



Earnings Conference Call Transcript

Q2-25 Results

Operator

Good morning, ladies and gentlemen, and thank you for joining us. Welcome to Natura's second-quarter 2025 results conference call

I would like to remind everyone that simultaneous translation is available. Just click the globe icon at the bottom of your screen, select 'Interpretation,' and choose your language—Portuguese or English

For those listening to this videoconference in English, the option to mute the audio in Portuguese is also available by clicking on "mute original audio."

Joining us today are João Paulo Ferreira, CEO, and Silvia Vilas Boas, CFO.

The presentation we will be discussing during this call is now available on our Investor Relations website.

I will now hand over to João Paulo Ferreira. Please go ahead.

João Paulo Ferreira:

Good morning, everyone. Thank you for joining us this morning to discuss our results for the second quarter of 2025.

I would like to begin by discussing the progress of our restructuring journey, which began in mid-2022. The main news in the announcement of the reclassification of Avon International and Avon CARD as assets held for sale. As you all know, following the Chapter 11, a dedicated team supported by financial and legal advisors, resumed the works on the eventual spin off or sale of these businesses. This initiative has advanced significantly in recent months, to the point that our auditors have confirmed the classification of these assets as held for sale, given the evidence of a high probability of completion of these processes within 12 months.

In addition, the merger of Natura&Co into Natura Cosméticos was officially completed just over a month ago, on July 1st, and included the streamlining of the Holding's structure, which retained only a few areas, such as our board of directors and the investor relations team.

What does this mean? Practically speaking, this means that from now on, our financial statements for the continuing operations, meaning the income statement, cash flow statement, and balance sheet, will only reflect our core operations, namely the Latin American operations and the remaining corporate structures. However, it is worth noting

that upon completion of the actual deconsolidation of assets held for sale, non-operating and non-recurring accounting impacts may still occur.

Moving on to the operational highlights of the second quarter, and still on the topic of streamlining, we took another step forward in Wave 2, which is the integration of Avon and Natura in Latin America. We are nearing the end of this long and important journey, which is expected to be completed by the end of this year. In May, we completed the integration in Mexico and moved forward with preparations in Argentina, which went through full implementation in July. In both markets, we are still experiencing a period of volatility and operational adjustments, all in line with our planning.

Moving on to our brands, the KPIs remain healthy throughout Latin America. The Natura brand showed good growth in markets that were already integrated, notably in Brazil, where it accelerated and grew by double digits, more than offsetting the challenges still felt by the Avon brand. As we told on our Investor Day, the Avon brand will undergo a repositioning, its innovation pipeline is being rebuilt, and significant positive effects are expected only in 2026.

Turning to our channels, we also saw our digital business grow faster than the consolidated level, reaping the rewards of the platform upgrades we made in 2024, stronger teams, and new formats like live shopping and entry into marketplaces. And in our retail operations, we also continued to see steady gains in productivity and efficiency.

Amid all these developments, we expanded our year-on-year profitability, reporting a recurring EBITDA margin of 14.7% in Latin America and 14% on a consolidated basis, leading to positive free cash flow to the firm for the period and net income of BRL 445 million from continuing operations in the quarter.

Finally, on the ESG front, we received our first A rating from CDP for both Climate and Supplier Engagement. These achievements reinforce the strength of our roadmap to Net Zero and our deep engagement with our entire value chain. In addition, and even more important, we published our Vision 2050 and we have taken a transformative step. We are going beyond sustainability and adopting an approach based on regeneration. This means that by mid-century, we will be a 100% regenerative company, promoting life and positively impacting the financial, natural, social, and human capitals at the same time.

I will now hand over the call to Silvia, who will discuss the details of our financial results for this quarter with you, and I will return at the end with my closing remarks. Silvia.

Silvia Vilas Boas:

Thank you, JP. Good morning, everyone. It is a pleasure to be here with you again. Thank you for joining us. Before we begin discussing the financial results, I would like to reinforce a point that JP highlighted in his opening remarks.

Given the classification of Avon International and CARD as assets held for sale and discontinued operations, the focus of this presentation will be on Natura in Latam, which is

our core business. When we refer to continuing operations, we are always talking about the Latam operations and the Holding company.

We know that these changes are significant and impact your analysis. To make things easier, we have provided detailed explanations in the earnings release and included the first quarter reconciliation in the appendix. All figures for the second quarter and first half are comparable. With that said, let's start with revenue.

In the second quarter of 2025, revenue grew 5.5% year-on-year in constant currency and 2% when excluding Argentina. Speaking of the Natura brand in Brazil, the 10% growth was driven by productivity gains from our consultants with a richer mix, price gains, and stable volumes. This growth also reinforces our commitment to market share gains for the year, which has already been driven by the above-market expansion of the brand in the first half of 2025. However, it is worth noting that we already felt a sharp slowdown in Brazil's macroeconomic scenario in June, which also impacted the beauty market as a whole.

Moving on to Natura's performance in the Hispanic market, where we saw a 17.8% increase in revenue in constant currency, or low single digits when excluding Argentina, we presented healthy growth, but with a significant slowdown when compared to our year-on-year performance in the first quarter of this year. This slowdown was already expected, as we reinforced at Natura Day, given the implementation of the Wave 2 in Mexico and preparations in Argentina.

Looking now at the Avon brand, which is in line with what we said in the first quarter earnings conference call, it continued to suffer from the effects of less innovation in its portfolio and, as a result, showed a 12.9% drop in revenue in Brazil. In addition, like Natura, but to a greater extent, the brand is also suffering from the evolution of Wave 2 in Mexico and Argentina. As a result, we see a 13.6% decline in Avon's revenue in the Hispanic region. It is also worth noting that in the second quarter in Argentina, Avon completely discontinued the use of physical magazines and made the transition to a fully digital magazine, a practice that had already been adopted by the Natura brand and which is expected to have a significant impact on revenue in the country.

Finally, revenue from the Home & Style category grew 2.8% in Brazil as a result of a successful opportunistic campaign, in line with the strategy we discussed for this category during the Natura Day. In Hispanic markets, revenue fell by almost 25.9%, also impacted by the evolution of Wave 2. It is worth remembering here that, especially in Mexico, this impact is more significant due to the greater exposure of this category in the country's total revenue.

Moving on to the profitability slide. We can see here in the chart that we went from a recurring EBITDA margin of 13.2% in the second quarter of 2024 to 14% in the second quarter of this year. One of the effects of this 80 bps year-on-year improvement is the reduction in the Holding Company, as JP explained at the beginning, which now represents 70 bps of total revenue versus 150 bps in the same period last year.

In addition, Latam maintained its recurring profitability at 14.7%, driven by a gross margin that grew 80 bps year-on-year, boosted by the expansion of Gross Margin in all countries that are more advanced with the brand integration. The EBITDA margin also reflects the 110-basis point improvement in sales expenses, which benefited from efficiencies achieved with the Wave 2 and the growth of Natura in Brazil.

On the other hand, administrative expenses increased by 180 basis points year-on-year, mainly due to higher investments in innovation, such as those we are making in the Avon brand, and in systems, mainly related to the new integrated planning process, which is key for increasing the company's structural efficiencies and about which we talked in more detail during the Natura Day. In addition, administrative expenses were also impacted by the expected deleveraging in the Hispanic region, given the volatility of revenue amid integration in both Mexico and Argentina.

After a long journey, it is now time to talk again about Net Income. In this slide, we can see how the profitability benefited our net income, which reached BRL 445 million from continuing operations during the second quarter of 2025, and BRL 195 million when we include the assets held for sale.

Recurring EBITDA of BRL 796 million was partially offset by adjustments of BRL 138 million, which include BRL 88 million in integration costs for Wave 2 and BRL 46 million related to the Holding company's strategic projects.

When we exclude non-operating effects from net income, such as discontinued operations of BRL 250 million, the PPA and the EBITDA adjustments I just mentioned, we arrive at underlying or recurring net income of BRL 564 million. It is important to note that while calculating adjusted net income, we reversed the benefit that the adjustments generate in income tax at an illustrative rate of 25%, as we explained in more detail in the earnings release.

Moving on to the cash flow slide, we reflect here the cash flow from the continuing operations in the semester.

As we can see in the smaller orange bar in the chart, in the first half of 2025, we saw cash flow from continuing operations of BRL 290 million, mainly benefiting from lower working capital consumption. This lower consumption reflects especially the accounts receivable line, which showed better dynamics than the typical seasonality for the period, given more restrictive credit management this year compared to the same period in 2024.

This free cash flow to the firm of BRL 290 million is divided between BRL 408 million generated in Latam and BRL 118 million consumed by the Holding. When we include the expected impact of financial expenses of BRL 299 million related to the company's leverage, we arrive at a negative free cash flow from continuing operations of BRL 9 million.

Now it is worth explaining how we went from negative free cash flow from continuing operations of BRL 9 million to a variation in cash and cash equivalents of BRL 2.1 billion? Let's move on to the next slide to see the details.

To make it clearer for you, this slide shows the evolution of our net debt. We can see that net debt went from BRL 2.4 billion at the end of 2024 to BRL 4 billion at the end of the first half of 2025. This increase in debt is mainly explained by the discontinued operations, which more than offset the positive benefit of approximately BRL 500 million from our dollar-denominated bonds, given the appreciation of the Brazilian real during the period.

But what were the main effects that impacted continuing operations?

The two biggest effects are, first, the reclassification of BRL 735 million from Avon International and CARD cash, which are no longer consolidated into the Company's cash and have now been moved to assets held for sale, and second, the consumption of cash from these assets, which totaled BRL 1 billion and is divided between approximately BRL 700 million in expected operating consumption due to the seasonality of the period and the remainder mainly explained by unfavorable exchange rate effects. These two effects total 1.8 billion reais.

In addition to the effects I just explained regarding the discontinued operations, we also had effects related to the share buyback program we announced in March of this year, which to date has totaled BRL 140 million, foreign exchange effects of BRL 200 million and, as I mentioned on the last slide, financial expenses of almost BRL 300 million.

All these factors led to our net debt/EBITDA ratio reaching 2.18 times at the end of the second quarter of 2025. It is worth emphasizing that this leverage does not change our view of the optimal capital structure for continuing operations, which we consider to be between 1 and 1.5 times. It is important to note that we always look to the end of the fiscal year to discuss leverage given the cash profile between quarters, which for us and other consumer companies in general, tends to concentrate cash generation in the fourth quarter of the year.

Finally, as we mentioned at the Natura Day, our amortization schedule remains very comfortable, with the next significant maturity expected only in 2028.

Taking advantage of the Natura Day theme, before concluding my presentation, I would like to emphasize that this will be the last quarter that you will see the earnings release in its current format. Starting with the third quarter earnings release, we will share the new disclosure that we presented at the end of the event, which provides more details on both the operating KPIs and the operating income statement for Brazil and the Hispanic region.

Now, I will hand over to JP for his closing remarks and will return shortly for the question and answer session. Thank you.

João Paulo Ferreira:

Thank you, Silvia. Before opening the Q&A session, I would like to present my final conclusions and considerations.

Cash consumption within the group continues to overshadow the good performance in Latin America, and the completion of strategic alternatives for Avon International is an absolute priority for the executive group and the Board of Directors.

Operationally, we made significant progress during the first half of the year, and there is still much to be done. The Wave 2 will be completed this year, and to do so, we still need to complete some simplifications, system integrations, and finish moving production from the Interlagos factory to Cajamar.

Although the internal and external scenarios remain complex, we remain committed to strengthening our business and expanding our recurring EBITDA margin on a year-on-year basis, including seeking further efficiencies in expenses.

Our confidence in this journey comes from the strengths of our business, which, as we saw at the Natura Day at the end of June, is anchored in these five pillars. Strong brands in strong markets, which we have once again confirmed by looking at the brand equity indicators that show that our brands are very healthy in Latin America and that in the first half of the year we managed to grow above the market, gaining market share with the Natura brand, even though there is still a lot of work to be done with the Avon brand. Our unique distribution model, that we have mastered, the direct sales, our main channel, we have seen that in markets where the integration is mature it continues to gain productivity and, in addition, our non-direct sales channels continue to grow above the company average. Our unmatched capacity for innovation to defend our leadership, as we saw with the launch of Aura Alba, which strengthened our perfumery business, a category in which we are already the number one player in Latin America, and also innovation that builds market share, such as the launches in hair care, the category in which we grew across the first half at twice the Natura average. Innovation that will also feed the new Avon pipeline. A business model with very attractive economics, and here we saw once again margins continuing to improve, driven by markets where integration with Avon is already mature, and once again we saw an increase in profitability, cash generation, and net income.

And finally, our main differentiator, our people, who amid so many changes are able to deliver improved results and handle major corporate and accounting changes in a short period of time, such as the Holding merger and the reclassification of assets as held for sale. In short, we are simultaneously simplifying and building the future.

Looking ahead, we see a less favorable business environment, with consumption slowing in Brazil and under pressure in Mexico, as well as potential currency fluctuations in Argentina. But it is precisely this powerful operation, increasingly streamlined and with the right capabilities, that gives us the confidence we need to seize opportunities and face any adversity.

That's all from me. Thank you very much for your attention. We are now open for questions.

Operator:

We will now begin the question and answer session. To ask questions, click on the Q&A icon at the bottom of your screen and write your question to join the queue. When your name is called, a request to activate your microphone will appear on the screen. You must then activate your microphone to ask questions. We ask that you ask all your questions at once.

Our first question comes from Rodrigo Gastim, from Itaú BBA. Rodrigo, please go ahead.

Rodrigo Gastim – Itaú:

Good morning, everyone. I have two questions here. The first one, regarding the point you mentioned about Avon International, I just wanted to try to understand, technically speaking, from a technical point of view, what are the possible strategic alternatives that would lead the audit to feel comfortable moving this classification to assets held for sale? That is my first question. And the second, if you could explain a little more about this point, Silvia, which you mentioned regarding the slowdown at Natura Brazil at the end of June, if you felt anything on the sell-in, in the channel with the consultants, if you have any insight also on the sell-out, if you've seen signs of slowdown there as well. That's my second question. Thanks, everyone.

João Paulo Ferreira:

Hi Gastim, let me start with the second question.

Yes, our model is so widespread that we can feel the movements of the market already from the activity of the consultants. So it was possible to notice a weakening of activity at the end of June.

Let me pass it on to Silvia so that she can explain the reclassification to asset held for sale in a little more technical detail.

Silvia Vilas Boas:

Hi Gastim, good morning, thank you for your question.

Regarding the discontinuation of Avon International and CARD operations, which, as we have already mentioned, are now assets held for sale, what we can share at this time is that, as we have said since the first quarter and on the Natura Day, the process is moving on with the company's full commitment, at an accelerated pace, evaluating alternatives for all assets included in this operation.

I cannot give further details about other evidence we might have, but none of them has triggered the need for us to issue a material fact or any notice to the market, and we will do so when the time comes.

Rodrigo Gastim – Itaú:

Excellent, very clear. Thank you, everyone, for your answers.

Operator:

Our next question comes from Vinicius Strano, from UBS. Vinicius, please go ahead.

Vinicius Strano – UBS:

Good morning, João. Good morning, Silvia. Thank you for taking my question.

I would like to explore Gross Margin a little bit here. Looking a little at this 80 bps expansion that we see in Latam. If you can help us quantify the impacts here of pricing, product mix, brand mix, and also geographies, right? How has the situation evolved in Brazil, Mexico, and Argentina? What is the gross margin level today? How can we think ahead and also talking about Avon International operations, if you could comment a little on how the plan to exit loss-making regions has evolved, where you are in that part of the plan, and how we can think about Avon International cash consumption going forward. Thank you.

João Paulo Ferreira:

Okay. Let's go, Vinicius.

Let's start with gross margin. I'll ask Silvia to elaborate a little more, but I'll just say that all combined operations saw an increase in gross margin, as has been the trend. But Silvia, please elaborate a little more.

Silvia Vilas Boas:

Hi Vinicius, good morning, thank you for your question.

Regarding gross margin, as JP mentioned, we saw gross margin expansion in all mature countries combined, with the exception of Mexico, which went through the combination along Q2 and is impacted by non-recurring movements in gross margin, and we expect stabilization from now on, as happened in all combined countries. Brazil ended the quarter with a solid gross margin, impacted by, as I said, a richer mix and good price management.

Argentina, which you also asked about, closed the quarter with a healthy gross margin, bearing in mind that Argentina's gross margin always runs slightly below the total margin for the region, meaning that Wave 2 has once again proven its role in the evolution of the region's gross margin.

I'll move on to your third question about cash consumption at Avon International. Did you see that Avon International had cash consumption of BRL 700 million this quarter?. This cash consumption is slightly above what we saw in the same period last year, roughly BRL 500 million related to operating consumption and an amount between that and BRL 700 million in transformation costs. Remember that transformation costs are not recurring.

We made investments in Q2, we will make some investments in Q3, but looking ahead, we do not expect to see cash consumption in the second half of the year as we saw in the first half for Avon International's continuing operations.

Our goal is to consume less cash this year than last year, and the restructuring that is evolving according to plan is helping us on this journey, contributing and even unlocking asset value.

Would you like me to ask him another question he asked about how the Avon international process is going? As I said earlier, the process is proceeding as planned at an accelerated pace.

Vinicius Strano – UBS:

Great, thank you very much.

Operator:

Our next question comes from Danni Eiger, from XP. Danni, please go ahead.

Danni Eiger – XP:

Good morning, everyone. Thank you for taking my question.

I have two questions related to Wave 2. The first, regarding the challenges you have been seeing, the disruption in Mexico, the transition of the magazine in Argentina, and also something that is not a challenge, but perhaps more of an opportunity here, is the issue of more flexible orders from the two brands being implemented in the third quarter of 2025.

I wanted to understand how things stand today. The break with Mexico, we still see some challenges in the general feedback from consultants, the same thing in the transition of the magazine, so I don't know if there was anything related to training, to understand what you are doing to mitigate, what has already been mitigated, I think it would be nice, and on the more flexible side of orders, to understand the opportunity and whether it will be implemented in Brazil in general or only in some regions where I understand it was already being done.

And my second question is about gross margin dynamics. You mentioned expanding in all countries that are already mature, and Silvia herself just said that the margin in Mexico is close to stabilizing, as I understand it. But I would like to understand when we will start to see actual gains, especially in Mexico. I think Argentina will take a little longer, but can we already see something here in the third quarter of these expected gains from Wave 2?

Thank you.

João Paulo Ferreira:

Hi, Danni. The implementation of Wave 2, the moment of implementation always brings some instability, as planned, in fact, we are not surprised by anything. It was basically in line with what we planned.

That said, Mexico was much smoother in terms of relations with the sales force than we had planned, but it brought more logistical difficulties than we had anticipated. There was a change of carriers, a distribution center was closed, and the mix changed significantly.

Demand for Natura products specifically changed a lot, and this takes time to settle. I really anticipate that by the end of Q3, operations in Mexico will have stabilized. I would also like to mention that Mexico's gross margin suffered in Q2 due to non-recurring effects, but this will not happen in Q3.

In Argentina, it was quite the opposite. The logistics operation is much smoother, we have even been able to anticipate some of the effects we saw in Mexico, but the sales force operation is causing more noise because the changes are more significant, for example, the magazine. When we implemented the digital magazine at Natura years ago, we saw that it took about six months to be fully accommodated within the sales force. Here we are referring to part of the sales force, the one that came from Avon. So, I imagine that we will still see some commercial turbulence in Argentina until the end of the year, in some way.

The orders we call Multiflex, meaning that when an order is placed for one brand, it is easier to place an order for a second brand, are being implemented in all countries. They bring significant productivity gains and, at the same time, we are adjusting our business model to make the activity of small consultants easier.

So all of this combined will bring more vigor to the direct sales channel, for the consultant network, and the first signs in this direction are very positive.

Silvia Vilas Boas:

JP already commented on gross margin, Danni, so we do expect to start seeing greater stabilization in gross margin and, consequently, the benefits of Wave 2 starting in Q3, but keep in mind that this is a gradual process after the combination of the businesses.

Looking ahead, in terms of gross margin in general, we expect gross margin to remain healthy in the region in the second half of the year. Obviously, we are closely monitoring the situation in Argentina, which may have some unforeseen impact on this journey, given the developments we have seen in the country.

Danni Eiger - XP:

Excellent, thank you very much for your answers.

Operator:

Our next question comes from João Pedro, from Citi. João Pedro, we will now open your microphone. Please proceed.

João Pedro - Citi:

Thank you. Good morning, everyone.

Sorry to insist on this point, but I think it's important for us to understand what has changed vis-à-vis Avon International's first quarter. Why wasn't this asset classified as held for sale in the first quarter? Are there any more concrete discussions? What is the plan? Has it been better developed? In short, if you could just clarify why this asset was not classified as held for sale in the first quarter and had not been deconsolidated, it would be important for us.

And Silvia, I also think it's important to understand what this means for Avon's goodwill, that you could eventually capture some tax savings, right? And just one question about the operation, JP, do you think there is already a need to adjust the payment terms for the consultants here? Despite this, it seems to be a very sector-specific issue, but you continue to gain market share. I think it is important to understand Natura compared to the rest of the sector, how it is positioned, and whether there is a need for any adjustments here. Thank you.

João Paulo Ferreira:

Hi João, regarding the Avon International process, what happened between the first and second half is that this process moved forward. You can imagine that it involves multiple steps to structure these potential operations and investigate the market. These processes have advanced to the point that there is a high probability of success within 12 months. So, technically, that's it.

A lot happens between quarters. So that's what I can tell you at the moment. Let me take this opportunity to talk about our operations, and then Silvia will add more details. Look, consumption seems to be slowing down in general in Brazil. I've seen reports from other consumer companies, and it seems to be a trend. And in fact, our relative performance monitoring indicates we are gaining market share. Given this, we anticipate that the second half of the year will be a slower period for consumption.

Therefore, operational adjustments are necessary. Our credit is well controlled, default rates are very low, but it is possible to make adjustments to the mix, for example. These are times when the mix ends up shifting a little more toward everyday products, for example, and a little less toward more discretionary beauty products.

So, we have accumulated experience in other moments in the recent past and are making adjustments to our offerings in order to remain competitive. In other words, we need to navigate according to market trends, and we are well prepared and have good leverage to do so.

Silvia Vilas Boas:

Hi João, good morning. Thank you for your question.

Regarding tax benefits arising from the reverse merger, we are continuing to evaluate all possibilities and will incorporate those that make sense, but we are still in the evaluation process.

João Pedro – Citi:

That's great. Thank you, everyone.

Operator:

Our next question comes from Ruben Couto, from Santander. Ruben Couto, please go ahead.

Ruben Couto – Santander:

Good morning, everyone. How are you? Thank you for taking my question.

I would like to hear a little about G&A and R&D expenses for the rest of the year. I think that now, for the third quarter, it has become a little more comparable due to the effect of the reclassification of IT to OPEX, but it seems that there is still a lot of investment to be made in innovation, and a series of other topics that you describe here.

I just wanted to understand whether the rate of growth in expenses should remain closer to the second quarter figure or perhaps closer to the first quarter, or whether the second quarter figure is what we should expect for the rest of the year. Thank you.

Silvia Vilas Boas:

Hi Rubem, good morning, thank you for your question.

With regard to G&A, as you mentioned, we are on a journey to strengthen investments in innovation, not only for Natura, but also for Avon, since we took over both R&D and brand management here in the region, which is a key point in Avon's journey to resume growth in Latin America. In addition to this, we are making investments that are extremely important for the execution of our strategy and that unlock value. The structural journey of systems such as the one that took place this quarter, which was very focused on reviewing the integrated planning process, is one of these enablers.

In relation to intangibles, we still have an impact of 20 bps now in Q2, and starting in Q3, we will begin to see a more normalized view vis-à-vis last year's movements. Looking ahead, Ruben, the level we expect is one where we will be able to capture some additional efficiencies by the end of the year, either from Wave 2 in Mexico and Argentina or from other initiatives and efficiencies we are pursuing, as JP mentioned.

However, it is important to emphasize that the slowdown in Brazil further increases this challenge. But our balance will always be to seek the necessary efficiencies in G&A to enable us to continue making investments that enable the strategy, obviously with a lot of discipline in capital allocation and a focus on return, combining these two factors to support our year-on-year profitability expansion.

Ruben Couto – Santander:

That's clear, Silvia. Thank you very much.

Operator:

Our next question comes from Luiz Guanais, from BTG.

Luiz Guanais – BTG:

Good morning, JP, good morning, Silvia.

I have a question here on my side, if you could comment a little more in detail on the cash generation drivers at Natura Latam. I know you commented a little on the issue of working capital, you also commented on discipline in capital allocation, but if you could give us a little more color on what we can expect going forward in terms of cash generation at Natura Latam. Thank you.

Silvia Vilas Boas:

Hi Luiz, good morning, thank you for your question.

Speaking of cash generation at Latam, Latam generated cash in Q1, generated cash in Q2, and specifically in Q2, the major contributor to this journey was operating working capital, mainly accounts receivable. Basically, due to this movement that JP commented on, we are more restrictive this year in credit to deal with the scenario compared to how we were last year.

So these were two important quarters for Latam, given that seasonally these are cash consumption quarters, and looking ahead, our expectation is to continue improving the company's cash conversion.

Important to remember that we closed 2024 with a significant cash conversion and our expectation is that from the moment we conclude Wave 2 with the end of the transformation cycles, with the streamlining process at the Holding now completed, we will have opportunities to convert even more cash on this journey. But in general, for this year, we expect an improvement in cash conversion compared to last year.

Luiz Guanais – BTG:

Thank you, Silvia.

Operator:

Our next question comes from Irma Sgars, from Goldman Sachs.

Irma Sgars – Goldman Sachs:

Hello, good morning. Thank you for the opportunity.

I have two quick questions about new product launches and innovations, mainly at Avon, but perhaps also at Natura. I would like to understand a little bit, if you can talk about the timing for this, and whether it is still expected for the second half of this year, or if it will be more towards next year, and also how we should think about investments in marketing to support the channel around these launches. I imagine that, especially in a slightly slower

macro scenario, it would be very important to support these launches, but I would like to think about it a little or understand your thoughts on this, whether it is necessary or not.

And the second question is a little more medium term, as sales channels outside of direct sales are growing at a very fast pace. Obviously, today these other channels account for a little more than 10%, 15% of total sales, but how do you feel about this mix, this balance between direct sales and other channels over the next two to three years, and also what have you learned about your digital store and the growth you have seen in this channel? And the interference that there may be with the more traditional channel. It would be great to hear any comments on that. Thank you.

João Paulo Ferreira:

Hi, Irma. Starting with Avon's launches, the pipeline is being rebuilt and there are some launches already in the pipeline, but in terms of significant impacts, we will start to see something towards the end of this year. So, practical effects only in 2026. We are confident with the work that is being done, but it stems from a complete repositioning of the brand, so it takes some time to materialize.

Natura continues to have a very robust pipeline, which is why we have seen market share gains in virtually all categories, those in which we are the absolute leader, such as fragrances and body care, as well as those in which we have decided to gain strategic market share, such as hair care. But our launch pipeline is very robust at Natura.

And obviously, they must be supported. At a time of restricted consumption, brand strength makes a difference, as does the training of our consultants. So these are areas where we are not cutting back on investment, quite the contrary.

So that is why we are seeking efficiencies in other lines, notably in G&A, as Silvia just mentioned, in order to ensure increased profitability and higher investments backing our innovation programs, the launches, and the support to our brands and our consultants.

Now speaking about the growth of D2C channels, online and retail. Our strategic plans are for these channels to continue to grow above the company average. Over the next three years, we will see these channels growing significantly above the company average.

And we have learned to manage channel conflicts as they arise. We opened our first store in 2016, which means it's been... quite a while ago, and we now have over a thousand stores, so we have been learning to deal with channel conflicts as they arise and resolving them with channel-specific pricing and promotion policies, different assortments, different schedules, etc., which ensure that all channels are equally profitable and provide their participants, notably the consultants, with good business opportunities. So we are very comfortable with this rapid growth.

Irma Sgars – Goldman Sachs:

Thank you.

Operator:

Our next question comes from Pedro Pinto, from Bradesco BBI.

Pedro Pinto – Bradesco BBI:

Hi, everyone. Good morning. Thank you for taking my question. The first one is about the environment in Mexico. You mention growing pressure in the environment in parallel with Brazil, which seems to me to be something macro, beyond the micro adjustments that the company is known to be making with the integration of Wave 2. So, if you could comment a little on how you are feeling about this market, from a consumer perspective, in terms of a potential slowdown in demand there as well. And also how the market share of brands has been evolving there. That is my question. Thank you.

João Paulo Ferreira:

Hi Pedro, we have been following the various reports about reduced remittances to Mexico, which is affecting the macro scenario. In some ways, this affects our market, but on the other hand, it is the market where we have the smallest share.

So, in relative terms, we have a lot of room to grow. I can't say that the macro scenario is affecting us at the moment, especially when compared to our micro scenario, as you mentioned, with our internal changes.

So this is the time for us to quickly stabilize the internal changes, and I believe that with that we will have an engine to capture market share, regardless of any weakening of the market there, because our share is relatively much smaller. But we are monitoring it closely.

Pedro Pinto – Bradesco BBI:

Great, thank you very much.

Operator:

Our next question comes from Bob Ford of Bank of America. Please go ahead, Bob.

Bob Ford – BOFA:

Thank you very much. Good morning, JP and Silvia.

What are your thoughts on Avon International's cash burn and future capital injections, please? Also, can you talk about the beauty product segments where Avon is weakest, who is it losing market share to, and the broader efforts to rebuild the brand, please? Thank you.

Silvia Vilas Boas:

Hi Bob, good morning. Bob, could you repeat the first question, please?

Bob Ford – BOFA:

Sure, can you talk about Avon International's cash flow and the potential for future capital injections?

Silvia Vilas Boas:

Hi Bob, let's get started. I now understand your first question. Avon International's cash consumption in the first half of the year was around BRL 700 million, as I mentioned, which is an amount expected for the first half due to seasonality.

Obviously, there are still impacts from the restructuring investments we are undertaking, which will generate value for the asset in the future and will even contribute to reducing cash consumption this year for Avon International compared to last year.

Regarding investments in this process, we mentioned that during Q2 and Q3 we will have restructuring investments, but this is all included in the plan that the Avon International team is leading.

João Paulo Ferreira:

And the second question was about consumption here in Latin America. Bob, I don't have much to add to what I've already said. You've been following the market for many years.

When there is consumption pressure here, there tends to be a migration from beauty categories to personal care. We have already seen some movement in this direction, as well as some movement toward lower price points in beauty categories. Our portfolio is quite broad, which allows us to capture many of these movements.

Our presence today is also much broader, building on Irma's previous question, with channels that are present at multiple points of purchase and offer different shopping experiences. So we have levers to maneuver these market changes and we are monitoring market trends very, very, very frequently.

So we are making adjustments to the portfolio that is being promoted in order to surf the right waves.

Bob Ford – BOFA:

And JP can you migrate Avon to an umbrella brand for Natura, and it seems that this is already happening in Brazil, right?

João Paulo Ferreira:

No, it is a second brand, not a sub-brand of Natura. It is a second brand with different offerings, very different price and brand positioning, different target audiences, and a different commercial logic. So, the goal of the Avon brand is to attack and serve a consumer audience that is different from the Natura brand.

It's true that the sales force is a force that is learning to work with multiple brands, it's a single sales force, but it shouldn't be a sub-brand of Natura.

Bob Ford – BOFA:

Thank you.

Operator:

Our next question comes from Andrew Rubin of Morgan Stanley. Please go ahead, Andrew.

Andrew Rubin – Morgan Stanley:

Hello, thank you very much for taking my question.

Thinking about some of the Latam markets, you've spoke already about Wave 2 in Argentina and Mexico, but can you provide an update on some of the markets where you're more progressed with Wave 2, maybe Chile, Colombia, how these markets are performing in terms of growth, margins, vs the segment average or any other color, now that you're a bit further along in those geographies. Thank you again.

João Paulo Ferreira:

Hi Andrew, indeed, those markets where integration is already more mature, Chile, Colombia, Peru, are markets where we have seen total business growth, significant productivity gains within the consultant network, and a reasonably stable channel returning to marginal growth. So, we are quite satisfied with margin gains, both gross margin and EBITDA margin.

So, we are satisfied with the results obtained so far. I am quite confident that we will see the same in Mexico and Argentina once the initial stabilization period is over.

Operator:

The question and answer session is now closed. Natura's second quarter 2025 results conference call is now over. The investor relations department is available to answer any further questions. Thank you very much to everyone who participated and have a great day!