

Operator:

Good morning, ladies and gentlemen. And thank you for standing by. Welcome to Natura and Co's 1Q24 earnings conference.

It is important to inform you that if you need simultaneous translation, the service is available on the platform. You may access the service by clicking the globe shaped icon labeled "interpretation" located at the bottom side of your screen and choose your preferred language between Portuguese and English.

If you choose to listen to the conference in English, you may also choose to mute the Portuguese audio by clicking on "mute original audio".

Joining us today are CEO, Fabio Barbosa and CFO Guilherme Castellan. Executive director for Latin America, João Paulo Ferreira, will be joining us as well for the Q and A session.

The slide deck to which we will be referring to during this call is available for download on the Company's investor relations website. I will now turn over to Mr. Fabio Barbosa.

Fabio Barbosa:

Good morning everyone and thank you for joining us for our first earnings call of the year.

I can not begin without first expressing our solidarity toward the people of Rio Grande do Sul, who's experiencing the biggest climate tragedy in the state's history. We are facing a challenging scenario but our priority remains unchanged and that is to take care of people.

We have teamed up with public and private organizations, local communities and suppliers to facilitate donations and ensure continued support for the people of Rio Grande do Sul.

We are donating essential toiletries to the civil defense department. Our offices, plants and distribution centers are working as collection points for warm clothes and blankets, as well as other items that will be sent to Rio Grande do Sul, according to local needs.

We are offering everyone medical, social and psychological support through telemedicine resources and our social center.

We are also launching a campaign to help the consultants who were most affected by the rainfall to rebuild their homes.

Our goal is to double the volume of funds that have been donated. So for every R\$1 in Natura we will donate another R\$1.

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Finally, we have planned steps to stimulate the local economy as soon as possible, including restocking inventories, extending payments and supporting the reconstruction of stores and points of sale.

Let us now turn to the main highlights of the quarter.

Natura Brazil has once again stood out in terms of growth in the quarter. The brand has shown strong growth and this quarter has been no different. Revenue growth compared to 1Q23 was in the low double digits.

The strong innovation plan for the brand throughout 2024 is expected to leverage the continued solid performance for the year.

Natura's solid performance was not offset by Avon Latam and Avon International, but in very different ways.

At Avon Latam, the drop in revenue was plan, given the implementation of Wave two ,which is still impacted by the reduction in consultants and SKU`s.

Where Wave two has also been implemented, we continued to see sustainable improvements in key operational metrics, productivity, cross selling and a better portfolio mix, to name just a few. And these improvements have been positively impacting profitability.

These are early signs, but we are very confident about Wave two.

At Avon International, on the other hand, we had a quarter of shrinking margins, as sales were deleveraged. The new management is still committed to simplifying markets and focusing on key countries, combined with an optimized portfolio and improved promotional strategy, leading to stabilized revenues and improved profitability.

On that note, I would like to hand over to Guilherme, who will give you more details about our financials, and then I will come back for my final remarks and to answer your questions.

Thank you.

Guilherme Castellan:

Thank you, Fabio.

Let us move on to slide number six, with the Company's consolidated revenue, which reached R\$6.1 billion in three months, up 1.1% in constant currency. While excluding Argentina and the Body Shop, the drop was 3.9% in constant currency. In BRL, sales fell by 5.7%.

As you can see on the chart, Natura & Co Latam, which accounts for 77% of our revenue, grew by 3.1% in constant currency, while Avon International fell by 4.7% in constant currency as well.

In Latam, as Fabio mentioned, the performance was driven by Natura Brazil with revenues growing 11% vis a vis 1Q23.

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And it is worth noting that this growth came on top of a strong comparison basis. A year ago, this expansion was around 25%. It was also a richer quarter from the mixed standpoint, especially with the launch of the "Perfumada" sales campaign, focused on fragrances.

On the other hand, Avon Latam showed an unexpected drop in top line due to the impact of Wave two in the region, which reduced consultants and SKU's.

The Home and Style category showed a double digit drop due to the integration process in place at Avon International.

We had a 4.7% drop in revenue. If we exclude the Body Shop, a 7.2% drop.

The performance reflects the 4.2% drop in the Beauty category and a stronger drop in the Home and Style category.

Now, let us move to slide number seven and see how those results reflect profitability, that, as you know, it is our focus.

Profitability, on slide seven. Once again, we can see the performance of our adjusted EBITDA. This is the fifth consecutive quarter in which the Company has shown an improvement in profitability.

In the first quarter of the year, we had an improvement of 110 bps and adjusted EBITDA margin year on year. 90 bps coming from gross margin increase and 20 bps on corporate expense reduction in Latam.

The evolution in profitability was significant, at 120 bps, mainly explained by the wave two initiatives and the country mix including brands and countries.

This advance in Latam was partially offset by the 80 bps contraction in Avon International's margin.

Moving on to slide number eight, we present our net and underlying results in.

In 1Q24 the reported net loss was R\$935 million, negatively impacted by the write off of R\$485 million of earn out receivables from the Body Shop and the impairment slash write off of R\$139 million from Avon International, also mostly related to the restructuring of the Body Shop.

As we evaluate down the line, which is the net profit, excluding the cost of transformation, integration restriction, discontinued operations and the effects of the PPA, the amount of the loss falls to R\$116 million, about a third of the amount recorded a year ago of R\$373 million.

This improved result reflects a higher adjusted EBITDA and the reduction of financial expenses, due to the drop in debt offset by the increase in taxes, related to the mix across profitable and unprofitable countries.

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If we exclude the non recurring R\$137 million amount relative to expenses from transferring cash from Argentina, underlying net profit would be positive, at R\$21 million in the quarter.

We now turn to slide number nine to talk about our cash flow for the quarter.

Pre cash flow from continuing operations in 1Q was negative at R\$1 billion. An improvement of R\$368 million on a proform basis or R\$803 million, when compared to the cash outflow registered in 1Q23, which was set at R\$1.8 billion.

This improvement is due to a combination of higher adjusted net income, slightly better working capital dynamics, including improved accounts payable and lower Capex, explained by the phasing of investments.

These effects combined more than offset cash consumption at R\$176 million for inventory building for the second quarter, and the effects of the Body Shop, which impacted total working capital at R\$86 million.

Moving on to the next slide, slide number 10. We have data on our debt level.

As we remember, we used the funds from the sale of Aesop to write off part of our debt and we ended 1Q24 with a cash balance of R\$5.9 billion.

Our current net debt over EBITDA ratio is 0.13 times, reflecting a net debt of R\$275 million, excluding leasing at the end of the quarter and a mid-season cash burn of R\$1 billion, combined with the payment of taxes related to discontinued operations.

Let us now talk about our operating results.

We continue to implement Wave two in Latin America and, as Fabio mentioned earlier in the call, the results we are now seeing make us confident that we are on the right track, with continuous improvement in operating metrics and also in profitability in Latin American countries where Natura and Avon brands were consolidated.

Activity in Brazil remains solid, with cross selling growing, even amidst the maintenance of the two order minimum split between Avon and Natura.

It is worth noting here that in Avon Brazil, we can already see a trend of improvement when we look month on month. And our expectation is that Avon's revenue will begin to stabilize throughout the second half of the year.

From the standpoint of the evolution of several projects, it is worth mentioning the harmonization of delivery times between Natura and Avon in Brazil, which has meant the average delivery times are now similar for both brands in most regions.

With regard to inventory, the failure report in the last quarter continues to improve but has not been totally addressed.

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Inventories of the SKU's in the main categories have been protected, including fragrances, and that has allowed us to have a healthy performance for the Natura brand.

It is important to note that the consultant base is still down compared to the previous year, but it is now stable compared to the previous quarter.

There was also no significant change in the organization of sales leaders and their consultants as well over the quarter.

In Hispanic Latin America, meanwhile, productivity in Peru and Colombia continues to show a strong growth compared to the previous year. Partially offsetting activity that is still down year on year, but which is recovering on a better trend.

It is also worth noting a significant expansion of margins in Peru and Colombia as results of Wave two emerge in full at the same time investments in other channels and other non recurring items become less relevant and start to be phased out.

On slide number 13, we have a detailed breakdown of Natura & Co Latam performance. Revenue rose 3.1% in constant currency, which includes Argentina. Excluding Argentina, we recorded a fall of 2.7% in constant currency.

In the CFT category, Natura Brazil grew 11% compared to 1Q23, as I said at the beginning of the call, on a very strong comparison basis.

A testament to the Brand's accelerating dynamics in the country, even considering the impact of a higher tax burden on our net revenue in the Hispanic region, Natura CFT revenue was about the same in constant currency excluding Argentina.

Avon in Brazil fell 11% in CFT, while the Hispanic region fell 12%, as we have already mentioned. Both are still impacted by Wave two, as expected.

In the Home and Style category the reductions were stronger to the tune of 26% in the Hispanic region and 42% in Brazil, directly linked to the planned strategy of optimizing our portfolio and reducing commercial incentives, still showing an improvement in profitability and return on invested capital.

This is the fifth consecutive quarter in which you have recorded profitably expansion as measured by adjusted EBITDA margins since 1Q23.

In this quarter Natura & Co Latam EBITDA rose by 5.5%, reaching a level of R\$666 million with the adjusted EBITDA margin reaching 14.2%. An increase of 120 BPS, partially upset by the acceleration of planned investments linked to marketing, especially for the Natura brand and the improvement of service levels, leading to an increase in sales expenses compared to the previous year.

These investments are relevant because there is a high correlation between the improved level of service, consultant satisfaction and consumer satisfaction as well, and the level of productivity, which are important KPIs for the Company.

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It is worth mentioning that there was a reallocation of expenses in the tune of R\$44 million from the GNA line to commercial expenses, which has also impacted that specific indicator.

Now let us move on to slide 16 and talk about Avon International, which continues to underperform.

In constant currency the drop was 4.7%. And if we exclude revenues coming from the Body Shop for the production of products, the drop was 7.2%.

In addition to the Home and Inside category, which fell by 22% as a result of portfolio optimization, the Beauty category fell 4% year on year.

Those flows reflect not only a lower number of representatives but also weaker promotional execution. Starting 4Q23, which we expect to normalize as of 3Q24. As a result, Avon International's adjusted EBITDA margin was 5.3% in the quarter, down 80 BPS amid operational deleveraging, although partially upset by the lower selling expenses.

I will now hand over the floor back to Flavio, for his closing remarks.

Fabio Barbosa:

Thank you, Guilherme.

We continue to move forward in studying a potential separation of Avon, as we said in February of this year, to simplify our corporate strategy and give our business units more autonomy.

We will communicate that to the market as soon as we have news.

In addition, as you were able to see, we had a solid beginning of the year at Natura & Co Latam with positive results and signs that the initiatives we are introducing with Wave two are delivering the expected results.

Our margins and cash generation are still our absolute priorities in the near term, as our resource allocation will continue to be essential to value generation.

It is important to highlight that, in the last two years, our profitability has nearly doubled. Our adjusted EBITDA margin proforma was 5.9% in 1Q22 and is now at 11.2% this quarter.

I would like to reinforce that strengthening our margins was a priority and that is what we did.

Lestly, I would like to once again reinforce our message of hope for Rio Grande do Sul. As we work toward rebuilding, we are committed to keeping our focus on the mission of taking care of people. Thank you.

Let us now move on to your questions.

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Felipe Rached, Goldman Sachs:

Hello, everyone. Thank you for taking my question.

I would like to explore the potential unification of Natura & Co and Avon in Brazil. So far from what you understood about how your representatives are working, does it make sense to combine all the orders? And do you know when this will cause the minimum possible impacts on those orders? Any color you may add to that will be absolutely appreciated. Thank you.

Fabio Barbosa:

We have concluded all the studies on different order combinations, both the commercial side and logistics side. And it makes sense for us to keep our orders separated by brand, but unified during checkout and delivery.

So the process is expected to evolve along those lines in the next few months.

Felipe Rached:

Perfect. So no specific timing so far, right?

Fabio Barbosa:

Yes, we should have concluded all of that very soon.

Felipe Rached:

Ok, perfect. Thank you.

Ruben Couto, Santander:

Good morning, everyone.

I would like to hear a little bit more about Natura & Co Latam. Again, this was a highlight, despite the smaller basis and despite the increase in prices compared to last year.

I would like to understand what we could expect in terms of gross margin for the rest of the year. With the poll coming from higher priced products, should we see steady margins compared with last year?

The level we saw in 3Q is something that we can expect to persist for the rest of the year? Thank you.

Guilherme Castellan:

Hello Ruben.

I will start very quickly by talking about the gross margin and then I will turn over to João in case he has anything to add.

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In a nutshell. Latam was very much impacted by the mix of products. We talked a lot about fragrances, the mix per country, and obviously we continue to pass through the prices, at least when it comes to inflation.

This is true both for Avon and Latin America. But of course, when it comes to gross margin, we are still being very positively affected by the management, especially in Latam, with the new portfolio, seeking better margins, as we said earlier, as well as a positive product mix.

It is important to underscore, before turning over to João for him to add whatever he may have to the Latam issue. Avon International, also excluding the body shop, has grown its margins year over year. And this is also due to the strategy of passing through inflation to our prices and promotional sales as well.

But of course, the Latam strategy is to blame in large part both in terms of choosing the SKUs and in executing the pass through as well.

João Paulo Ferreira:

I would like to add only that we are absolutely connected to the market, monitoring prices in the marketplace at large and also the elasticity of our brands to identify price adjustment opportunities.

I would also like to point out that during this quarter, our strength indicators, both for the Natura and the Avon brands, did really well. We saw brand equity improvements across all our markets in the region for both brands.

This makes us even more confident in terms of managing our revenue as calmly as we need to.

João Soares, CitiBank:

I just wanted to follow up on what Guilherme mentioned that you have finished the order combination study and that over the next few months, you will be unifying checkout and delivery.

We have been discussing whether the risk of initiating a wider logistics operation in Brazil may affect you.

I just wanted to understand how that is going. Should we expect to see, maybe, a more gradual transition to prevent disruption and ensure that the brand's commercial performance is still consistent? I just wanted to understand the discussion around that integration.

My second point, this is to Guilherme specifically, when we look at the balance sheet and the liability management that you have performed, we had the underlying profit in our minds that would be around R\$100 million. Is this feasible? If we exclude all the non cash expenses that you added? I do not think you added that to the waterfall. Where would that fall currently? Thank you.

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Guilherme Castellan:

Thank you for your question. I will turn over to João for him to answer your logistics question. And then I will take the second part.

João Paulo Ferreira:

Well, from the integration perspective, all the main Hispanic Latin American countries, all the link markets have already executed that integration.

But Brazil is a very large market. So our operations in the North and Northeast have already been integrated from the distribution perspective.

It has not been the case for the South, but that does not prevent us from combining deliveries. So delivery flows will be integrated and I do not see any major risk of disruption from here on out.

Our transportation companies have also already been integrated, so I do not see any major risk of disruption in the next stages.

Guilherme Castellan:

Thank you for your question, João.

This is an important point to address. So thank you for asking the question about the net profit.

There have been many things affecting our profit during this period. So it is important to look at the breakdown of that more calmly.

Being very pragmatic, if we look at the net profit for the quarter, minus R\$935 million, several different one-offs have impacted that during this quarter. Starting with what we are calling "order operating expenses", R\$50 million. We also talked about that in our release.

This was in large part caused by an impact from write offs in Avon. Those were connected to chapter 11 by the Body Shop. So this was the receivables that we relied on. I believe that we did everything that we had to.

So there is no more impact expected along those lines.

Be in mind that this line was positive in 1Q23, positive by R\$30 million. So, of course, this is a one off.

We expect to not see major impacts on this line in the following quarters, but it is difficult to predict that,

Also on Avon, there was the issue of the Body Shop products. The second line that has had an impact on that is transformation, which is what we called cost to achieve before as well as transformational costs. That accounted for R\$89 million in the quarter. And just as we have said in the past, this is one line of cost that is expected to persist, not in the same magnitude as in 1Q23.

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You may notice that it was higher in 2024 when compared to 2023. So we expect this to be a bit lower, moving forward, but it will remain high.

So as we said earlier, at least in 2024, we expect that to remain, but decrease significantly in 2025 to a very, very low level in 2026.

So decreasing in the next couple of years, but over the course of 2024 it should remain high.

We should begin to see easier comps along this line, starting in 2025.

Another important point to address is our net financial expenses. That was R\$100 million better than last year only. But you can already see the difference between interesting commitment expenses between our investments and expenses because of our cash position.

But this line has been impacted by Argentina. So you have the impact of high hyperinflation in Argentina and, in this quarter, something that we judge not to be recurring, but on an opportunistic basis, nearly R\$130 million in accounting losses relative to the cash position in Argentina, which obviously affected this quarter.

So obviously, we do not project these costs to be repeated every quarter moving forward. But another thing I wanted to stress here, and I am going very much into detail on this point because I think it is important to talk about net profit because of the magnitude of these figures, is taxes.

We had a higher than average effective tax rate this quarter, as a result of the mix of countries, in terms of profit. But more specifically, non recurring effects on one offs and non cash items that affected that this year.

So obviously, we do not offer any guidance in terms of taxes, but we are pointing out that our ETR was higher than average this quarter because of these significant impacts.

And lastly, there were discontinued operations which were somewhat upset by the earn outs with the Body Shop. These were essentially short term earn outs. We are talking about essentially two year payments.

The situation with the Body Shop at present is, we chose to take the conservative route and show that we are not going to be receiving these earn outs. These had to do with specific financial targets we had with the Body Shop.

In a nutshell, when you look at our underlying net profit, you can correct for these issues with something closer to R\$900 million, so negative R\$100 million.

But there is also the impact of inflation and the cash withdrawal in Argentina, as well as other one offs, as I said earlier, such as the ETR issue that affected the result this quarter, non cash element.

So we are sharply focused on our net profit and we are working for this figure to be clear, so to speak, and we believe we have what it takes for this to be positive next quarter.

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Joseph Giordano, JP Morgan:

Hello, good morning, everyone. Thank you for taking my question.

I have a couple of doubts about Avon International. I would like to have some more context about the nature of those intercompany transactions in terms of profitability.

What can we expect going forward for the next quarters?

And also, a potential spin off from Avon International., it has been on the table for some time.

I would like to understand what would be the main drivers that you were talking about. The pros and cons, if you could share that would be useful.

And also, I would like to understand the main initiatives you have in place to try to resume your operating leverage on that front, or if you are thinking about simply cutting costs so that you can resume cash neutral margins.

Thank you.

Guilherme Castellan:

Hello, Joseph. Thank you for your question.

We mentioned some of that in our release, Avon International had yet another quarter where revenues dropped. That was somewhat expected after 4Q23.

So we were to be sure to expect that level of results, especially for the CFT category, almost minus 4%. Home and Style saw a higher impact.

For Avon International, which is important, it is to prioritize different markets. We talked about it before and it is not only a priority along the lines of changing the way you operate, but it is also to really believe in gambling on up trending markets. Markets that have shown strength and then invest resources that were before allocated to other markets.

So we may continue to see a slowdown in revenues in the short term for Avon International. But, with a focus on improving both revenue in the future, especially margins, as we prioritize key markets, as I said, important markets. Markets that show strength where we see positive signs coming from those channels, also markets that can recover faster than other markets.

So it is important to highlight that.

As we have also mentioned in 4Q23 and now in 1Q24 once again, there were impacts coming from promotions that were not well executed in this quarter, just as it happened in the previous quarter. And we believe that we will start to normalize as of the second half of the year.

So we continue to work to stabilize revenues, just like we did in the first nine months of last year. 2nd and 3rd quarters in particular.

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As I said, stabilizing revenues is important so that we can have a better operating leverage, as you mentioned yourself. So we do believe in the plan we have in place. Is an aggressive cost reduction plan going forward. And we do believe that once we are able to stabilize revenue we will resume levels of margin expansions.

That is our main focus.

Now I will turn it over to Fabio and then I will be back. Thank you.

Fabio Barbosa:

Just one observation about the split. Our strategy about that is that both units have to be feasible.

It is not about splitting and each one having an independent path. No, the idea is to keep both units viable, feasible in terms of taxes, brand, it is a complex issue, as you will know.

Guilherme said it, and said it well: we need to focus on operation margins costs and we are taking our time to do that.

It is all part of the same equation. So we need to be sure we have viable units. That is our focus with no definite deadline to achieve that.

Joseph, that is what we had. If you have any follow up, we can do this offline, but in terms of Avon International, that is what we had to share with you.

Luiz Felipe Guanais, BTG Pactual:

Good morning, everyone. I have two questions.

If you could give us some more context on the working capital trend, if we can expect an improvement as Wave two is ramped up in Latin America.

And also a second question about capital structure and dividend payouts. After that first payout, you announced earlier in the year and considering what you just said, Guilherme, that you are always going after improvement in the bottom line, better profitability. What can we expect going forward in terms of dividend payouts? Thank you.

Guilherme Castellan:

Thank you for your questions.

Starting with your first question about the working capital dynamics. That is yet another commitment we took on two years ago, as we planned to expand margins.

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We also announced we wanted to improve the Company's cash conversion levels. And with a couple of hiccups in some quarters, but overall, we are quite confident that we will improve the Company's gas conversion.

It is already happening in a very sustainable way as we see it. We see important relevant KPIs performing well, payables, inventory, receivables.

And as I said before, in the past, the Company had historically used receivables and other financial levers to improve working capital.

That is something we no longer do. So that has had an impact and we are now overcoming it gradually, but positive results are emerging quarter on quarter, even amidst some headwinds we are facing.

But we are no longer doing that, just to be sure, our working capital is quite clean, quote on quote. And we do believe there is room for that, as I have always mentioned, and I will reinforce once again.

Receivables, especially given the strength of Natura Brazil and Natura Latam, especially in Brazil, and the expansion we have going forward. We have been talking about expanding margins and cash flow, but we are now going through a moment to go back to talking about growth.

This is true for Brazil, for Latin America. Let us go back to talking about growth.

João and his team have had another strong quarter for Natura with a very strong innovation pipeline for the year. And as revenues grow, we have to expect some headwinds on the receivables front, but we are quite bullish that we continue to improve inventories and improve payables, just as we have filed in the first quarter of this year.

There are initiatives in place for inventory. For example, there is a very broad logistics program being put in place to improve service levels, and also to improve inventory levels, and also for payments. We have talked about it extensively in the past in terms of payment terms and all the levers that the team has been using.

And you continue to do so to help smaller suppliers that we have in our chain. And that is important for us to keep them healthy.

In terms of working capital, I repeat, it is still a very important lever for us as we convert cash and we see room to improve on that front in the coming quarters.

As for the capital structure, we talked about it in the last quarter, when we announced the dividend payout numbers.

The cash burn in the first quarter is seasonal, so it's not unexpected. We were able to improve, actually, working capital levels, which was a priority, especially when you look at the results of the first quarter of last year.

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Still including the Body Shop, we saw a cash burn of R\$800 million plus, in addition to what we had.

So we are quite optimistic about the year, about the potential of our cast conversion for the year. And we are confident in the plans that we have in place. So nothing changes in that respect.

The second half is a period of much stronger cash generation for the Company. So we need to take seasonality factors into account and we look at our optimal capital structure at the same level as we had last year, between 1 and 1.5 times.

But as we also said, that number is not going to materialize overnight.

So we need to continue to deliver our plans, our strategies and we are quite optimistic about the coming quarters, and we will increase the payout as we move forward. And as the company improves performance, both in terms of profitability and also in cash conversion.

I will give it back to Fabio for his observations.

Fabio Barbosa:

As Guilherme just said, I would like to reinforce our capital discipline. That is something we take very seriously, where to allocate the best return levels.

Also, for the past two years, we have been working on improving profitability, and also cash conversion. Those two drivers are very important.

And that sometimes halts sales growth. So what João Paulo did, he tweaked the prices. It is a very strong market that worked well. He has revisited some SKUs, the fashion and home.

So sales suffered to some extent, but the objective was reached.

Now, once we have reached a level of profitability which is considered satisfactory, the idea is to reach a level of resuming growth. It also happened in Avon International, the same concept. Reducing SKUs, improving prices, working with fashion and home. Which may be important as in terms of compensation for consultants, but which is not what sustains the Company.

Just to say those adjustments have implications in terms of growth, of course. But I think we are now turning that page and we can look ahead and talk about profitability the same way we talk about sales growth, something we have been addressing differently in the past two years.

That is the focus that Fabio mentioned, but just to be sure, I would like to repeat that we will continue to talk about growth, of course, but we are not satisfied with the current margin, of course.

Now we believe that margin is at a level where we can sustain margin expansion. So this will continue to be our focus. And as brands also grow, we continue to focus on the Company's EBITDA margin.

Thank you.

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Bob Ford, Bank of America:

Good morning.

What share of your income came from...you had R\$73 in net debt with the holding. How much of that came from the listing and delisting in the United States? And how should we think about savings, relative to regulatory expenses and other non recurring expenses?

And also, to Guilherme, you mentioned your pipeline. How should we think about innovation this year in terms of categories, prices and types of technology?

And lastly, what rate of sales and profitability is coming from Rio Grande do Sul? And where is your mind at, in terms of how long and how deep will be the impacts of what we are seeing right now? Thank you.

Guilherme Castellan:

Hello Bob. Thank you for your question.

I would just like to address a few points that you touched on. Of course, everything that is relative to Latin America goes to João. But it has been a journey, both with Latam and in Brazil when it comes to home and style.

So again, you look at the results from two years ago. There were a few countries where home and style accounted for over 30% of revenue, in some cases over 40% of revenues.

And, obviously, there has been a dramatic decrease in these figures, both for Latam and Brazil. And Latin America even more. Because of João's expansion plan, you see a decrease by 40% in Brazil and Hispanic Latin America going down by over 20% in other quarters.

Again, this is something we had warned the market about. This was a category that was relevant, especially because of activation reasons.

But now that we have a platform that unifies Natura and Avon, even with separate orders, we believe that this category will maybe increasingly lose room and will be important to add value to the brand at large.

So we are not going to see millions of AKUs. And this is not something we see as adding value to the brand moving forward.

But it is important to say both for Avon International and Avon Latin America that as much as we have seen developments in this category, this came at the expense of our larger margin. So it is not like we are bleeding with this decrease.

We have been able to improve our margins by reducing our revenue, especially with the improvements that we have seen in our gross margins. And naturally, we continue to work along

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the lines we have mentioned before, in terms of capital by category and payroll loan lines as well, to improve the cash conversion within this category.

A lot has already been done. There have been significant improvements. We do not inform the market about decreases in percentage terms. But you may see that there has been an important improvement. This is no longer an essential category in most countries, except for a few, such as the Philippines, where this is sort of a base category. Also South Africa.

But in Latam, this no longer is as important as it once was.

But we are still working on an SKU optimization strategy, expecting some stabilization in the future. But in the near term, we still expect revenues to continue to go down.

I do not know if you have anything to add in terms of Latam, Joao. I will be turning over to you now and then I will come back to answer the questions about the holding. And also if you would like to talk about the innovation pipeline for Latin America, that was Bob's other question. Thank you.

João Paulo Ferreira:

Hello Bob.

Guilherme mentioned that we have a very strong pipeline and I would like to attest to that once again, starting with the Avon brand.

Of course, we are innovating across every brand. But in Avon, we have prioritized makeup and facial products. Notice, 1Q, both makeup and face have gone up in Brazil. Later in the year, we will have a stronger pipeline of perfume. That is also important to strengthen the brand.

When we moved to the Natura side, we do not have that there. There is no way of not having a very strong body and perfumery products innovation, because that helps us to stay at the top in these categories. And naturally, there is a very strong pipeline in face and hair, adding to the strengthening of our portfolio.

As to home and style, Guilherme has already touched on that. In Latin America, when you look at the overall business we work on. And this makes up 5% to 10% of our total revenue, when you combine Avon and Natura.

I insist, we have recovered the profitability and cash generation to a large extent in this category, with a very, very healthy

So when it comes to the pipeline that we are looking at, we are very confident.

Now, just to go back to the ABR leasing, we have savings that we did not even address in this quarter, but which was not really a main driver of our decisions. And it is also not as significant when compared to the results of our holding.

We are obviously still working on streamlining the holding, as we said earlier.

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We are still making efforts to simplify things, with many projects underway at the same time. We are still simplifying things as much as we can, but we still see room to work on that as we continue to deliver our streamlining plan.

So naturally, we expect improvements in this figure, but nothing of that having to do with the listing of our ABRs.

Now, as for Rio Grande do Sul, I will turn back again to Fabio, who will go a little bit more in detail into that and we will have answered everything you asked. Thank you.

Fabio Barbosa:

Well, Rio Grande de Sul accounts for about 2.5% and 3% of our revenue in Latin America.

Our standard practice is the same we have done during the pandemic. We are trying to contribute to society to help recover and help the population as much as we can, via donations and protect those who are part of our network. Our suppliers, associates, and most importantly, our consultants. And, as much as possible, keep the economy running, especially a few weeks from now by helping to rebuild their stores and help consultants to go back to work.

We are very proud of the entire work that we have mobilized between the donations we have had, both in terms of clothes, essential and staple items, fun matching by Natura.

We have donated over R\$2 million to the region. We know that is not that much, but anything anyone can do right now is extremely valuable.

Going back, I did not want to be that dramatic but I be I would be remiss not to say that this is a long term rebuilding process.

I am speaking not only of Rio Grande de Sul, but Brazil at large, because the water is still rising. So it really is a catastrophe. And the work that we have to do here with Natura is not just to provide the staples, toiletries and clothes and all of that, but it also has to do with what will happen once the water has gone down.

As a Brazilian Company, we are very happy to see how people are moving to support everyone in the state.

Natura has a special focus on people. We have a large consultant network and we are doing everything we can. I just wanted to reinforce that, this is extremely important for us.

Andrew Ruben, Morgan Stanley:

Thank you very much for the question. Most of mine have been answered.

Just to try to understand a bit about the Argentina operations, understanding the various accounting impacts. But what are you seeing on the ground in terms of business performance, both any trends in sales, margins and the outlook? That would be very helpful. Thank you.

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Fabio Barbosa:

Well, I will start with operations, and then Guilherme will go into financials.

Well, Andrew, what we are seeing now is a downturn in consumer spending at large, which is translating into smaller volumes.

This was more intense at the beginning of the quarter and has sort of leveled off now, at the end of the quarter. But that has been a decrease in spending. And it seems to me this is a trend for the Argentinian market.

From the operational standpoint, there is no restriction in terms of the traffic of goods. So imports and exports of items, components and so on, that is no longer an obstacle, something we had to deal with very often in previous years.

This makes it easier for us to respond in changes in consumer trends along the way. But that being said, the business continues to work.

We do see progressive spending with our consultants and for now what we see are good economics, despite challenges in flow and translation.

Guilherme Castellan:

That is very accurate. He said it very well.

I just wanted to reinforce that Argentina is a country we are leaders in, with Natura and Avon. And as much as we understand that there might be very significant short term macroeconomic challenges, we are still committed to our work in the country and committed to our base of consultants in that country. And obviously also committed to growing our market share and growing our financial indexes.

Going into financials, we talked a little bit about our results in 4Q four when we mentioned the year, and that we should expect this to be a year of growing margins for the Company, looking at our operations excluding Argentina, because we do not exactly know what is to come in the next few quarters.

For example, this quarter, we saw hyperinflation, so high inflation levels. But our index is not moving alongside that.

So we might see changes quarter to quarter, but it is difficult to predict what things will look like in Argentina in the near term.

But this quarter, in particular, Argentina benefited in a way from the increase in prices following inflation, as we have seen lately. Obviously benefiting from the inventory levels because of the inventory that we had in the country.

So this was a relatively positive quarter in Argentina early this year.

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Now, whether things will remain the same or not, that is hard to predict. But again, we continue to work to maximize our profitability in that country. And we are obviously happy despite all the macroeconomic challenges that we are seeing and experiencing in that country.

We are very happy with the results we were able to deliver in the first quarter of this year and we will continue to work to deliver positive results in the next few quarters. Thank you.

Operator:

The Q&A session is now over. We would like to turn the floor back over for the Company's final remarks.

Fabio Barbosa:

I would like to thank you all for participating, we have been walking together along this journey.

We took on some commitments a few years ago, things are now materializing. Of course adjustments are needed here and there. Sometimes the pace is not the pace you expected. But the most important thing is that we are going in the same direction. Towards cash generation, profitability, CFT. Always looking at fashion and home, not as a strategy but as a complement to our strategies, also in terms of consultants compensation.

So that focus has been bearing fruit and of course, we want to improve Avon International, which is somewhat lagging behind to some extent.

But we continue to pursue that objective, so that the Company, as a whole, will bring the results we all expect.

And once again, thank you.

And to reinforce our commitment right now, this topic has impacted all of us, the Rio Grande do Sul floods, we are all galvanized around helping that state. The severity is very, very important. So we count on you to help us support it in the coming periods.

Thank you all. And our IR team remains available for other questions or comments you may have offline. Thank you

Operator:

Natura's 1Q24 earnings call is now over. The Company's IR team remains available for questions you may still have.

Thank you all for participating and have a nice day, everyone.