



International Conference Call
Natura
First Quarter 2017 Earnings Results
April 27th, 2017

Operator: Good morning ladies and gentlemen, thank you for waiting. Welcome to Natura's Q1 2017 conference call results.

We have:

Mr. João Paulo Ferreira – CEO;
Mr. José Roberto Lettiere – CFO;
Ms. Andrea Alvares – VP of Marketing, Innovation and Sustainability;
Mr. Márcio Goya – Financial Director and Investor Relations;
Mr. Luiz Palhares – Investor Relations;
Mr. Márcio Bologna – Financial Controller.

This event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Natura's remarks are completed, there will be a Q&A session. At that time, further instructions will be given.

We have simultaneous translation into English and questions may be asked normally by participants from abroad.

Should any participant need assistance during the call, please press star zero (*0) to reach the operator.

We have simultaneous webcast that may be accessed through Natura's IR website at: www.natura.net/investor. The slide presentation will be downloaded from this website. There will be a replay for this call on the website after the end of this event.

Before proceeding, let me mention that forward-looking statements are being made under the company's... are based on beliefs and assumptions on Natura's management, on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect future results of Natura and could cause results that differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over Mr. João Paulo Ferreira, CEO. Mr. Ferreira, you may begin the conference.



Mr. João Paulo Ferreira: Good morning everyone, welcome to our teleconference of Q1 2017.

I just would like to talk about what's in the news: recently Natura has been asked about its involvement in selling of the brand called Body Shop. Analyzing other brands, other articles, other assets are part and parcel of the business world and we are indeed involved in that initial analysis.

No definition has been made yet. If in any case we decide to move forward, you will be informed transparently, just like we have always done.

Today, I would like you to focus on the presentation at hand, the questions should be related to our performance in Q1 and, of course, we have very interesting aspects to discuss today.

Having said that, our gross revenue grew in all operations in this quarter; we've had the 2nd consecutive growing quarter in Brazil. That is an indication of some stabilization, but we have to be cautious because there may be some volatility in the short term.

In our international operations, we've grown in local currency: 23% in Latin America and 31% at Aesop. When we convert that into reals, they have been impacted by exchange effect.

Consolidated Ebitda and net revenue are 365 million and 189 million. They have been positively affected by nonrecurring events in Brazil, mostly the reversal of provisions of tax contingencies – and Lettiere will be discussing that later on.

Excluding those nonrecurring events, we've had 5% growth in our Ebitda in Brazil and a small 3% retraction in the consolidated Ebitda because of the exchange impacts.

The consolidated net revenue (also excluding nonrecurring events) amounted to 28 million; almost 100 million more than in previous years, reverting the losses reported in Q1 2016.

There was positive cash generation in this quarter when compared to cash consumption in the year before. Our priority, as I have said before, is to strengthen our business in Brazil. To that end, we have moved forward our modernization, segmentation and digitalization of our portfolio, on top of the support on our key product categories.



We have more than 300,000 reps using our app; they or it provides gains of productivity and we have a closer relationship with our representatives.

Our online sales through Rede Natura have grown over 100% when compared to last year with a positive Ebitda already. We have reached more than 1.7 million consumers, we are now operating in Chile, that started last year, and we have recently started operations in Argentina. As far as retail in Brazil goes, we are now operating 10 exclusive stores and we have over 3.000 drug stores with the Sou brand.

As to the report... as to the support of our brands and categories, we would like to highlight our cosmetics division using the campaign called "*Natura Casa de Perfumaria do Brasil*" that expands the attributes of the Natura brand showing that our fragrances express the exuberance we have in Brazil like no other brand.

Top lunches include new feminine fragrances of the well-known brands, such as Ekos Flor da Manhã and Kaiak Aventura, and also the relaunch of our Faces, the makeup line with the new positioning urban, young and contemporary start, and we are very optimistic about it.

In Latin America, as I said, we've had healthy growth and according to Euromonitor we finished 2016 with an important market share improvement. Aesop has been growing steadily with the boost of same-store-sales of about 11% a year, and we have opened 33 exclusive stores all over the world.

Another highlight is the consistency with which we have managed our general expenses and our cash flow. Admin expenses have grown less than the revenue and the inflation and we have managed to control our budget. Once again, it was based on the 0-base model.

We've also had good results from our working capital with the better coverage of our inventories in Brazil, Latin America and efficient management on our Capex. As a result, cash generation was positive.

All in all, we have been focused on executing the strategy we have expressed before. We are now focused on short-term priorities trying to stabilize the business in Brazil and to maintain the vitality of our international operations.

These were the highlights I wanted to point out. I would like to turn over to Lettiere, our CFO. Over to you Lettiere.

Mr. Lettiere: Thank you João. Good morning, this is the 1st quarter conference. I will be briefly describing our earnings results and I'm going to point out our indicators.



Let's start with net revenue. Consolidated revenue grew by 2.3% in Q1 and that's the result of a 3.3% growth in Brazil and it also was impacted by our local currency appreciation *vis-à-vis* foreign exchanges in the countries we operate – and I will be discussing that later on.

Let me drill down on the operations in Brazil first. Net revenue grew by 3.3%, as I said, that was driven by the good performance of our perfume division and also of the gifts strategy. The drop in the number of reps was offset by the productivity gain: we had 9% increase in productivity.

Net revenue in Latin America is what I am going to talk about now. A 22% growth in local currency that was the result of the expansion of the number of representatives that grew by 7% and also from productivity gains at about 13% in local currency. Given the appreciation of the real, LATAM had a retraction of 2.5% in 1st quarter.

Let me just give you an idea of the dimension of the exchange rate impact. In Argentina, for example, the real was appreciated when compared to the Argentinian peso of about 34%, and in Mexico at 40%.

Let me now talk about net revenue at Aesop. It grew 31.4% in local currency, and given the exchange rate and the real appreciation, growth amounted to 11%, representing 8.4% of the consolidated net revenue when compared to 7.7% in 1st quarter 2016. We have 180 exclusive stores, 33 more than in 1st quarter of last year, with 11% annual same-store sales in local currency.

In Australian dollar, the real was also appreciated by 18%. That has also contributed to the growth in our net revenue.

Let me now move on to Ebitda, consolidated Ebitda. It grew by 68% *vis-à-vis* Q1 2016. Moving on to Brazil, we have to comment on non-recurring events. Just like João said, we had a reversal of provision referring to taxes PIS and COFINS based on sales tax.

This is a long process that on March 17 our Supreme Court awarded that decision: taxpayers came out winner in that decision. In the case of Natura, it is a very robust case, we did not payout taxes, we resorted to the judicial system, but we had to have that provision that impacted our results, but we did not pay those taxes.

So, we were awarded that decision, taxpayers were debt benefited from that decision. Our Legal Department, our independent auditors we reverted that provision. The total is 297 million before income tax.



Let me move on. Without those recurring effects, Ebitda would be 210 million; 3.3% smaller than Q1 2016. In Brazil, with nonrecurring events the Ebitda growth would be 5% benefiting from the higher revenue and also our gross margin expenses.

International operations were heavily impacted by the real appreciation, but in local currency the performance is still very good.

Ebitda in Brazil in Q1 2016 156 million that was the generated Ebitda, about 14% margin, and then we had a growth in our net revenue, we had better productivity and a better mix, especially in fragrances. So, we have improved our gross margin overall.

We managed to control our expenses across the board and within the 0-base budget we considered part of those expenses savings to reinvest more strategically in marketing and sales activation to make our categories and our sales more competitive. So, without excluding these effects, our Ebitda R\$159.4 million.

But since the ICMS taxes were raised this year, that created an impact of 2 million for us. With the exchange rate, appreciation of the Brazilian real, there was a gain of around 70 million as I said, and with nonrecurring events we've managed to reach a total Ebitda of 318 million; a margin of 27.5%.

We'll follow with the net income now. Net income was 189 million Brazilian reals, but without nonrecurring effects it would be 28.2 million. This is an important increase in comparison to Q1 2016, when we had a very challenging environment.

This result was boosted by the excellent performance we had in controlling expenses and controlling the top line in Brazil, but it was also supported by the performance we had in our own expenses. In the 1st quarter 2017 we were able to reduce our growing lines and the average cost debt was also reduced in comparison to last year.

As for our financial investments, although we reduced the total amount of investments, we've managed to invest them at higher return rate in comparison to the previous year, meaning that we reached 189 million net income with nonrecurring effects, which results in 11% growth.

Next slide, Capex. Our R\$350 million Capex was approved for 2017, so our budget Capex was approved in April in our committee.

This is the lowest level we've had in the last few years, we went from 383 in 2015 and now in 2017 we will continue with the same trend. Strong control



aligned with the growth strategy and also our innovation process with technology to support all of our sales channels.

Free cash flow generation. This was positive, our turnaround in comparison to the 1st quarter 2016 was also positive, and highlighting what João Paulo mentioned before, this is a result of our control of working capital. We had a good free cash conversion cycle, meaning that our working capital is now being monetized more efficiently and quickly.

Our stocks and inventories are low, we have better control and our due dates with the suppliers are better tailored to our needs, and this is due to a partnership we have with our strategic suppliers and suppliers overall, meaning that the free cash flow generation was about 17 million this quarter, which is significantly higher than the 1Q 2016.

Without nonrecurring effects, this free cash flow would not change. So, this was cash generated by the business itself without considering nonrecurring items.

Now, to speak about the company's net debt, our indebtedness level has decreased, we managed to close the quarter with 1.3 times Ebitda, which is the best indebtedness ratio we've had in the past few quarters considering the 1st quarter of 2016.

So, to conclude, another important factor for us are the sustainability indicators we follow. Our positive highlight is related to the carbon emissions measures. Here we can see that our ambition for 2020 and we have kept the same level from 2016 to 2017, which is very good. Our percentage of full consumption recycle material has gone up significantly from 4.3 to 5.1 and I would also highlight our “*Crer para Ver*” program funding. We had a record level in 2016 and we've already started the 1st quarter of 2017 very well. This is basically in line with our goal, with our ambition for 2020.

This concludes my talk on the triple bottom line, our performance indicators, and now we are open for questions. Thank you.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press star key followed by the one key on your phone. If at any time, you would like to remove yourself from the queue, press star 2.

Our first question comes from Thiago Macruz, with Itaú Bank.



Mr. Macruz: Hi everyone. Good morning. I have 2 questions. The 1st of which is about sales. I would just like to understand if in the 1st quarter you managed to anticipate the Mother's Day sales cycle.

Since we still have one week left, is that sales that were included there before they would be? I also have a question about the credit policy with consultants this quarter. We heard that accounts receivables are under control, but there was an increase this quarter in comparison to the same period last year. I'd just like to know if there were any changes about the credit policies for consultants. That's my question. Thanks.

Mr. Ferreira: Good morning Thiago, this is João Paulo. So, to talk about Mother's Day, our commercial calendar had our Mother's Day campaign starting one week earlier than last year. Mother's Day is a very important cycle that usually turns the business over very well. Since we started it earlier, yes, that does create a difference in comparison to last year. It's not too significant, but yes.

Lettiere will answer about our credit policies.

Mr. Lettiere: Hi Thiago. Before I answer the question, I have to highlight that we, for some time, have been following a new policy, a new way, a new process in managing the credit cycle, and this is essential for running our business model.

Today we have a platform with some technology where we have the behavior score, so we understand how consultants are doing, what their wages are, the ones that have seniority. So, we have been monitoring this daily.

Our control of the way they work and the best way to offer credit to them is much better, but what we have seen in 2016 and also this quarter is that the market consumers overall and also consultants are obviously facing some budget restrictions, people have less cash in their wallets so to say.

So, as a result, the credit cycle has been an important tool for us to support and optimize our sales.

Mr. Macruz: Thank you Lettiere. If I may, I have one more question about sales. We've been hearing some feedback from your competitors facing challenges in their signatures stores. Do you see any changes in the market share dynamics here in Brazil?

I'm not sure it's really [0:26:28 unintelligible], do you think that we are referring some of the shares that we lost in the last few years? Are there any positive signs for the margins?



Ms. Alvares: Hi Thiago, this is Andrea. We've been working tirelessly in recovering our market share here in Brazil. It is a long path, we don't believe that this will happen on the short term because the Brazilian market is becoming more and more competitive, but we have been trying to direct our actions and strategy to focus on key categories, so we have been making more investments in that category.

So, on the medium to long-term we believe that we will recover some of the market shares. More Brazilian consumers will choose our brands.

Mr. Macruz: Thank you, thank you for your answers.

Operator: The next question comes from Guilherme Assis, with Brasil Plural.

Mr. Assis: Good morning everyone, thank you for taking my question. I have a few questions actually. What we've been seeing for the 2nd quarter in a row is an improvement in sales in Brazil. I think the company went through some difficult times because of macroeconomic issues, competition. For some time, for some years, we've been hearing a lot from you about re-strengthening direct sales and trying to reactivate consultants. I know that macroeconomically the environment is still unfavorable, but it seems like you are doing this well, and the last meeting I think you showed this a bit more clearly; how you want to create different segments with consultants and create better incentives.

I know there are other variables involved, but can you tell us about the actions you are taking in direct sales that have been creating the most impact to the results? That's my question.

Another question I have is: I want to understand better the price mix in gross margins. I think one of the highlights was the gain in gross margins in Brazil this quarter. If I'm not mistaken, I think the last time you mentioned that this was the 1st quarter of last year, but you've been creating new marketing campaigns, sales, especially with the mix focusing on fragrances.

So, I'd just like to understand that better: First price, then mix and also gross margins and if we can expect that these gains we've seen in gross margins this quarter will be maintained throughout the year and over the next months. That's my question. Thank you.

Ms. Alvares: Hi Guilherme, this is Andrea. I just want to start by answering your last question about mix and prices. Yes, there was an improvement in the fragrances margins over all, so our strategy of focusing on gifts, facial care and fragrances has created this result about prices. Last year because of the tax and exchange issues, we were unable to raise the prices as much as they



ideally should, and the effects were felt for the rest of the year. So, at the end of the year we raised prices again closer to levels necessary, but we had better cost improvements.

Now, since the exchange rates are stabilized we were able to raise prices again, so now we have a more advantageous position in comparison to where we were before.

Mr. Ferreira: Continuing here Guilherme, to answer your question about our consultants' network, the main changes we had in our sales model are still being implemented. We mentioned, when we met a few weeks ago, that the major part of the changes will start in middle of the year, around June and July.

We've been trying to advance some of those changes in policy to create positive results within our current policy changes, so this has been contributing to increasing the productivity of consultants. What you've seen essentially is productivity gains so far.

Mr. Assis: Okay. If I may, I have just one more question. During this meeting, I also got the impression that you mentioned that in the 1st quarter there was a problem that had not happened for some time, which was a lack of inventory for some products that sold very well.

You mentioned that you have made an effort to reduce inventory and so on, but I just want to reconcile these 2 things: Should we expect increased inventories in the future? If you can quantify maybe what is the impact if we did not have any stock out in any product lines, what percentage sales we would have additionally? I'm just trying to understand what happens and try to quantify it, and what will change in the future. That's my last question, thank you.

Mr. Ferreira: Hi Guilherme, in terms of inventory, there's no point in expecting any significant change. The shortages were because of differences in product lines. We have revisited our estimate process so that we can be more aligned with very short-term tendencies so that the final result would be neutral despite a few stock outs just like we said, then our percentage of shortages is still very small when compared to our historical data of 5-6 years, it's very minimum.

Any stock out will be translated into loss sales, of course, but it was not significant. I can assure you that.

Mr. Assis: Thank you, that was very clear. Thank you.

Operator: Next question from Irma Sgarz, from Goldman Sachs.



Mrs. Sgarz: I have 2 very quick questions. Can you please give me an update on activation initiatives and what does the management think about the size of the channel and the sales force? We still see that fall on year on year 4%, but it's a little smaller when you look at the number at the period's end.

Are you planning to launch a campaign to hire more representatives? Are you going to remain letting those consultants that are not active to leave that base?

And the other question is: Can you tell me a bit about the calculation that the innovation index? I couldn't understand what actually changed in the calculation process. Are the numbers going to be better? Thank you.

Mr. Ferreira: Hi Irma, good morning. As to the size of the channel in Brazil, we do not expect any growth for this year, it will be up to par with last year's numbers. There may be some variations up and down.

Consultants that are not active, they naturally leave the channel. We would rather have them say we are conducting campaigns to make them stay, the more they get involved, the more productive they are, they bring in new business. But, overall, we should remain the same size. That's our expectation there.

Let me talk about innovation index and I'll turn over to Andrea.

Ms. Alvares: Hi Irma. We can actually see a recovery or an uptake in our initiative revenue on both calculation systems, you can detect that trend and we have already said that we are including that index to make sure that we would bring more relevant innovation to the company, and during that review process some components were not truly innovative and there were others that were not... other indices that were truly innovative that were not being considered, but it's not substantial to change the trend or to change the total result, it would be 3% variation plus [0:37:48 unintelligible].

Ms. Sgarz: Thank you.

Operator: Next question from Franco Abelardo, from Morgan Stanley.

Mr. Abelardo: Hi, good morning. I had a couple of questions. Let me just follow up on the 1st question of sales anticipation in Brazil. Would you be able to quantify how much that anticipation of a week impacted Q1 results and that would be taken away from Q2 revenue? Do you expect further growth in revenue in Q2?



Do you believe that this uptake in the economy will continue or maybe 4-5% would be the range that you are going to be satisfied with for the entire year? That's the 1st question.

My 2nd question is: Could you please break down how much of the revenue in Brazil came from new channels, direct sales, for example? Did it also grow or is it from online or retail or new stores?

My 3rd question is about Latin America: Growth in Latin America is still very good, at 3%, but it has been slowing down, it was at 30% about a year ago and now is at lower 20s. What's behind that? Is that across the board or is it because of any specific country? And what is behind that slowdown? Productivity grew by 50% in Latin America in Q1, how does that compare with other quarters?

We see that drop in sold products, in Brazil we have less volume, more productivity or what's behind, what's happening in Latin America, please?

Mr. Ferreira: Hi Franco. Let's go step-by-step. Q1 and Q2 in Brazil we can quantify how much the 1st week before the campaign was, but I'm not going to tell you.

What's in store for us we are at the turnaround journey, so we are very confident on what we are doing, but we are very cautious and we should remain so. There may be some volatility out there, consumption is not exuberant, you have many holidays in the 2nd half of the year, so we have to be cautious.

On a short-term, we have a lot of volatility midterm and long-term, we are very confident on we are building.

2nd question new channels, right? On average, they are not substantial, you can see that in our annual report, you can extrapolate, it's not that big of an impact. Our online impact is much better. Based on our online track record we can determine the impacts in Q1. That's the best way to approach it.

And finally, Latin America there was one country that was highly affected by an exceptional event this quarter: Peru was affected by a weather disaster, so that stopped the entire country. Our operation in Peru and our revenue there was affected by that problem in Peru, it's just something that happened off-the-cuff, but they will go back in track hopefully.

We are now starting a new recovery or an uptake period in Mexico, so Mexico has shown signs of improvement, we have adjusted the operations there and they are picking up speed, so that may be reflected in midterm.



And finally, I would like to remind you that Argentina in local currency has an abnormal inflation rate; when inflation rates to go down there that will impact local currency.

Mr. Abelardo: Oh, that was very clear. Let me just go back to the 1st question. Do you have an idea of the potential growth for Natura this year? Just like you said before, do you want to maintain market share and what is your expectation there?

Let me just go back to the Latin America question again: Is there some pressure in gross margin in the last 4 quarters? Is it more comparable, is it going to be more up to par with the rest of the company margin overall?

Mr. Lettiere: Franco, this is Lettiere speaking. As far as margins go, we have seen this impact, both because of the CMV effect on costs and also when you translate the PNL from the currency basket in Latin America, Argentina, when you convert that to real we have 2 exchange components: We have begun to see that more clearly starting in Q2 2016 despite the volatility in exchange rate, but when we compare these numbers, these margins should be more comparable when compared to last years.

But, again, it was a very strong impact. I mentioned at the start of my presentation the devaluation level in several countries, with no exception Latin America. So, that volatility impacts on 2 fronts: On the monetization of costs because an important portion of our products are produced in Brazil, so when you concluded the PNL and financial indications in those countries you have to convert to real, and we have a 2nd wave of the impact there.

Ms. Alvares: This is Andrea, let me talk about the market now. In 2016, I'd like to remind you that the market was very, very retracted, we had been seeing volume drops, but we maintained profitability. But in 2016 that curve reverted, so we have drops in revenue and volume, especially the 1st half of the year, but we picked up a little bit with levels that were not as high as those in the past, and now the 1st quarter we have a growth in value and volume.

We believe that this is a continued trend, so when we expect to grow as the market grows.

Mr. Abelardo: Thank you João, Andrea and Lettiere.

Operator: Our next question comes from Fabio Monteiro, BTG Pactual Bank.

Mr. Monteiro: Good morning. I just want to talk a bit about sales expenses. If you can tell us a bit more about the increased expenses in marketing



incentives. And what are your incentive strategies for the market today? Are there any changes depending on the type or category of consultant? Thank you.

Mr. Ferreira: Hi Fabio. The changes that we have made to the incentive the structures for consultants, well, structural key changes will start in the middle of this year, as I have said during our meeting a few weeks ago. The ones that took place in the 1st quarter are circumstantial; sales campaigns, reorganizing of sales force, and this has just some one-off costs.

About supporting the brand, yes, our desire is to support brands so that we can regain share, regain penetration and this quarter we decided to invest specifically on repositioning our fragrances.

Mr. Monteiro: Thank you João.

Operator: The next question comes from Alex Robarts, Citibank.

Mr. Robarts: Hi, good morning. Thank you for taking my question. I would like to focus specifically on the international side of the business, and I have 2 questions.

For Aesop, we have been seeing an 8% margin for Q1, which is a reduction from the 4th quarter, we of course understand that Q1 is the weakest quarter of the year, but it's below 10%. So, it's a single digit, this really drew our attention and I want to understand if there is anything there besides just the fact that it is the weak quarter.

I suppose that you started opening many stores at the end of last year, so of course we understand that is an expense still going into that market, but is there really an idea of having a new expenses level for sales? Can you just tell us a bit about this margin levels in Aesop for Q1? Thank you.

Mr. Ferreira: Thank you for your question Alex. So, I will start with your last question. Aesop is not a concern for us, it's actually a source of joy and pride. We consider our margins to be stable and we believe that they will grow in the short term. The effects of the 1st quarter are exactly what you mentioned: Just regular seasonality and some stores that opened at the end of last year, which reduced the margin for this quarter. So, that's what explains this level, but we feel at ease with how Aesop is developing.

Just to add to this answer, there is an issue that I mentioned before, which is the exchange. So, now the Brazilian real is depreciated and this creates an effect. So, Aesop's goal is still to open 40 stores external.

Sorry, what was your question Alex?



Mr. Robarts: Is your target for new stores to be opened in 2017 still 40 for Aesop?

Mr. Ferreira: Oh, it's been growing at about that rate, so that's what we expect to see this year.

Mr. Robarts: Okay.

Mr. Ferreira: Just one second. That's not a goal, we don't see that as a goal. It is not a guideline, but that's just a trend we have been seeing in the last few years. So, we should not see any slowdown of new store openings, but that's not a goal.

Mr. Robarts: Okay, I understand. So, my 2nd question is about the fact...

Operator: Excuse me, the last caller was disconnected, so we will continue with Gustavo Oliveira, from UBS.

Mr. Oliveira: Good morning. I have a couple of questions and to continue the conversation on Aesop, what is the maturation time for a new store? So, what does that curve look like? Just so we can understand the margin for these in the 1st quarter.

Mr. Ferreira: Oh, that varies depending on location, on new store that opens in a well-established country where the brand is well-established can vary from 1 to 2 or 3 years depending on location.

Mr. Oliveira: Okay. I remember many of the stores you opened had very low rent, and as the strategy develops these rent amounts are adjusted. You said once that part of the pressure was due to the rent amounts and also salaries.

So, can you tell us a bit more about what refers to salaries, what refers to rent, and if this is only related to new stores or if you still will see major readjustments in older stores.

Mr. Ferreira: Hi Gustavo, yes, so as you start expanding the number of stores and as you enter new countries, you start facing different dynamics that are very distinct from what you are used to when you are at a certain maturity level.

So, obviously when you go into a region or a country for the 1st time, you don't have the scale that you gained throughout your history in the countries and regions where you've been for longer.



So, new stores have been opening in more developed countries and also in developing countries, such as Brazil. We opened 2 stores recently here and the conditions, taxes, the sale force all add their own impacts, which can make this more difficult or more easy depending on the situation.

Mr. Oliveira: Okay, so I'll go into detail during follow-up, thanks. I have a question about Brazil though. I would like to understand what is the connection between your consultants' base, that is how it's developing as you start implementing new incentives. When you implement new incentives, it will create an important change; a new consultant will have a lower commission, so maybe their incentives for joining Natura will be lower than before.

And I don't think that your term will stabilize because it takes some time for consultants to understand it. So, when you compare the Q4 to Q1 that was a very positive result, the consultant base grew. But we expect a stable one for the year. So, you are assuming a growth for the rest of the year, but the incentives from July should start affecting your base negatively.

I'd just like to understand how that will work and if you are going to use any investments marketing, if you are going to invest in your image to offset the natural reduction of base that should happen. Maybe I don't understand it. Your pilot's studies show a completely different scenario, so that's just what I want to understand. Thank you.

Mr. Ferreira: Yes, we would need more time to write the segmentation processes, this is a longer process, but the idea of adding incentives was to create a progression; consultants come in thinking about their benefits, but after the 1st cycle they should also be incentivized.

An average consultant tends 2 cycles of incentives, so it's very easy to overcome the first 2 barriers and in pilot studies we don't believe that attraction will be decreased by this. Quite the contrary.

In fact, our policies will help retain consultants so the system was now balanced due to operate at the same level of investment, but we expect to distribute it better among different consultant segments.

Mr. Oliveira: Okay, thank you.

Operator: Mr. Alex Robarts will continue with his question.

Mr. Robarts: Thank you. I'm sorry, I got disconnected. So, here's my 2nd question: It was about this relevant fact that you have announced, and I am referring to the fact that you are now considering purchase or purchasing Body Shop assets.



I don't know whether you can comment on what is going on, but my question is divided into 2 parts: First, would it be reasonable to conclude that Natura is considering nonorganic growth by having an omni channel and is the company going to look for other channels?

What drew my attention was the US\$800 million ticket. You would get into debt, you would double your leverage standard or is it fair to assume that you are looking for nonorganic sources to expand the company? Size wouldn't be a problem in looking for other sources of nonorganic growth?

Mr. Lettiere: Hi, this is Lettiere, Alex. Let me just make a couple of comments. The purpose of this call, when João Paulo started out this teleconference, he made an important comment about this issue. I don't know whether you were attending from the beginning. It was not relevant at all, this was just an answer to our CVM and to our Stock Exchange (to Bovespa), so this was something that was published by the media, so this is what we replied: Yes, it is a very early evaluation phase. It would be a potential project with Body Shop. So, we confirm it.

We have no further information on the topic for 2 reasons: Number 1, this is company policy; we never talk about M&A processes before we are committed to it, which applies to this case; and number 2, we have no information whatsoever because it's a very initial phase.

I'm sorry, but this is what we have available.

Mr. Robarts: I'm fine, okay, thank you.

Operator: Next question from Tobias Stingelin, from Credit Suisse.

Mr. Stingelin: Good morning João Paulo. Let me just follow up on the change and the effects may be clear at the beginning of the 2nd half of the year. You had already started, right, implementing it? I think you mentioned it in the last call, so you were already rolling it out.

Why is it that we are still on the rollout phase? I thought we were further ahead in the process. I may be wrong. Could you elaborate on that please? How can we monitor whether the change will be significant? Thank you.

Mr. Ferreira: Hi Tobias, good morning. So, the rollout started in early July. What we have now are the preparatory activities, we are adjusting business rules communication, things that are currently underway. There are some cities in which all changes have been implemented: Belo Horizonte and Porto Alegre. But the change will be in early July approximately.



Mr. Stingelin: Thank you, so I got mixed up, I'm sorry.

My question now is to Lettiere: I didn't see the explanatory math, but in total, operational results are now in 180 million, you've translated 155 in nonrecurring, so I have 25 positive million that affected the results. What is that exactly?

Mr. Lettiere: Hi Tobias. Good morning. Now you've captured everything. Your analysis is perfect.

Mr. Stingelin: What does that mean? What are those 25 million? What is behind that 25 million that is recurring?

Mr. Lettiere: We had a better mix, fragrances and productivity, manufacturing, distribution and services and expense control that offset what we mentioned. We have a very robust marketing campaign, activation we have a lot of exposure and the market of [1:04:18 unintelligible] good results.

Operator: Next question from Maria Paula Canttusio, from BD Investments.

Ms. Canttusio: Good morning, thanks for taking my question. I would like to follow up on the nonrecurring reversals. Can we expect anything other than that for the following quarters?

Mr. Lettiere: Hi Maria Paula, this is Lettiere speaking. I wish we had those nonrecurring every quarter. Of course, we monitor everything, it's a very stringent process to control provisions, but that's dependent upon several factors. Our monitoring, our legal team and of course it takes time. Our tax authorities take time to analyze these processes, but that was a nonrecurring event. We cannot determine when other impacts of that nature may occur in the future.

Ms. Canttusio: Thank you Lettiere. My 2nd question is about channels: What's the performance of Tez line that you have now in Drogasil? Are you starting to sell Faces, the Faces category? And what is the partnership like with Renner? Are you using other products in the Faces product line, are you considering other networks?

Can you talk about the project on the beauty consultancy? What is the projection of number of units? What's the estimate for long run?

Ms. Alvares: Hi Maria Paula, this is Andrea. Let me answer your question about Tez. We conducted some tests at the Raia network. After some time and then revisiting or reviewing our facial care strategy, we decided it didn't make sense, we are removing that Tez.



At the same time, we've had the introduction of Faces and we are more convinced that that's the best way to go, we are now expanding our Droga Raia and Drogasil and we are still going on with the partnership with Renner. That operation may be implemented by years' end.

We do not have any other plans with other departments stores. It's brand building strategy rather than a supplementary channel. I wouldn't say that we are not going to expand other than initiatives with Renner for department stores. We are very optimistic with initial results of Faces, for both direct sales and at the drugstore.

Mr. Ferreira: Let me jump in here, with the beauty consultancy we have expended the base of consultants that are interested in the format, we may pick up in the number of points of sale within the same format. But I cannot tell you what the number is right now.

Ms. Canttusio: Thank you.

Operator: Next question from Olivia Petronilio, from JP Morgan.

Ms. Petronilio: Good morning, thank you for taking my question. Let me follow up on margins of international operations. The FX issue and opening up new stores at Aesop, but our question is about whether you are planning to change prices to recover those margins: Can we expect some price changes in the near future?

Mr. Ferreira: Hi Olivia, yes, that's right. Price management, especially in countries in Latin America, like Latin America, with high inflation rates that is key to monitor that for our margins. We have to be aligned because costs expenses come 1st, before price changes. We have been very cautious and effective in managing prices, and by doing so we have managed to maintain our margins.

The problem, as I said before, is that most of our products are produced in Brazil with that exchange rate difference. With the real appreciation, it generated impacts. In order to offset it, we've been doing that for a couple of years of course, which is to develop local manufacturing. This is what we have been doing for some years and we are now revisiting our sourcing matrix so that we can resort to the sourcing strategy in the region, in the whole region.

Let me talk about this in foreign exchange and that has to do with the translation. Again, we have that impact for good or worse.

Ms. Petronilio: Thank you very much.



Operator: That concludes today's question-and-answer. I would like to give the floor to Mr. João Paulo Ferreira for his closing remarks.

Mr. Ferreira: Once again, thank you very much for your interest and of course questions were excellent, they help us better examine our business. Our IR Department is available to talk to you at any time. Thank you, have a good day, have a great weekend.

Operator: That concludes Natura's audio conference. Thank you for attending, have a good day.