



12/18/2020: Betterware De Mexico (BWMX) - A Kitchenware Company That Looks Like A SaaS Business

Good morning Operators,

Last week we dove deep on Mexico's largest auto insurance company, Qualitas Controladora (Q). If you haven't read that report, check it out [here](#). Also check out our **News & Notes** section at the end of the write-up for an update on our portfolio.

While I want to continue coverage of the broader Latin America space, we're spending another week in Mexico. There's just too many good ideas in this country to give it the "once over".

One of those good ideas is Betterware De Mexico (BWMX). BWMX is a direct-to-consumer (D2C) multi-level-marketing (MLM) company that sells kitchenware products, food storage and other products.

We bought BWMX Wednesday after the stock broke out of a beautiful bull wedge. The timing of the purchase was lucky as the stock rocketed nearly 12% on Thursday (see below).

rockvuecap published on TradingView.com, December 18, 2020 09:29:52 EST
BATS:BWMX, 1D 33.85 ▲ +3.59 (+11.86%) O:30.85 H:34.32 L:30.00 C:33.85



We didn't buy for a quick 12% pop. We're in this for *much larger* potential gains.

There's a couple great write-ups on the company, which you can read [here](#) and [here](#). This week we're reviewing the bull thesis, what could go wrong and why the stock could double from here.

Isn't Multi-Level-Marketing A Fancy Pyramid Scheme?

Before diving into the fundamentals, let's address the elephant in the room: **BWMX's MLM strategy**.

Bill Ackman became famous for shorting Herbalife under the guise that MLMs were glorified pyramid schemes. It's important to note the distinctions between a *true* Pyramid Scheme and a *legitimate* MLM strategy. The SA article describes it well (emphasis mine):

*"MLMs that are actually pyramid schemes are those that **use money from new recruits to pay people at the top rather than those actually performing the work**. These are predatory schemes that take advantage of people by selling them the illusion of financial independence, only to bleed them out. Pyramid schemes can be spotted when there's **more focus on recruiting than actually selling the product** the company produces, a red flag."*

BWMX uses MLM to encourage existing customers to recruit new potential distributors of the product. In essence, you're selling more than kitchenware. You're selling a way for people to make a few extra dollars on the side while enjoying a quality product.

US-based readers will know other famous MLM companies like Herbalife (mentioned previously) and Mary Kay Cosmetics.

Here's how BWMX's MLM strategy works (image on right from SPAC merger presentation):

- Distributors place an order to BWMX
- Distributor sells to a pool of associates (recruiters)
- Associates purchase and sell product

Like any MLM structure, there's incentives at each level. Distributors get 12-16% discounts on its Associates' sales and 20-40% of the Associate's BWMX Points earned. In other words, Distributors make money when their Associates sell their BWMX product to referred customers.

Associates also receive rewards. 24% discount on product purchases and 1 BWMX Point for every MXN\$1 of purchase price (redeemable for trips or discounts on future purchases).

BWMX's Distribution Model

The company's distribution model is straightforward. BWMX sells to distributors. These distributors sell to the Associates. And it's the *Associates* that deliver the product to the actual "customer".

Customers can place orders over the phone, through WhatsApp/BWMX own app, or in-person. This is where things get interesting. BWMX is *just now* rolling out its in-house phone app. The app allows customers to place an order and alert the closest-available Associate of the purchase request.

If you're thinking of the Uber delivery model, you're right. It feels a *lot* like Uber where "customers" request a ride and the nearest available driver can snag the reward (drive time). Along with increased logistical efficiency, there's tangent benefits of customers using the BWMX app, including:

- Driving traffic to the app where BMWX can offer customized/regional discounts
- Gamifying the delivery process among Associates (i.e., “Click now to claim this purchase and deliver the product”)
- Massive amounts of data to analyze customer purchasing trends, enabling BMWX to identify new markets and deeper expansion into existing markets

Between distributors and associates, BMWX has a ~400K sales force team. This team touches nearly every region in Mexico and helps the company deliver its product at near \$0 incremental cost.

Product Segment

Here’s a breakdown of the company’s sales categories and percentages of revenue (as of 2019):

- Kitchen and Food Preservation (40%)
- Home Solutions (17%)
- Bathroom (14%)
- Laundry & Cleaning (10%)
- Technology & Mobility (9%)
- Bedroom (9%)

Almost all these products are perishable. This means customers *need* to purchase these items on a semi-regular basis. In other words, BMWX creates an inherent recurring revenue model given the type of products they sell. Do you see the SaaS comparisons now?

The company offers ~400 products every six weeks (on time with new catalog delivery). Each new catalog offers ~10-15% new items for a total of 300 new products per year.

BWMX’s target customer is mid-to-low income earners. These are classified as C & D demographics. This is a good demographic to target because it accounts for ~60% of Mexico’s population.

At this point you’re probably thinking, “Okay Brandon. A Mexican MLM company selling tupperware that I’ll lose in six weeks sounds boring. Why should I care?” Glad you asked.

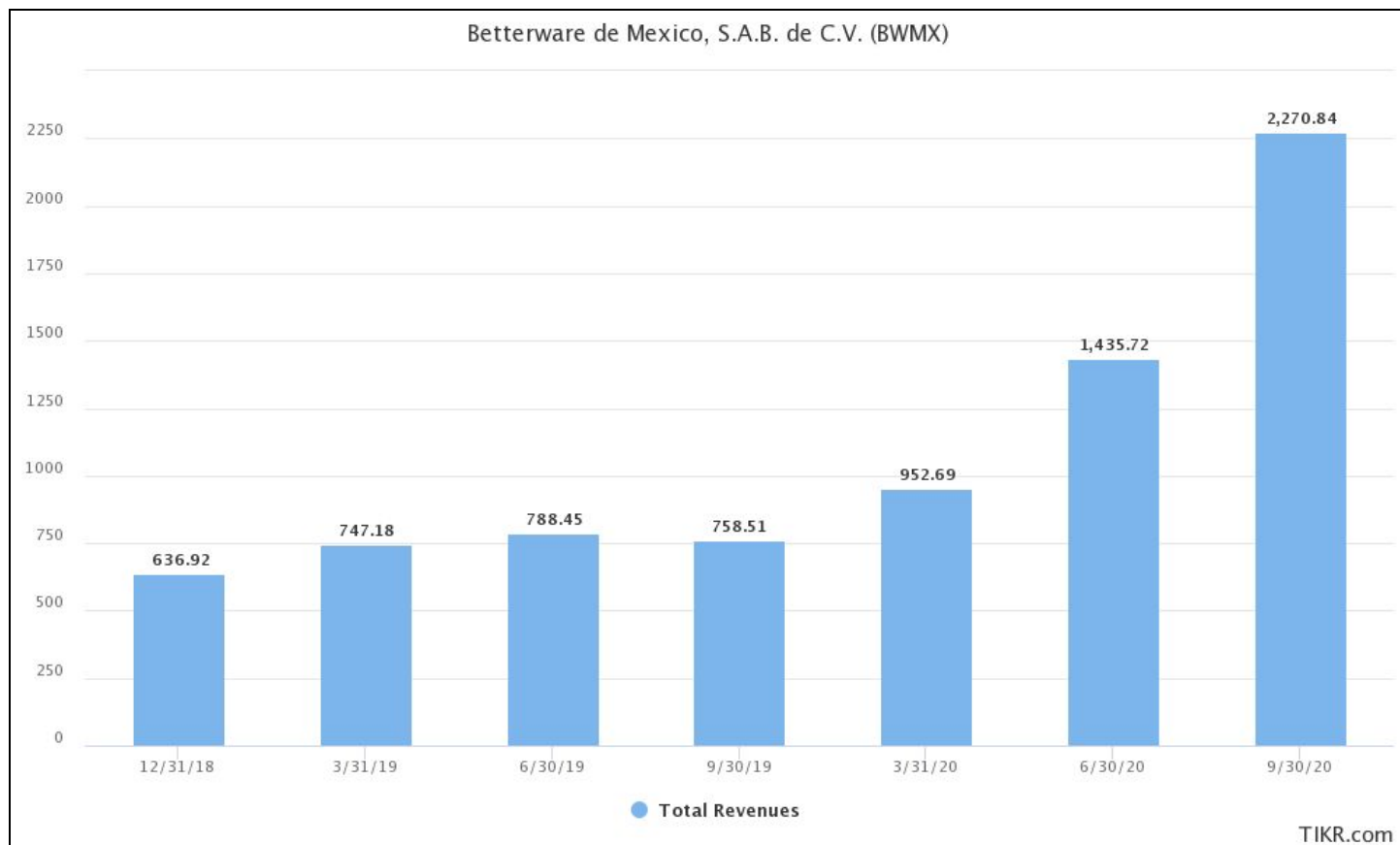
Why You Should Care About BMWX: Rapid Top-Line & Margin Expansion

BWMX is a growth machine. We have financial data going back to 2015 on the company (via SPAC merger presentation). From 2015 to 2017 the company grew revenue at a 21% CAGR. During that time they expanded EBITDA margins 300bps from \$11M to \$20M.

But you can’t appreciate the growth until you consider what they’ve done recently. Check out these revenue growth rates for the last six quarters (starting in 03/31/19):

- +43%
- +51%
- +19%

- +50%
- +92%
- +188%



That's S-Curve-like growth.

Yet despite this massive top-line growth, the company's maintained 55%+ gross margins on average. The most recent quarter shows MXN \$2.27B in revenue and MXN \$1.24B in gross profit.

Moving further down the income statement we find **more** operating leverage. Seven quarters ago (12/31/2018) BWMX did ~23% operating margins. SG&A ate 35% of gross margins during that time. Now, the company generates 32% operating margins with SG&A making up a mere 23% of gross margin.

In other words, the company's growing top-line revenue triple digits, maintaining 55% GM while maintaining (roughly) the same level of SG&A expense. That gives us a 53% unlevered FCF margin.

Capital Allocation & Industry Runway

BWMX's cash conversion allows it to pay-down long-term debt, issue dividends and buyback stock. Over the last six quarters the company paid down (net) MXN \$28M in debt and bought back the same number of shares it issued.

The one positive change is the dividend. BMWX has paid MXN \$493M in cumulative dividends since 03/31/19. At a time when companies are suspending dividends and finding ways *not* to return capital to shareholders, BMWX stands strikingly strong.

According to BMWX, the company's penetrated ~20% of its TAM. They expect to reach 27% in the next three years, growing **well-ahead** of the industry average (5%).

Risks

The biggest risk with BMWX (and any MLM company) is their growth campaign. MLM companies *live* off growing their distributors and associates. This keeps the positive flywheel going as more people recruit more customers and associates, which flows more cash back to BMWX.

That said, slowing growth in the number of distributors and associates has devastating consequences. It's not about the *products* but the people. If they *can't* grow distributors and associates they're left with more traditional (read: costly) forms of growth via advertising and marketing. Thus stripping its \$0 incremental last-mile logistics network.

Second, customers could *not* use the BMWX app. This would reduce the company's ability to generate *massive* insights from that data. It would also open the door for other competitors in the space (AMZN, MELI, TUP) to provide a better mobile-first experience.

Finally, you can't go a Mexican write-up without mentioning currency risk. Currency fluctuations can prove both a headwind and tailwind depending which way the wind blows. These fluctuations will hit the COGS line-item hard -- which we'll closely follow.

Valuation: A Double From Here?

The company's estimated 136% YoY growth in 2020 to reach MXN \$7.3B in revenue. 2021 estimates show a modest 28% growth rate to MXN \$9.32B. Let's assume BMWX grows top-line ~22% per year until 2024. That gives us MXN \$16.7B in revenue (\$840M USD).

We're taking a more conservative approach with EBITDA margins by averaging 28% over the next four years. Remember, the company did 32% EBITDA margin last quarter. Doing that gets us 2024 EBITDA of MXN \$4.7B (\$240M USD). In other words, the stock is trading 5x our 2024 EBITDA estimates (20% yield).

What's an appropriate EBITDA multiple for BMWX given what we think could happen over the next four years? 10x - 12x seems fair. The average 2019 EBITDA multiple for a comparable list of companies (Herbalife, Usana, Nu Skin, Tupperware) is 13.9x.

At 10x 2024 EBITDA you get \$2.4B in EV. Add cash less debt and you get \$2.43B in shareholder value (~\$70/share). **That's a 127% return.** If BMWX reaches our target estimates by 2024, a 10x multiple is too low. This means our \$70/estimate will fall on the low-end of our probability distribution.

Even if we take a shorter-term view (2022 EBITDA) we get \$164M or ~7x the current EV. That's still a 14% yield at the current price.

News & Notes

New Buys:

- Centrus Energy (LEU)
- Betterware De Mexico (BWMX)
- Qualitas Controladora (Q)
- Long Silver
- Add to Ammo, Inc. (POWW)

New Sells:

- Teekay Tankers (TNK) -- Full
- Grayscale Bitcoin (GBTC) -- Half
- Fairfax India (FIH.U) -- Full
- Tencent Music (TME) -- Full

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