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International Conference Call
Natura &Co Holding S.A. (NTCO3)
3Q23 Earnings Release
November 14th, 2023

Operator: Good morning and welcome to Natura &Co's third quarter 2023 earnings.

On this call today are Fabio Barbosa, CEO of Natura &Co, and Guilherme Castellan, CFO of Natura &Co. João Paulo Ferreira, CEO of Natura &Co Latin America, will join for the Q&A session.

The presentation they will be referring to during this call is available on the Natura &Co Investor Relations website.

I will now hand over to Fabio Barbosa.

Fabio Barbosa: Good morning or good afternoon to all of you and thank you for joining us today. I am very happy to be with you again.

Natura and Co third quarter's performance continued the trend of the first two quarters of the year, showing a strong expansion of both gross and EBITDA margin versus the previous year despite a small deceleration in revenues mainly caused by the Wave 2 implementation in Latam and the continued decline in trend sales at The Body Shop.

The main highlight of the quarter was the launch of Wave 2 in Brazil, which showed positive initial results, delivering combined year-on-year revenue growth in the CFT category. Productivity gains and cross-selling more than offset the expected channel count reduction. Peru and Colombia have continued the rollout of the integration started in the first half of the year, showing further improvements in the productivity. Although there have been temporary challenges in the channel, we have seen the actions implemented by the team yielding early signs of recovery ahead of the holiday season. We are encouraged by the margin expansion of those countries in the most recent cycles, which is the main objective of Wave 2.

Avon International posted, as planned, broadly stable top line and further margin improvements, reaching the high single-digit adjusted EBITDA margin. The proceeds from the sale of Aesop, closed in late August, enabled us to quickly advance in our liability management plan with more than half of our debt already prepaid by the end of the quarter. This is an important step to unlock sustainable value for our investors and deliver on our financial priorities of maintaining a strong capital structure, strict financial discipline on costs and expenses, and boosting cash conversion.

On the letter, we reached a neutral cash generation this quarter despite the normal season cash conception to build up inventories for the holiday season.

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Furthermore, making the third year of our sustainability vision after having made substantial progress toward our goals in September 2020, our approach has evolved. We have realigned our metrics and targets to address the present pressing concerns of our time. We have been a partner of the Union for Ethics Biotrade for over 15 years, and together we will work toward Natura and Co's adoption of regenerative practices to deliver even more positive impact.

Finally, this morning, we have just announced a binding agreement with Aurelius Investment Advisory Limited to sell The Body Shop. The transaction has an enterprise value of £207 million, including an amount of £90 million. This is another important step to continue to streamline our business, a journey that started in second half of 2022.

With that, let me now hand over to Gui to comment on third quarter's performance in greater detail.

Guilherme Castellan: Thank you, Fabio, and hello to everyone. I'll start with Natura & Co's consolidated revenue on slide five, which stood at R\$7.5 billion, down 0.7% in constant currency. In reais, sales were down 10.5%, reflecting the depreciation of some operating currencies versus the real.

We will look at the performance by BU shortly, but in a nutshell, we post a solid constant currency growth at Natura brand and broadly stable trend at Avon International, offset by another challenging quarter at The Body Shop and the expected reduction at Avon in Latam amid Wave 2 rollout in Peru, Colombia and Brazil, and also in preparation for other countries.

We turn to the adjusted EBITDA margin on slide 6, which stood at 10% in Q3, marking another strong improvement of 190 bps year-on-year, with solid expansion across all businesses. These reflected different moving parts, with a strong 310 bps improvement in gross margin, SG&A efficiencies at The Body Shop, and year-over-year improvement in selling expenses at Avon International driven by transformational savings being implemented for some quarters already.

These were partially offset by many three factors: first, the continued investments at Natura brand, notably in marketing, and finally, an increase in G&A at Avon International.

On slide seven, we focus on net income and underlying net income. Net income in Q3 was R\$7 billion, which compares to a net loss of R\$560 million in the corresponding period last year. The bottom line benefited from the capital gain from the disposal of Aesop. Q3 underlying net income, which is net income excluding transformational costs, restructuring costs, discontinued operations and PPA effects, thus excluding the Aesop capital gain, was R\$745 million. This compares to a loss of R\$198 million in the third quarter of 2022.

This quarter, the one-off effects in net financial income and expenses related to the liability management of R\$896 million and the tax shield related to such expenses of R\$305 million were also adjusted.

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Let's turn on slide eight, to our cash flow. Q3 free cash flow from continued operations was an outflow of R\$1.6 billion, which compares to an outflow of R\$39 million in the previous year. It's important to highlight that this quarter was particularly impacted by the liability management process with a cash outflow from non-underlying expenses of R\$1.5 billion, with an impact on the interest on debt and derivative settlement line. Excluding these one-off effects, free cash flow will be an outflow of R\$57 million, broadly in line with the same period last year.

Higher adjusted net income after operational impacts of discontinued operations was offset by inflow of R\$47 million from working capital, lower than the inflow of R\$470 million in Q3 2022. Working capital was impacted by the following: inventories due to the holiday build-up at Natura & Co Latam and Avon international; accounts payable consumptions of 103 million during the quarter, mainly related to lower costs and expenses, and the mixed impact due to the lower weight of Home & Style category. Despite seeing overall improvements in account payables days year-over-year. This was offset by other assets and liabilities, mostly driven by higher restructuring and transformational expenses and phasing of expenses.

On page nine, we look at our liquidity profile, which is marked by a return to a net cash position. We ended the quarter with a cash balance of R\$6.8 billion, up from R\$3.7 billion in the previous quarter, and R\$4.6 billion in the year-ago quarter. We ended the quarter with a net cash position of R\$700 million, which compares with a net debt position of R\$10 billion in Q2, as a result of the sale of Aesop for an enterprise value of US\$2.6 billion. The net debt to EBITDA ratio stood at -0.37 times, compared to +4.17 times at the end of Q2 and 2.85 times in Q3 of last year.

This shows a very strong balance sheet that allows us to invest with discipline in our strategic priorities. Know that in Q3, in connection with the conclusion of the sale of Aesop, Natura & Co Luxembourg Holding repaid almost US\$1.6 billion of debt plus accrued interest. This amount comprises of US\$468 million in disbursements under the revolving credit facility with maturity in October 2024, US \$250 million in a club loan maturing in November 2025, US \$550 million in a tender offer for bonds maturing in May 2028, and US \$330 million in a tender offer for bonds maturing in April 2029.

This repayment is part of our continued liability management and our plan to leverage the company after the completion of Aesop's disposal, as mentioned in our material fact dated April 3, 2023.

As you see on the second chart, our cash position of R\$6.8 billion is higher than the total of our debt payments. The average maturity of our debt is 5.7 years, and we face limited debt repayments until 2028.

Before turning to our performance by business unit, let's update you on our progress in the rollout of Wave 2. In Peru and Colombia, CFT productivity continued to show results above expectations, mostly driven by cross-sell, which led to further improvements in profitability year-on-year.

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As expected, the reduction in the beauty consultants' count was concentrated in less productive ones. Short-term, temporary operational disturbances were experienced during Wave 2 rollout in Peru and to a lesser extent in Colombia, caused by the reorganization of sales leaders, changes in our commercial incentives, radical Home & Style portfolio optimization, rebalance of product mix and transportation services optimization.

Remediation initiatives were put in place in both countries and the first signs of recovery are already seen. Consultants' satisfaction level is showing positive trends. In Brazil, the initial results of Wave 2 in the country show CFT revenue year-over-year growth. Cross-sell and productivity are already benefiting from the rollout, more than offsetting the planned channel contraction.

Brazil faced temporary operational disturbances similar to those seen in Peru and Colombia, and learnings from those markets are shortening the stabilization period. During the quarter, CFT in Brazil, Natura and Avon combined, showed positive year-on-year growth.

Let's now look at performance by business unit, starting with Natura & Co Latam. Total net sales were up by 2.5% in constant currency and down 9.4% in reais. This was driven by a solid double-digit growth of 18.6% at the Natura brand at constant currency, while the Avon brand was down in the low teens in the Beauty category. The recently renamed Home & Style category, previously called Fashion & Home, saw a sharper decline as we continued to radically reduce its portfolio.

The Natura brand continued to post strong momentum with year-on-year growth of 10.5% in Brazil on the back of a tougher comparable base than in Q2. Sales regained momentum as we rolled out Wave 2, after decelerating temporarily in the run-up phase. In Hispanic Latam, net revenue was up 37.1% at constant currency. Excluding Argentina, revenue in Hispanic markets was up in low single digits, still impacted by a softer, yet positive, performance in Mexico. At the Avon brand in Latam, net revenue in the beauty category was down 11.6% in constant currency. In Brazil, net revenues decreased 24.8% year-on-year mainly due to the preparation Wave 2 in the region.

During the quarter, the Avon Beauty category was impacted by the adjustments made to the commercial model before the combination and showed some top-line recovery after the actual rollout of Wave 2, leading to year-over-year growth of the combined CFT category during the combined two cycles. In Hispanic markets, net revenue decreased by 1.5% in constant currency and by 18.7% excluding Argentina.

As already explained, some recent temporary challenges impacted the brand's performance in Peru and Colombia. In the Home & Style category, formerly known as Fashion & Home, Avon posted a decline of 38.7% in constant currency overall. This reflects our strategic focus on the Beauty category with a radical optimization of our portfolio. In the Hispanic markets, the decrease was 37.6% versus the same period last year, while in Brazil the decrease was 41.6%.

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We now turn to Natura &Co Latam's Q3 adjusted EBITDA margin. As shown on the graph, adjusted EBITDA was R\$645 million and adjusted EBITDA margin was up by 100 bps to 12.3%. Margin expansion was driven by a 320-bps improvement in gross margin to 63.7%, benefiting from the carryover effect of price increases, richer category mix, and marketing efforts. This was partially offset by SG&A investments, mainly related to Natura's marketing and R&D expenses, as mentioned in the previous quarters.

Furthermore, some SG&A pressure were driven by reduction of top line amid Wave 2 preparation in some countries, where we did not explore the full opportunity coming from selling logistics and G&A expenses to be delivered when the integration is completed.

Let's now move to Avon International. Revenue was broadly stable versus the same period last year, down 2.3% in constant currency and down 11.6% in reais, as higher pricing and mix were offset by the expected reduction in the number of active representatives amid the commercial model adjustments with a particular focus on leaders' incentives and structure. The Beauty category posted another quarter of growth, up 1.8% year-on-year, mostly driven by fragrances. The Home & Style category, for its part, continued last quarter's trend with a decline amid the planned portfolio reduction.

Adjusted EBITDA margin was 8%, up solid 440 bps year-on-year. Improving profitability was driven by a very strong 490 bps expansion in gross margin to 64.5%. Adjusted EBITDA margin evolution was also supported by a year-on-year decrease in selling expenses amid transformational savings, partially offset by an increase in G&A, impacted by phasing of expenses and FX pressure. This quarter also shows an evolution of our long-term goal to pursue healthy contribution margins in every region to which Avon International is exposed.

We now move to The Body Shop. Q3 net revenues declined by 13.2% in constant currency and 15% in reais. Combined sales of core business distribution channels, in other words, stores, e-commerce and franchises, show a high single-digit decline in constant currency, a slight deterioration compared to the trend observed in the previous quarter, mostly driven by stores closure. Retail sales through core business distribution channels show sell-outs same-store sales of -5%. Gross margin again show a timid improvement in Q3, expanding by 30 bps to 76.6%. This was mainly driven by mix in pricing.

Despite significant operating deleverage, adjusted EBITDA margin improved again this quarter by 140 bps to 7.7%, driven by the slight gross margin improvement and strict cost control, in line with the previous quarters.

Let me now hand back to Fabio for his concluding remarks.

Fabio Barbosa: Thank you, Gui. I will conclude now with our key takeaways. First of all, with the announcement just made, I would like to highlight that streamlining our business continues to be a top priority for the company. We

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continue the simplification journey announced almost a year ago, which will allow us to prioritize our key markets and core business model.

This laser-focused strategy, combined with enhanced capital structure and improved cashflow conversion, should unlock sustainable shareholder value driven by our triple bottom line agenda.

Thank you very much for your attention and Gui, JP and I are now happy to take your questions.

Question and Answer Session

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by one on your touchtone phone now. If at any time you would like to remove yourself from the question queue, please press star then two.

Our first question comes from Daniela Eiger, with XP Investimentos. Please, go ahead.

Daniela Eiger: Hi, good morning and thank you for taking my questions. The first, I have some doubts regarding the material fact just published around The Body Shop sale. So, it would be great to have some additional information. Essentially, how much debt the company currently has, what is the timing of the payment earn out? You mentioned the five years, but we're just wondering the first kind of installment, when it should be. And also, the expected closing for the sale.

And also, something that was kind of not clear and not just for me, but from some clients as well, the £207 million is including the earn out, that is 117 excluding it, right? Just wanted to check that.

And the second one, probably it would be to JP, around Wave 2, if you could just share a little bit more details on these operational challenges that you are already facing in Brazil, especially the impact on sales of the leaders' reorganization and also which actions you're implementing to mitigate that.

And also on logistics, we've been seeing some challenges on logistics, especially as we are consultants ourselves. And that is interesting given that integration is still not in place. So, it would be great to understand what the main drivers behind these challenges are. Thank you.

João Paulo Ferreira: Gui, can you take it?

Guilherme Castellan: Yes. Hi, Dani. How are you? Thanks for the question. Yeah, as Fabio mentioned, again, we announced this important milestone today, right? As you know, since the second half of last year, we have started a big change in strategy simplifying our business. That started, as you can probably remember, with the significant reduction and the scope of the holding group here,

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as well as the announced divestments of the [inaudible] basically to stabilize our capital structure and mitigate our debt.

Simultaneously, basically we started a very important project with a very high focus in Latam, which is the Wave 2 Project [inaudible], led by João and the team. And we continue, of course, as you probably saw this quarter, the optimization of the margins of Avon International, which again achieve high single margins adjusted this quarter.

So, the divestment of The Body Shop just announced today, it fits that strategy of focusing our key regions and our core business model. And we're quite happy with that announcement.

At this point, we will only disclose what it is published in the earnings release. As you saw an enterprise value of approximately £200 million, there are some payments throughout that period with the last payment completed in year five, as it is disclosed. And to your point, yes, you're correct, the 2,000 [inaudible] includes the 90 million of earnouts, right? So, if you want to see the total value excluding the earnouts, you just take the 90 million out of it.

I'll now pass the word to JP so he can basically talk about the second question.

João Paulo Ferreira: Thanks, Gui. Good morning, Daniela. So, as regards to the pos implementation issues that we faced in Peru, Colombia, and Brazil, I can summarize them in basically three different natures: product availability; late deliveries; and field management.

So, as regards to the first, the combined mix of products and brands changed significantly for a few brands or SKUs from what we used to have separately, and that poses additional pressure on making those SKUs available in time. So, we are seeing shortages in those operations. The second one is to do with deliveries. We are combining transportation services in a few regions, and we have also sort of inherited addresses from the Avon database, which required some intimacy from truck drivers to actually know precisely where to drop the orders, so that takes a while to be reestablished. Finally, as regards to the field management, as we changed a substantial part of the sales managers and the sales leaders, they are reestablishing the connections with the consultants.

So, this is by and large what we faced in the three markets. We put corrective measures on all of them. The Peruvian operation is getting close, very close to stability already, Colombia is following, and in Brazil we are basically still seeing a bit of issues with the shortages and late deliveries, which we expect to have it stabilized before the year end.

Daniela Eiger: Perfect. Thank you so much and congrats on the results.

Operator: Our next question comes from Joseph Giordano, of JP Morgan. Please, go ahead.

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Joseph Giordano: Hello and good morning, everyone, Fabio, JP and Gui. Thanks for taking my question. I'd like to explore a little bit two things. So first, capital structure. So now we are at the net cash position obviously that have a turnaround ahead of us that plays a little bit visibility. But my question to you is like, how should we think about the capital structure, particularly now that we should be receiving proceeds from The Body Shop sale?

The second question goes on the tax structure. So, we saw a materially higher efficiency and tax-efficient company this quarter. So, how should we be thinking about the recurring tax rate for the business?

And last but not least, we still have some extra divestment to take place, particularly related to assets of Avon in Brazil's real estate here. So, if you could update us on that front, that would be great as well. Thank you very much.

Guilherme Castellan: Hey, Joe, thanks. Thank you for the question. Always great to talk to you. Yeah, so I think you touched in a few good points. I'll cover them in the order you asked.

So, the first one, basically related to the capital structure, again, as we announced before, we are finally in a moment that we're able to show a positive net cash position. Remember, keep in mind that given the seasonality of our business, basically Q4 is the quarter where we generate the most cash, so we are quite where we thought we would be basically with our current cash position at the end of Q3.

And as you mentioned, we were quite happy and confident with where the business is poised to go with the ELO integration in Latam, as João mentioned, even though we may face some potential issues on this integration, the results are coming, right? And as we saw in the last few cycles, the margin improvement is significant and that gives us a lot of reasons to believe about the future of the business.

At the same time, you can see the improved results and the trend that we're showing led by of course Angela and the team on the margin of Avon International, which again, mainly driven by gross margin, but also with a significant SG&A savings, also poises us, of course, to increase significantly our cash flow generation outside Latin America.

So, we're happy with that, but yes, look, we have a transformation still ahead of us, we don't want to minimize the efforts of the team and, of course, the complexity of the execution. As we discussed in the past, there's no reason for a company as Natura to continuously in the long term to operate with a net cash position. We discussed about our optimal capital structure and that optimal capital structure has to be leveraged, we understand that we have to be around 1 to 1.5 times leverage in the long-term.

But again, in the short-term, we understand the issues that we have, and of course, we want to make sure that we have firepower even to potential over invest

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in the levers that are growing, right? We have important levers that we believe that can unlock a lot of value for our shareholders. Again, you're seeing the strong performance of the Natura brand. But as well, again, other levers that we have communicated in the past that should become priority for us as other countries in Latin America, highlighting here Mexico, and of course the overall deployment of our omni-channel strategy, which has already paid yields with a very good performance of our retail in the last two quarters.

So, at the same time, look, we are confident on where we are, but again, in the short-term, we're glad with the firepower that we have, and of course, any changes related to that, we will announce to the market, but there is no forecast to do that in the short-term.

On the tax side, this is also a very important topic for us as we continue to evolve and increase our margin worldwide. Most of our countries they become, of course, profit-making countries through profit-making entities. This is quite important for us because, as you know, we still had in the past countries that were basically generating losses, and of course, those losses cannot be deducted from other countries that generate profit. At the same time, with integration of some business in Latam through Project ELO, the Wave 2, right, to the extent that the law allows us in those countries, and especially in Brazil, we will, of course, continue to take advantage of losses in the past.

So, it's very difficult and we don't give guidance in terms of tax rate, but what you should continue to expect is a significant improvement in the next few years of our tax rate, which of course, as we have mentioned in the past, is going to be one of the key levers for our cash flow generation.

And in the third point, you're right, we still have some fixed assets to sell. Of course, we are analyzing the market momentum for, of course, divestment of those assets. We don't have, of course, now any rush to do anything given our cash position, we want to do what is right in terms of value. But that is going to be an important lever as we disclosed in the past to offset the transformational costs that we're going to face in Latam, which again, they're quite high this year, but we should continue to expect them to remain high in 2024. And these divestments of assets, as you mentioned, they're going to be an important lever to offset that.

So, yeah, I think I cover all your three questions. But yeah, I mean, if you have any follow-ups, we can talk offline. Thank you.

Joseph Giordano: Thank you, Gui.

Operator: Our next question comes from João Soares, with Citibank. Please, go ahead.

João Soares: Yeah, thanks, guys. And first, congratulations on management for restructuring of the operation as fast as you did. So, I have two questions. First one, I just wanted to understand a bit of the cash proceeds dynamics of Aesop.

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There's a clear breakdown when we look into the financial statements. There's a clear breakdown on how much this flows through the P&L and there's an income statement in the social contribution line of R\$3.9 billion. So, my question is pretty simple: how should we see potential cash payments of taxes on the transactions or any other cash payments here? I just want to understand. I mean, we saw the gross amount here in the cash flow of the proceeds, but I just want to understand if there are any other cash payments on taxes or, I don't know, transaction costs.

The second point that I wanted to explore is, there's a comment on the release, JP, about some setbacks during the Wave 2 and this affected the performance of Natura brand in Brazil. So, I just wanted to understand if you can quantify those setbacks and understand the underlying results of Natura in Brazil. Thank you.

Guilherme Castellan: Hey, João, thanks for the question. Yeah, so if I understood correctly your first question – and then I'm going to try to tackle that and pass the second to João –, mainly related to the taxes on Aesop, is that correct? I understood that correctly?

João Soares: Yeah, Gui, how should we see the cash payments on those taxes, if you can provide? Thank you.

Guilherme Castellan: Yeah, so again, I think the P&L impacts, as we have disclosed, that is part of this continued operations alongside with the gain that we have, of course, compared to the book value. Again, as we have disclosed also in the past, we're not giving any specific guidance related to the taxes on Aesop, but of course, you can assume that, again... we and basically, João, just to be clear, we have until basically December 31st to have a better view on that. But you can assume that, again, to the extent that the law allows us, again, we can use any losses in the year related basically to any other potential divestments, such as The Body Shop right now or any other thing to offset part of that payment, right?

So, we're still working on that, making a simplification on our structure, which again, from a strategic perspective, that is very important. But of course, we continue to work on this tax issue, and of course, once we have more clarity to the market, we will disclose that more broadly.

I'll pass the word to João so he can answer the second question.

João Paulo Ferreira: Yes, João, as I said before, I mean, the issues we face are of three natures: late deliveries; product shortages; field management. In the case of Brazil, yes, indeed, there's been some late shipments at the end of the quarter, which eventually overflowed into Q4. So that affected the entire operation, both Natura and Avon.

João Soares: Thanks, thanks, JP. The amount on Natura Brazil, you cannot quantify, right?

João Paulo Ferreira: I can quantify. I cannot tell you, though.

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João Soares: [laughs]

João Paulo Ferreira: We actually quantified it, but I cannot disclose that. Sorry.

João Soares: I understand. I understand. Thanks.

Operator: Our next question comes from Irma Sgarz, with Goldman Sachs. Please, go ahead.

Irma Sgarz: Yes, thanks for taking my question. Just quickly, two questions. Can you talk a little bit about what you see ahead in terms of channel size in Brazil as you go through the Wave 2 implementation? How does it compare to Peru and Colombia when you were at a similar stage of Wave 2, and were there any positive or negative surprises so far when it comes specifically to the type of reps that you lost or engagement of the base that you've retained?

And then the second question, how should we think about the outlook for transformation and integration expenses, especially at Natura &Co Latam? I think you alluded to those transformation costs still remaining high into 2024, but is it correct to think that the largest is now behind us or should it remain quite substantial? And very helpful that you brought the breakdown of these or rough breakdown of this in the press release, but again, how should we think about this breakdown also going forward? Should it be similar or any buckets that are potentially going away?

João Paulo Ferreira: Hi, Irma. JP here. I'll take the first and then Gui takes the second. So, as it comes to negative surprises, I would say that the decline in Fashion & Home was steeper than I expected, although we planned for that, we said that before, we are aiming at higher productivity and cash generation, but that decline was steeper than I expected in all those markets.

When it comes to the contraction of the size of the network, what we're seeing in Brazil is similar to what we saw in the other countries at the similar stage. Basically, the smallest, least productive consultants face higher difficulties to keep their activities. Not a surprise. So, we've been managing that accordingly. so far, so good, I would say.

Gui, would you take the second on restructuring costs?

Guilherme Castellan: Yeah, absolutely. Thanks, Irma. I think you probably remember the presentation that we had on the Wave 2 in August, right? There we show a little bit of the impact of the transformational process for Latam, right? Look, we do expect that the worst is behind us in terms of year, but as we have mentioned before, we should expect still to see high transformation costs, especially related to project ELO.

And again, we just want to highlight that I think that's back to the point that you raised on the breakdown of those costs, right, that those are really specific costs related to the implementation of ELO, all one-off process. Again, as you can see,

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there is a significant part in Latam specifically coming out and then a significant part coming out of transition costs, right, which basically as we mentioned, is related to events, brochures, specialized communications, etc., etc., which is extremely linked to the implementation of the integration of both brands, right?

So, we just want to highlight that, that again, those are not generic costs, those are really one-off costs that we see linked to that integration. But we should still expect to see that level, especially in Latam but also in Avon International as we continue to, of course, execute a transformational agenda and improve our adjusted EBITDA margin, we should continue to expect to see that hitting our [inaudible] in 2024, again, with the expectations that, again, the worst is behind us, as you mentioned.

Irma Sgarz: Great. Thank you.

Operator: Our next question comes from Andrew Ruben, with Morgan Stanley. Please, go ahead.

Mr. Ruben, your line is open.

Our next question comes from Maria Clara Infantozzi, with Itaú Bank. Please, go ahead.

Maria Clara Infantozzi: Hello, everyone. Thanks for taking my questions. I have two. They are related to the implementation of Wave 2 in Brazil. So, the first one is that you commented in the release that we should expect further channel contraction. So, I just wanted to understand when should we expect normalization of reps' base ahead? And also, if you could give us more granularity on the cross-sell opportunities that you recognized. What are the main product categories that you saw the highest cross-sell, and do you see further room to optimize this cross-sell in these categories, or see room for improvement in other ones? Thank you so much.

João Paulo Ferreira: Hi Maria Clara, JP here. So yes, we expect the channel still to contract for at least six campaigns after the implementation. That takes us to the beginning of the year, and from then onwards, we should see a sort of a regular management of our network of consultants.

As regards cross-selling, we are seeing cross-selling in all categories there. I mean, in the case of Brazil, the opportunities are somewhat limited. As we said before, we have not yet integrated the operation into one single order. Consultants have to place two separate orders. And as much as we created some shortcuts for them to bring some items from the second brand, so to say, that is still limited. That's why we said we see yet many opportunities going ahead, because the levers for cross-selling that we are operating in the other countries are still somewhat limited in Brazil.

Maria Clara Infantsa: Thank you.

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Operator: Our next question comes from Robert Ford, with Bank of America. Please, go ahead.

Robert Ford: Thank you and good morning, Fabio, JP and Gui, and congratulations on the improvements. JP, can you talk a little bit about the quality of sales that you're dropping in Wave 2? And additionally, can you discuss the intended pricing architecture to the consumer and how you're preserving that given the scale discounts to your more productive consultants?

And then Fabio mentioned strict discipline in costs. And Gui, how do you think about the overall cost structure for Natura given the smaller scope of the company, particularly in Brazil? And are you happy with where the business is now or is there room to fund greater brand investment by improving administrative efficiencies in the core business? Thank you.

João Paulo Ferreira: I'll start and Gui e takes the second. Hi, Bob. I'm not sure I totally got it but let me give it a try. So, when it comes to the product mix, we see, first of all, Natura benefiting more than Avon from the combination. I think that is relevant information.

We've created price, we designed price corridors to place each one of our brands along those price corridors. Now, Avon has more affordable offerings than Natura at a higher price position, and we've been trying to execute accordingly. We are learning how to manage the combined portfolio on a more dynamic basis, so not to tell you that everything that we design has already hit the operation. So, there are many things we need to practice to be able to comply with those price corridors. But, overall, I think that we've covered a very broad space in terms of the various price tiers across the various categories in beauty, and I think that gives us a lot of power to play the different market opportunities in different cycles of the economy.

So, I hope that helps. Gui

Guilherme Castellan: Yeah. Sorry, Bob, can I take the second question?

Robert Ford: Oh, yes, please.

Guilherme Castellan: Yeah, perfect. So, yeah, I think you're right. I think, as you can see, the efforts that we're doing, I think is twofold related to our cost structure. First one is, of course, the efforts on each one of the BUs, and of course, part of that is disclosed, only part, of course, is disclosed the transformational costs, but of course, there are meanwhile significant agenda to deliver savings on other SG&A lines while we continue to overinvest in our key priorities, key brands such as Natura.

And again, in marketing, as we disclosed this quarter as well, that was one of the points of SG&A in Latam, but to the extent that we have a smaller business, and of course, to the extent that the operational deleverage will hit us also, there's a big effort going on at the more broader central allocation, right, the more broader,

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let's say, fixed costs that we do believe and we are already working that have to be, of course, significantly reduced as well in order for us not to suffer any potential fallbacks in EBITDA margin.

So, again, we are confident that we're going to be able to deliver that and continue our margin expansion story.

Robert Ford: Great, thank you very much.

Operator: Ladies and gentlemen, that concludes our question-and-answer session for today. I would like to invite Fabio Barbosa to proceed with his closing statements. Please, go ahead, sir.

Fabio Barbosa: Thank you very much. I just want to stress the two accomplishments that are in line with what we agreed and proposed about a year and a half ago: number one is the focus on EBITDA margin and cash flow generation as opposed to a major focus only on growth and revenues. Thus, what you see is sometimes stable revenues, but always an improving EBITDA margin. That is by design and be it for more focus on CFT at the expense of focus on Home & Style, but also in terms of the CFT which are the progress we see in margin. So that's first one that we are delivering; number two has to do with strengthening the balance sheet by focusing the company on what we believe the company can do better.

I mean, the strength of the balance sheet you'll see by yourselves, but also it's important to see including with the announcement of The Body Shop today that we continue with the idea that back to basics, to focus on what are our areas of expertise and namely direct sales and the omni-channel that follows the direct sales where we start. That's where we believe we can do better and that's what we are doing in Latin America, that's what we are doing with Avon International and in the seven countries where we are present, and we will continue to strengthen the presence based on that, thus being much more focused than we were when we went into an international expansion.

Now, back to basics, we are going to do what I believe we do best. That's the message I want to stress. Thank you, everybody. Have a great day.

Operator: That does conclude the Natura & Co's teleconference for today. Thank you very much for your participation. You may now disconnect your lines. Have a great day.