the Mexican peso and rising freight costs, showcasing our operational resilience. BeFra's strategic direction continues to deliver results, and we are well-positioned to sustain growth, while further enhancing profitability.

As we approach the final quarter of the year, we are confident in our ability to finish the year strongly. Our strategic positioning and building momentum across our business units sets us up to capture key opportunities, ensuring we are on track to achieve our full-year guidance.

Our commitment to deliver shareholder value remains unchanged. We are pleased to announce our 19th consecutive dividend payment, reflecting our ongoing dedication to rewarding our shareholders while continuing to drive sustainable long-term growth.

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

**Andres Campos**

Thank you, Luis, and good afternoon, everyone.

BeFra delivered another strong quarter, with its net revenue increasing across all three of our business units. This performance underscores the effectiveness of our growth strategy, and we are strengthening our strategic initiatives to accelerate this growth even further, as I will explain shortly when I dive into each business unit's performance explanation.

As a group, we also delivered substantial improvements in Adjusted EBITDA, which grew 11.7% year-on-year in the quarter, with Jafra Mexico's performance standing out as a key driver, offsetting temporary changes faced by Betterware Mexico due to external factors, namely the depreciation of the peso and significant increases in freight costs. Later in the call, Alejandro will provide a detailed explanation of their impact. But I would like to point out that we have overcome these challenges at Betterware Mexico, and we are ready to deliver a steady gross margin of between 58% and 59% starting in Q4.

With that context, I will now discuss the performance of our individual business units.

Net revenue at Betterware Mexico, our domestic home goods business, grew 3.2% this quarter and 5.7% year-to-date, marking its fourth consecutive quarter of growth. This reflects the business stability and a clear return to a growth trajectory post-pandemic. The revenue growth was primarily driven by higher associate productivity versus last year, both in activity and order value. That said, it is important to point out that the end-of-period associate base saw a modest sequential increase of 0.3%, which is a good indicator of salesforce stability and the possible return to salesforce growth.

New categories, mainly wellness, experienced double-digit growth, while innovation continues to strengthen, accounting for 26% of net revenue versus 18% in the same quarter last year. That, together with the rest of strategies we have implemented, continues to drive growth at Betterware Mexico.

Going forward and starting in Q4, we are taking the following steps to further strengthen its growth. Number one, we are slightly increasing our product portfolio in the catalog, from approximately 370 to 420 SKUs to capitalize on the success of new categories without compromising the continued growth of core categories. With this, we will also be introducing lower-priced SKUs that strike a better balance between price and volume to drive additional sales and further enhance margins.

Number two, we have thoroughly prepared for a seasonally heavy quarter in Q4, with great innovation for Dia de Muertos, Halloween and Christmas holidays.

Number three, we also continue to improve our merchandising techniques and are well prepared for Black Friday weekend in Mexico, known as Buen Fin.

Finally, we have calibrated our forecasting model and inventory plan to ensure that we effectively meet the growing demand for Betterware products and avoid stockouts that disrupted Q2 this year.

Now, turning to Jafra Mexico, our fragrance and beauty business. We had an outstanding quarter, with revenue up 9.2% and 9.8% year-to-date. This performance was driven by successful product innovations in the fragrance, toiletries and cosmetics categories, including the Gii fragrance and the new Biolab skincare line. Biolab is our first venture into the dermal cosmetic products segment and is designed to compete with other high-quality products on the market, by offering greater affordability.

The growth was all driven by higher productivity in our associate base, which, as we have commented before, tends to precede growth in the base. Going forward and starting in Q4, we're executing the following measures to expand our strong growth at Jafra Mexico. Number one, we have significantly redesigned Jafra's monthly catalog, a new version of which has

been launched this month. Over the years, we have developed a strong in-house expertise in catalog design, and we believe this recent revamp to our store will lead to significantly higher conversion rates.

Number two, our third quarter innovations, such as Biolab, are expected to continue to positively impact revenue. Further, we have important innovations coming year-end, especially in our fragrance category with our new Galaxy line.

Number three, as we're doing at Betterware, Jafra is also fine-tuning its merchandising techniques for the coming quarters. We believe there is a lot of room for improvement going forward on this front to make our portfolio structure more competitive and our offers more attractive to customers.

Four, we have also made a great leap in simplifying our incentive program communication. We believe this will eliminate friction that new prospects confront, thus improving our recruitment effectiveness.

Finally, Jafra U.S. continues to improve, showing promising results in the third quarter, with net revenue up 11.7% and 1.9% year-to-date, both in Mexican pesos. That marks the second consecutive quarter of growth and moved Jafra U.S. closer to the breakeven point. It is important to point out that we are introducing figures in U.S. dollars during this quarter, because it's this unit's real operating currency. In U.S. dollars, net revenue increased 3.4% for the quarter and 3.3% year-to-date.

It is also important to note that we finally launched the new Shopify Plus platform in September, which we expect to have a very positive impact. However, the introduction of Shopify temporarily affected associate activity in September related to user adoption. Nonetheless, we expect users to fully adopt the platform, maximum by November.

Looking ahead, starting in Q4, we will implement the following to drive more growth at Jafra U.S. Number one, skin care innovation with Biolab was a huge success in the U.S. market. With the dermal cosmetics market growing every year, we are now a relevant player within this segment. We will continue to develop more products within Biolab as well as other new skin care lines, such as Jafra Skin, Novo Marine and others. We expect these new lines to continue to build on our success in this area of the market.

Number two, although the launch of the new Shopify Plus website generated temporary activity challenges, we expect the site will be a platform for growth going forward.

Number three, we are continuing to build Jafra's physical presence with our associates and distributors in the U.S., with our renewed field team making the difference, and I am personally spending more and more time with them to rebuild trust and to drive recruitment and retention.

Number four, while we stay relevant for the general U.S. market, we are building on strategies for the Hispanic market, which we believe can be a huge catapult to success for us.

Jafra U.S. should become a more relevant player within our group in the years to come. Although it operates in a highly competitive market, we have found strategic avenues that should accelerate the renewed growth into strong double-digit numbers in U.S. dollars.

As you can see, we have new paths to growth in all of our business units, and we have the right strategies in place to strengthen that growth. In light of this positive context for BeFra, we believe it's important to address the specific disruptions that some companies within the direct-selling industry have experienced.

First, we believe this is not an industry symptom, rather individual situations of each of these companies. Both the consumer product goods and the direct selling industries in which we play are more vibrant than ever. Our results, as well as those of other companies that are thriving in our industry, are evidence of this vitality.

Our vibrant product portfolio, full of innovation and reflecting our customer focus, together with an exciting opportunity for many people who are looking for a flexible and profitable source of income, all continue to make a difference. At the same time, the ongoing evolution of our three growth pillars, namely, innovation, technology, and business intelligence, together

with our disciplined financial management, provide a solid foundation for even better results and for a promising future overall.

As is commonly known, it all comes down to a balancing act of maintaining the correct fundamentals of the business, while addressing the evolutionary needs it demands. Thus, we believe a great future lies ahead for the product categories in which we play, as it does for social selling.

And we are confident in our ability to effectively capitalize on these opportunities and continue driving higher levels of growth and profitability for the group, as we have done for the past 24 years, achieving a double-digit compound annual growth rate in both revenue and EBITDA.

I will now hand the call over to Alejandro, who will provide additional insights into our results and other financial matters.

**Alejandro Ulloa**

Thank you, Andres. Good afternoon, everyone.

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 today's earnings press release.

On this call, I will focus on relevant points of interest within our financial statements rather than reviewing the numbers that are clearly explained in our earnings release or have been explained by Andres and Luis on this call.

First of all, I would like to address the Adjusted EBITDA and adjusted net income figures for BeFra. Consolidated Adjusted EBITDA for the quarter grew 11.7% to Ps. 592 million compared to Ps. 529 million in the third quarter of 2023, with the EBITDA margin expanding by 81 basis points to 17.8%.

Adjusted net income ended the quarter at Ps. 180.5 million, that is 8.4% below the third quarter of 2023, mainly due to increased tax provisions that could be reversed by year-end following the final calculation of the annual inflation effect. It is important to highlight the adjustments made to both EBITDA and net income, where we have excluded the one-time impact of the sale of Jafra's former headquarters in Mexico.

The property had a book value of Ps. 811 million, but the transaction was completed at Ps. 385.7 million, resulting in a non-cash accounting loss of Ps. 435 million, net of transaction costs. Notably, this accounting loss has no impact on the Company's operational performance or in the Company's cash generation, and the sale price reflects the asset market value under current Mexico City real estate conditions.

Second, I would also like to address the temporary external factors that impacted negatively Betterware's gross margin in Q3. The margin was 54.8% compared to 56.2% last year and was below the 58%, 59% steady-state gross margin we typically expect. Two key factors drove this decline.

First, the Mexican peso depreciated, on average, 9.9% in the third quarter versus the second quarter, affecting a total of 340 basis points of margin, given the fact that approximately 90% of our costs are based in U.S. dollars. Second, freight costs increased more than 200% by the end of the second quarter, with container spot prices rising from \$1,500 to over \$4,000, which affected the gross margin by approximately 150 basis points.

It is important to state that over the past three years, we have experienced unusually sharp fluctuations in both exchange rates and freight costs, levels we haven't seen in many years. These swings have, in turn, caused notable volatility in our gross margin from quarter-to-quarter. Despite these challenges, we have successfully managed to maintain a consistent gross margin in the 57%, 58% range during this period.

Looking ahead to Q4, assuming freight costs and exchange rates remain where they were at the end of September, we can expect BeFra's gross margin to be within the 58%, 59% range. And for the coming years, we anticipate maintaining margins within this range, provided that there are no significant disruptions of this nature again.

Third, I would like to highlight that BeFra's year-to-date Adjusted EBITDA was impacted by strategic investments in our international expansion. So far this year, we have invested Ps. 80.2 million in expanding the Betterware footprint into the U.S. and Peru, markets that we believe hold significant long-term growth potential. While these investments are still in their initial phases, when excluding them, BeFra's Adjusted EBITDA would have been Ps. 2,083 million for the first nine months, with a margin of 20.2%. For Betterware Mexico, EBITDA for the first nine months would have totaled Ps. 1,047 million, representing a margin of 23.3%.

Fourth, BeFra's comprehensive financing costs reflect gains or losses from foreign exchange hedges, used to manage currency risks related to purchases denominated in U.S. dollars. We are currently evaluating a potential application of hedge accounting, which would allow us to reflect the impact of our operational hedges within cost of goods sold rather than in financing costs. For instance, this year, applying hedge accounting would have raised our gross margin to 56.4% in Q3 and 58.5% for the first nine months in Betterware, accurately reflecting the impact of hedging activities on the EBITDA level as well.

Returning to the sale of Jafra's property in Mexico, we completed the transaction in August as an installment sale. The total deal, valued at Ps. 385.7 million, will be paid over a three-year period, with Ps. 70 million already received. We expect to collect the remaining Ps. 315 million in the next three years: Ps. 70 million in November 2024, Ps. 135 million in 2025, Ps. 85 million in 2026 and Ps. 25.7 million in May 2027.

Additionally, we are actively pursuing the sale of another property, one that was previously utilized as a parking lot for employees of Jafra Mexico. It is valued at approximately Ps. 40 million to Ps. 50 million. We anticipate analyzing the sale by the first quarter of 2025, with proceeds earmarked either for investment in business growth or debt reduction.

Last but not least, at the end of the third quarter of 2024, we maintained a strong financial position, with net debt down 4.7% year-over-year and a net debt-to-EBITDA ratio of 1.76 times, an improvement from 2.08 times in the prior year. We remain on track to meet our year-end target of approximately 1.5 times.

Additionally, our interest coverage ratio improved to 3.5 times, up from 2.6 times. This positive trend reinforces our financial strength and positions us well to navigate the current macroeconomic environment. Along those lines and to further strengthen our financial position, we have introduced a new investment policy, one focused on the efficient allocation of free cash flow, with priority on growth initiatives that drive company value. We plan to allocate between 30% to 40% of free cash flow to acquisitions, contingent and available opportunities.

We will maintain a balanced approach to shareholder returns, including dividends, share repurchases and capital expenditures. Our leverage target is to sustain a net debt-to-EBITDA ratio of 1.5 times to 2.5 times, depending on acquisition prospects. As always, our capital allocation policy may be adjusted as necessary in response to evolving business opportunities and market conditions.

Consistent with our commitment to shareholder value, the Board of Directors has proposed a dividend payment Ps. 250 million for the third quarter, subject to shareholder approval. It would mark the 19th consecutive quarterly dividend payment since we became a public company.

Looking ahead, we remain confident in the final quarter of the year and are fully committed to achieving our full-year net revenue guidance. Although EBITDA is expected to be at the lower end of our guidance range, primarily due to Betterware Mexico's temporary stock-outs in Q2 and gross margin pressure in Q3. Despite these short-term challenges, BeFra is well-positioned for sustained growth and success in the fourth quarter of 2024 and beyond.

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

#### **Operator**

Thank you. We'll now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two to

remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

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

**Eric Beder**

Good evening. Congratulations. I want to start talking about the increase in the SKUs on the catalog. How much of that, when you look at it, is going to be falling into new categories? What are you trying to do in terms of getting more customers with this, since most of this product is going to be part of the lower priced expansion? How should we be thinking about like the overall pricing in the catalog?

**Operator**

I'm sorry, is your line on mute? I'm sorry.

**Eric Beder**

I'm sorry. Can you hear me now?

**Operator**

Well, we can you hear you, Eric. It might be the speaker's line. We're not getting any audio from their line. Just give it a moment here. Thank for your patience.

**Andres Campos**

Can you hear us there? Hello?

**Operator**

Yes. Now we can hear you. Thank you.

**Andres Campos**

Okay. You can hear us now. Okay. Thank you. Sorry. Hi, Eric. This is Andres. How are you?

**Eric Beder**

I'm good. How are you?

**Andres Campos**

Good. Thank you. Yes, the increase in SKUs is actually attacking two verticals specifically. One vertical is making sure that we expand the line into the new categories, while keeping the core categories, let's say, all of their needed SKUs. What we—we have done this in the past in different years where we introduced a new category, and once it's successful, it's very important (audio interference).

**Operator**

Could you please stand by one moment, looks like there is a technical difficulty. Just please standby for one moment. Let's see.

**Andres Campos**

Do you hear me, Eric? Do you hear me there again or no?

**Eric Beder**

Yes. We can hear you now.

**Andres Campos**

Okay. Perfect. Okay. Sorry for that. We had a problem with the microphone battery. Eric, number one, category expansion, and number two, with this category expansion, we are slightly introducing lower-priced items to make sure that we balance out the growth between volume and prices. I don't know if this is clear to you.

**Eric Beder**

No, that makes sense. Could you talk a little bit about inventories? Inventories are up significantly. I know that part of that is that you want to be in stock for some of the key holidays, other pieces. Are you comfortable with the levels of inventory you have now? How new is the inventory, as we look at it for the holiday season?

**Andres Campos**

Yes. It's basically all new, and to be prepared for the holiday season. If you can remember, we had some disruptions at Betterware in Q2 from stock-outs, because we weren't able to fulfill the demand for growth. Q4 is very important for us, in terms of revenue, EBITDA, everything. So we prepared well, and we also saw that this disruption in the freight prices that we talked about. Normally, when you have these disruptions, you can also have disruptions in blank selling and not being able to get your products here on time. We go forward with both of those things, to make sure that we were ready with inventory for 4Q.

**Eric Beder**

Great, and last question. Can we get an update on what's happening with Betterware USA and the rollout into Peru, I believe, for next year. Are those still on track? What's again, I know they haven't been opened for that long, but what are you seeing there that's encouraging? Or, what are you seeing period for those areas? Thank you.

**Andres Campos**

Yes. This is Andres again, Eric. In terms of Betterware U.S., we have launched the operations in Betterware U.S. already. We are still in piloting phases, kind of running water to the pipes and making sure that our compensation plan is attractive, that the products are attractive, that everything makes sense. We're already selling. We have our first brand partners team, but still in a phase of running water through the pipes. We believe that during next year, along next year, we will be able to give more figures on this, and things are going okay.

In terms of Betterware Peru, we're setting everything up. I think we mentioned that we will launch by the end of Q1 or starting Q2 of next year. We're still preparing everything, and we will begin with the pilot testing and everything by the end of Q1 or beginning of Q2. But yes, we're starting up and we'll give more details during 2025.

**Eric Beder**

Great. Good luck for the holiday season. Thank you.

**Andres Campos**

Thank you, Eric.

**Operator**

As a reminder, if you would like to ask a question, it is star, one.

Our next question is from Cristina Fernandez from Telsey Advisory Group. Please go ahead.

**Cristina Fernandez**

Hi. Good afternoon, everyone. I wanted to follow-up on the prior question around the U.S. expansion. Now that Jafra has some better footing and Betterware a couple of quarters into the U.S., can you take a step back and talk about the learnings that you're seeing. Any differences or similarities that you're seeing between the U.S. and Mexican consumers that can explain the business model going forward?

**Andres Campos**

Yes, sure. Hi, Cristina, this is Andres again. Yes, this first phase, this first month is, as I was mentioning, kind of running the water through the pipes, making sure that everything works and trying out in different markets. We have seen that the Hispanic market, specifically, is very keen on what we're doing. We're seeing a very good reaction in that sense. We haven't really laid out the whole cross-border program, but we are starting to lay it out in the first two states of Mexico, where people

from Mexico can refer relatives and friends from the U.S., and we're getting some interesting early figures on that. Looking forward to continue to lay out the whole opportunity in the U.S. I think we will be able to comment a little bit more on that in the coming quarters.

**Cristina Fernandez**

Okay. Fair enough. I wanted to also ask, there's a table that's new in the press release today about how the business has changed, fixed versus variable expenses. This cost structure shifted. Can you talk about what changed? When I look at the table, both are up, so I'm not sure if that's correct or reflects the changes in the business model? I assume it's more variable today than fixed versus a year ago.

**Andres Campos**

Yes. Yes, it's a good observation. It's definitely more variable today. If you see Q3 of 2024, the variable cost structure is 75%. Normally, this happens with growth. As we continue to grow, we have some operating leverage on fixed costs, on fixed expenses. At the same time that we have that operating leverage, we always talk about the fact that we're continuously looking for optimization in our fixed expenses. We continue to find ways to optimize the expenses, and I think this is a reflection of that point.

**Luis Campos**

Cristina, this is Luis. I will add something else. Remember that since we completed the acquisition of Jafra, we have been cutting fixed expenses there to bring it to more or less the level which we used to have in Betterware, okay? That's also a good reason why our cost structure changed from Q3 2023 to Q3 2024. We have almost completed this reduction in the fixed expenses of Jafra.

**Cristina Fernandez**

Yes. Thank you. Another question I have, Alejandro mentioned that you were going to allocate 30%, 40% of free cash flow to acquisitions. Talk about what the strategy is there? You just absorbed a big acquisition with Jafra. How are you thinking about the company? Should we think, I mean, down the line, more tuck-in acquisitions? Any sectors you want to be in? Or, would you stay close to where you're operating now?

**Andres Campos**

Yes. Hi, Cristina. Yes, definitely, as we mentioned, we created the BeFra Group, naming it the Great Brands, One Essence. After we completed the acquisition of Jafra, which is almost a three year, well, two and a half-year anniversary, we have seen that our hypothesis was right, in the fact that acquiring a brand in a new category, where we replicate our model, has been a great success, a very quick and great success.

Now that leverage is down to 1.76 times EBITDA, we will continue to deleverage in that sense. We have the opportunity to be looking at different options. I would think of it in two verticals. One could be the possibility of adding other categories or other companies within the same category, or another one is something where we can look at international expansion and look for opportunities there instead of starting from zero. So that I would think about it that way. I don't know if that answers your question.

**Cristina Fernandez**

Yes. Yes, that's helpful. Thank you. Then just last one, just also clarifying on the inventory. Is the step-up just now for the fourth quarter and holiday? Or, do you think, going forward into 2025, you also need to make additional inventory investments to make sure you're in stock, particularly going into promotional periods?

**Andres Campos**

Well, no, I think after the shock that we had during Q2 in Betterware Mexico, where we have a lot of stock-outs, we had to build up again the inventory. The second thing that affected us is that since freight costs started going up so much, as we mentioned, we were a little bit worried about disruptions in the supply chain as well.

We are seeing that the supply chain has not really suffered disruptions and that prices are starting to stabilize in that sense. As long as the supply chain stabilizes and prices stabilize as well, we will not have to keep building up inventory for future



quarters. It was just a matter of that disruption in the prices and the supply chain that led us to this buildup at this specific time.

**Cristina Fernandez**

Okay. Makes sense. Thank you and best of luck here in the fourth quarter.

**Andres Campos**

Okay. Thank you.

**Operator**

As a reminder, if you'd like to ask a question, it is star, one. If there are no further questions, I'd like to turn the floor back to Management for any closing comments.

**Luis Campos**

Thank you, Operator, and thank you, once again, to everyone for joining today's call. As we approach the final quarter of 2024, we take pride in the solid results we have delivered so far, fueled by our commitment to innovation, technology and business intelligence. These pillars, along with our cost-efficient and asset-light business model, have allowed us to thrive in a competitive environment, driving consistent double-digit growth and profitability throughout our history, including the last quarter. Our ability to adapt to market trends, while maintaining operational efficiency has been key to our continued success.

Looking ahead, we are confident in our ability to close the year strongly, with a solid pipeline of new product launches, enhanced customer experience and the strategic initiatives in place, BeFra is well positioned for a successful fourth quarter and a strong start to 2025. Our resilience, adaptability and diversified portfolio position us to create lasting shareholder value, reinforcing our leadership in this evolving market.

Have a great evening, everyone, and thank you for joining us today.

**Operator**

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