

Natura &Co

2Q-21 Results Earnings Conference Call Transcript

Operator: Good morning, ladies and gentlemen, thank you for waiting. At this time, we would like to welcome everyone to Natura &Co, second quarter 2021 Results.

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 question-and-answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

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Now, I will turn the conference over Mrs. Viviane Behar, Investor Relations Officer of Natura &Co. Mrs. Behar, the floor is yours.

Mrs. Viviane Behar: Good morning or good afternoon to everyone. I am Viviane Behar, Natura &Co's investor relation officer. Thank you for joining us today for this call to present Natura &Co's second quarter 2021 earnings.

I'm joined today by Roberto Marques, Executive Chairman and CEO of Natura &Co, Guilherme Castellan, who took over as CFO last month and whom we are very pleased to welcome, and João Paulo Ferreira, CEO of Natura &Co Latin America, who will join us for the Q&A session. The Natura &Co's investor relations team is also with us.

The presentation we will be referring to during this call is available on the Natura &Co's investor relations website. Roberto we'll start today with an overview of our performance, Guilherme we'll detail our financials for Natura &Co, after that Roberto will make concluding remarks and we will open the floor to your questions.

For the sake of timing, in order for us to accommodate questions from all of you, we would like to ask you to please limit yourselves to 1 or 2 questions each in the Q&A session. Thanks for your understanding on this and cooperation.

Let me now hand over to Roberto. Roberto. Please.

Roberto Marques: Thank you Viviane and hello everyone, thank you again for joining us, hope all of you are continuing to be safe and well in this still challenging times.

Let me begin on this **slide 3** with an overview of our second quarter highlights. Natura &Co turned in another strong performance in the second quarter of 2021, our group sales grew more than 36%, outperforming once again the global CFT market, and we posted a significant increase in net income. Adjusted EBITDA was also up strongly while margin was impacted by a base effect that Guilherme will explain in more detail as Q2 last year benefited from exceptional circumstances of some government support in a strict cost containment at the height of the pandemic last year.

But it's important to point out that without this impact adjusted EBITDA margin would have been up by 210 basis points in the period.

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For the first half of the year, we achieved over 9% adjusted EBITDA margin, a healthy 120 basis point higher than same period last year. This strong performance was achieved while we continue to operate in a challenging, healthy environment with lockdowns and restrictions in certain key markets, this reflects once again the relevance and resilience of our omnichannel business model, the power appeal of our brands, products, and our unparalleled direct to customer reach.

We saw double-digit sales growth across our businesses and a very good performance in our key markets. Natura &Co Latam saw growth by both the Natura and Avon brands with a very strong performance in Hispanic Latin. Avon International also posted strong growth and market share gains in some key markets, and The Body Shop and Aesop also were up significantly even while continue to face challenges from COVID-19.

Digitally enabled represented over 51% of our total sales, 4x above pre-pandemic levels. Another digital highlight was the strong growth of our &Co Pay platform, which we're piloting at Natura Brazil with a 50% gain in new accounts, totaling 220,000 in 6 months and almost R\$2 billion in total payment volume.

We are particularly pleased with the performance of Avon in both Latin and international, the sales growth we saw coupled with market share gains in key markets and categories are a demonstration that Avon's turnaround is underway. Pilots of the new commercial model both in the Nordics and in South Africa show positive initial results and representative satisfaction has increased. The synergies are in line with the plan at US\$76.5 million in the first half with US\$41 million in cost achieved.

Avon International's transformational plan is also progressing, and its EBITDA margin remained broadly stable even while investing more in digital, IT, and marketing to drive future growth, and we have a very solid balance sheet. We end up the quarter with a robust cash position of R\$8 billion and we made further headway on deleveraging with our net debt to EBITDA ratio at 1.43x at the end of the quarter compared to 3.63x in Q2 last year.

Natura &Co posted strong growth in net income, which reached R\$235 million in the quarter, an increase over R\$600 million versus the same quarter last year and almost R\$1 billion reais improvement year to date compared to last year. The again this quarter was driven by a new benefit from the Avon integration related to our corporate structure optimization.

So, overall, I think we can be very proud of our performance in a context that remains very challenging due to the uncertainty, restriction, and lockdowns still very present in many markets in which we operate. It is a demonstration of the strength of our business model which aims to make positive impact while delivering sustainable growth and value creation.

On the following slide, we showed that we made continued advances in ESG as we celebrated in June the 1st anniversary of our commitment to life our 2030 sustainability vision. This slide shows a number of actions but let me mention just a couple of highlights per pillar. To address the climate crisis and protect the Amazon Natura &Co began building the *PlenaMata* portal, a platform designed to engage different stakeholders to achieve zero deforestation, conservation, and regeneration of the Amazon by disclosing scientific data.

As part of our aim to protect human rights and to be humankind, we have reached 96% of our workforce receiving a living wage, on track to reach 100% in 2023. Natura &Co also set up ambitions to be the first multinational to ensure our workforce reflects the demographic composition of the societies in which it operates, and to help embrace circularity and regeneration, as an example, The Body Shop is rolling out refuel stations in 400 stores and will ensure that all of its company markets participate in the Return, Recycle, Repeat Project having roll out almost 300 to date. Overall, we are also on track to achieve 95% or more on biodegradable formulas by 2030.

With that, I'll now hand over to Guilherme for a closer look at our financial performance. As you all know, Guilherme took over as a group CFO last month after completing a very smooth transition.

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Guilherme, welcome again and over to you.

Guilherme Castellan: Thank you very much, Roberto, and hello to everyone, I'm delighted to be on this call and very much looking forward to meeting all of you.

On **slide 6**, you see that we posted very strong consolidated net sales growth in the quarter of 36.2% in reais and 31.7% in constant currency, reaching R\$9.5 billion. This reflects double-digit growth in reais in all of our brands as you see on the right-hand side of this slide despite the lingering effects of COVID. I will detail performance by branch shortly.

It's important to highlight that, as you recall, we face a cyber incident at Avon last year in Q2 that shifted R\$454 million in sales from Q2 to Q3. Without that effect, net revenue would have been up by 27.9% in reais and 24.4% at constant currency, which is still ahead of the global CFT markets. In Q1, net revenue reached R\$19 billion, up 30.8% in reais and 18.9% in constant currency.

On **slide 7**, we focus on our digital performance. As Roberto mentioned, digitally-enabled sales, which include online sales from e-commerce, social selling as well as relationship selling using our main digital apps, represented 51.1% of our total sales, up from 48% in Q1 and compared to 55% in Q2 last year when most stores were closed.

We are significantly above pre-pandemic levels at all brands as you see on this slide. Total online sales for all brands are between 2 and 4x pre-pandemic levels.

Slide 8 shows that we posted a reported EBITDA of R\$630 million in the quarter with margin of 6.6%. Adjusted EBITDA, which excludes R\$181 million in transformational costs, costs to achieve synergies Avon-related acquisition effects and no recurring effects was R\$811 million. This represents a very strong increase of 31.9% driven by synergies, pricing, and sales leverage, which help us to offset inflationary pressures and higher prices of raw materials.

Adjusted EBITDA margin was 8.5%, down 30 bps year on year. This margin reflects one-offs as a result of the pandemic as last year's Q2 benefited from government supports and cost containment actions. Excluding these one-offs, adjusted EBITDA margin would have improved by 210 bps. All the businesses would have shown market expansion despite investments to drive growth.

In H1, reported EBITDA is up by a very strong 83% to R\$1.5 billion, adjusted EBITDA did that was up by 49.5% to R\$1.8 billion with margin up 120 bps at 9.4% which puts us on track to achieve on our full-year targets.

Now turning to **slide 9**, we see the Natura &CO posted a strong improvement in underline net income in the second quarter reaching R\$482 million reversing the negative R\$191 million in Q2 last year. Underline net income excludes Avon acquisition-related effects and PPA amortization. We benefit in the quarter from a favorable net tax effect of R\$474 million which includes million realize R\$823 million in new gains recognizes differed income tax resulting from the Avon integration and corporate restructuring enabled by the prepayment of the Avon 2022 bonds. This effect was partially offset by a 6%-point increase in UK income tax 25%. Net income was R\$235 million reversing a loss of R\$388 million in the same quarter last year.

The swing of more than R\$600 million driven by lower financial expenses and new gains from the Avon integration related to the corporate restructuring. In H1, net income reached R\$80 million, an improvement of almost R\$1.3 billion compared to H1 in the previous year.

On **slide 10**, we look at our cash and balance sheet position. We ended the quarter with a strong cash position of R\$8 billion, in line with projections and well above our minimum thresholds. We continue to deleverage our balance sheet and at the end of the quarter consolidated net debt to EBITDA was 1.4x, significantly lower from 3.6x in the year ago period.

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We improved our indebtedness profile with US\$1 billion sustainability-linked bonds issued in May by Natura Cosméticos guaranteed by Natura &Co. The funds were used to prepare the US\$750 million bond maturing in 2023, as well as refinancing other existing debts in line with the group's liability management plan while the same time demonstrating our commitment to achieving our ESG targets.

The second graph provides with the amortization schedule and shows that we have cash in excess of maturities up to 2024.

Let's turn now to our performance by business units beginning with Natura &Co Latam on **slide 12**. Total net sales were up 39% in reais and 37% at constant currency in Q2. This strong performance was driven by double-digit growth at both the Natura and Avon brands, both in reais and in constant currency with significant growth in Hispanic Latam at both brands. Excluding the previously mentioned cyber incident, growth would have been 26.7%.

The Natura brand was up 25% in reais and 26% in constant currency while the Avon brand also reported very encouraging growth of 28% in reais and 26% in constant currency. In H1, net sales were up 31.7% in reais and 26% in constant currency with double-digit growth above the Natura and Avon brands. Restated for the cyber incident instant, growth would have been 25.6%.

Another highlight of the quarter was a strong growth of &Co Pay; our digital payment platform which supports the growth of digital social selling. We saw expansion of over 50% in new accounts to reach more than 220,000 and total payment volume in H1 was nearly R\$2 billion.

Now on **slide 13**, we look at the Natura brands. Sales at the Natura brand in Brazil rose 8% in Q2 on top of tough comps with market share gains driven by core categories supported by successful Mother's Day and Valentine's Day campaigns and a significant increase in brand preference. Growth was also driven by higher volume, continued advances in digital social selling and a 14% increase in the average number of consultants versus Q2 2020. And the loyalty index was up by 700 bps versus Q2 last year.

In Hispanic Latam, the Natura brand recorded growth of 60% and 78% in constant currency supported by all markets, notably Argentina, Chile, and Mexico. Natura saw productivity increase and expansion the consultant base of 19% and a significantly higher consultant loyalty index in the region. A particular highlight was Mexico, which became Natura's largest marketing sales after Brazil. After launching Natura's e-commerce in Mexico in Q1, we opened our first flagship store in Mexico City as we continue to roll out our omnichannel strategy.

Natura's performance in H1 was also strong with sales growth of 10% in Brazil and 64% in Hispanic Latam.

Now turning to the Avon brand, **slide 14**, Avon integration in Latam is on track and we're seeing signs of recovery similar to those we witnessed at Natura at the start of its turnaround in 2017. In Brazil, the Avon brands revenue grew by 26% in Q2. Excluding the cyber incident, sales would have been broadly flat.

We successfully rolled out the new commercial model in late Q1 and are seeing positive initial signs supported by several indicators, such as higher representative productivity, a double-digit increase in representative satisfaction score, and stronger brand preference and brand power. These translated into market share gains supported by marketing investments made earlier in the year.

The rollout of the new commercial model led to an expected drop of 4.7% in representatives compared to Q2 2020. In Hispanic Latam, we saw very strong growth of 83% in reais and 72% in constant currency. Excluding the cyber incident, growth would have been a strong 49%. Growth came from all markets and categories and was support about 10% increase in the number of representatives and higher representative productivity. In H1, growth was 10% in Brazil or minus 1.6% excluding the cyber effects and 55% in Hispanic Latam, or 47% ex-cyber.

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On **slide 15**, adjusted EBITDA for Natura &Co Latam grew by more than 60% in the quarter, reaching R\$598 million driven by strong revenue growth and synergies from the integration with Avon, which more than offset raw material inflation pressure and foreign currency headwinds. Adjusted EBITDA margin was up 140 bps to 10.8%. Excluding one-off effects as a result of the pandemic that boosted Q2 2020 EBITDA such as cost containment actions, adjusted EBITDA margin this quarter would have improved by 270 bps. In H1, adjusted EBITDA was R\$1.2 billion with margin of 11.5%, up 340 bps.

Let's now move to Avon International on **slide 17**. Like for Avon in Latam, we saw strong growth at Avon International in the quarter, both in sales and in adjusted EBITDA. Net revenue was up 34% in reais or 29% ex-cyber, and up 27% in constant currency although some markets continue to be affected by the pandemic, especially Central and Eastern Europe.

We recorded market share gains in key markets, such as the Philippines, South Africa, Romania, and Italy. All beauty categories reported growth and increase in market share, notably fragrance and color. The average number of representatives in the quarter was flat compared to Q2 last year and we ended the quarter with 7.4% more representatives than in Q2 2020. Overall representative satisfaction showed positive momentum.

Pilots of the new commercial model in the Nordics and South Africa have shown initial positive results in productivity, sales growth, and number of representatives. Adjusted EBITDA grew 30% to R\$94 million with margin of 4.3%, down 10 bps as strong sales leverage and transformational savings offset the impact of higher inflation and increased investments in digital and IT to drive market share and accelerate our future growth.

EBITDA margins is in line with its transformation plan targets. Excluding one-off effects as a result of the pandemic, adjusted EBITDA margin this quarter would have been improved by 260 bps. In H1, net revenue was up 21% in reais and 4.6% in constant currency while adjusted EBITDA margin was 4.2%.

On **slide 19**, we now move on to The Body Shop with sales up by 24.3% in reais and 14.2% in constant currency with growth in all of its regions. Stores reopened in the UK, ~~I~~the Body Shop's biggest markets, while in other countries we had continued restrictions or even lockdowns, such as in Australia and Canada. This resulted in approximately 18% less hour days in the quarter.

Nevertheless, own store performance grew 140% compared to Q2 last year and accounted for 42% of total sales in Q2, more than doubled the same quarter last year. This was partially offset by the expected slowdown in e-commerce and at home reflecting a rebalancing of channels. Still e-commerce sales are currently double pre-pandemic levels, and The Body Shop and home sales are 3x what they were in Q2 2019.

The Body Shop' EBITDA in Q2 grew 9.2% to R\$159 million. Margin at 13% was down 180 bps as Q2 2020 benefited from approximately 600 bps from one-off effects as a result of the pandemic. Excluding these effects, EBITDA margin would have increased by 450 bps in spite of a channel rebalancing effect and the impact of last October's Japan buyback driven by strong operational leverage.

In H1, sales were up 35.5% in reais and 12.4% in constant currency while EBITDA rose 26.6%.

On **slide 21**, Aesop again recorded an outstanding performance with net revenue growth of 47% in Q2 in reais and 41% in constant currency. All regions showed growth, particular the Americas and Asia even with the continuous challenges brought by COVID with about 11% of lost store days.

Retail accounted for 78% of sales in the quarter with store sales up 129% in constant currency versus Q2 2020. Online sales at 23% the total were down from their peak as expected as stores reopen, but still twice their pre-pandemic levels. EBITDA in Q2-2021 reached R\$118 million with margin of 21%, it was down 580 bps as Q2 2020 benefited from approximately 650 bps from one-off effects as a result of the pandemic.

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Excluding these effects, EBITDA margin would have increased by 90 bps despite increased investments in expansion, 3 lounges in frequencies and channel rebalancing effects.

In H1, sales were up by a very strong 58.7% in reais and 35.5% in constant currency while EBITDA rose 51.9%.

Let me now hand back to Roberto. Over to you, Roberto.

Roberto Marques: Thank you, Guilherme.

And let me now conclude on **slide 23** with the key takeaways. First of all, we are on a sustainable growth path, we posted another strong quarter continuing to outperform the global CFT market with double-digit growth across the board and strong growth in net income supported among other factors by new gains from Avon integration.

Second, the Avon integration is on track. What we are seeing at Avon in Latam and international kind of replicates what we saw in Natura when it initiated its turnaround with its new business model, commercial model back in 2017. This quarter we saw strong growth both in Latam and international for Avon with market share gains in key markets.

The transformation is going according to plan, and we are seeing encouraging results from the new commercial model where it has been rolled out or still in pilot.

Third, we are making further advances on ESG with progresses on all the pillars of our 2030 sustainability vision. Let me highlight that we continue to make significant donations to causes that are important to us, especially right now to fight still COVID-19.

And fourth, we continue to see increasing traction of our omnichannel model with digital sales significantly above their pre-pandemic level even as stores reopen.

I'll end on **slide 24** by reiterating that we are on track to achieve our 2021 targets and the 2023 guidance we presented at our investor day back in April of high single-digit top line growth on a compound annual growth basis and meeting EBITDA margin at the end of the period.

Let me flag also that we do expect the third quarter to face a demanding comparable base since Q3 last year benefited from the phasing effect of the cyber incident and pandemic-related one-off effects of cost containment and some government support, as well as a strong pickup in business after a very strict lockdown onset of the global pandemic that compared to Q2. But again, this does not affect our short and medium-term objectives.

So, while the COVID pandemic is far from over and we continue to be vigilant, we continue to grow and progress on our strategic initiatives.

Thank you so very much for your attention, we are now going to open the Q&A session and Guilherme, JP and I are happy to take your questions. so, now the floor is yours.

QUESTION AND ANSWER SESSION

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by the one key on your touch tone phone now. if you wish to be removed from the queue, please press the star key followed by the number 2 key.

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The first question comes from Tiago Macruz, of Itaú. Please, go ahead.

Tiago Macruz: Hi, guys, good morning. You've now spent some time exporting Natura's direct selling commercial model to the international operations of the Avon, so I would like to understand first how far you guys feel you are from completing this process, which major market is not yet using that model? And second, it would be great if you could share with us some more information on the results of that initiative so far. Thank you, guys.

Roberto Marques: Hi, Tiago, Roberto here. So, here's the good news, we haven't seen yet the benefits of the new commercial model on the key markets of Avon International, we are going to be rolling out the new commercial model, actually, for the representatives, we will include the segmentation and the lifetime value approach that we have at Natura rolling out on the top 8 markets, 8 of the 10 markets by Q4 of this year. So, that's encouraging because that's yet to come and the good news is that we are really using a lot of the learnings from Natura about establishing this segmentation model, and we're going to do actually in 2 phases: the first phase is going to be for the representatives; and then the second phase including the leaders, right.

But here's also the other good news, we have 2 pilots right now in Avon International: one in South Africa; and the other one in the Nordics, the countries, and in both of them we are seeing increasing productivity, we are seeing retention getting to all time high like in South Africa, we're seeing the Justine brand, a retention about 66%, which is a number that we haven't seen in the past, so we are encouraged by the early results on the 2 pilots, both in South Africa and also in the Nordics.

I'll turn to JP that also can come in a little bit on the rollout of this new commercial model, Brazil actually, Avon Brazil is a little more advanced than Avon International, so he can comment on that as well. so, JP, please.

João Paulo Ferreira: Thank you, Roberto, thank you Tiago. Actually, as regards Avon Brazil, we are very happy with the lead indicators so far. The brand has strengthened significantly, the productivity of their reps has increased, their satisfaction has reached all time high levels and the market share is going up as they are selling out their products at a higher price.

So, everything that we had experienced at Natura a couple of years ago and moreover we are building the required experience and sensitivity on those levers to smoothen its implementation in other geographies, so very happy with that, we have already started rolling that out in Ecuador in Latin America and we're planning other markets still this year.

So, excellent learnings and very, very promising lead indicators so far.

Tiago Macruz: Fantastic, guys, fantastic. Thank you very much for the answers.

Operator: The next question comes from Luiz Guanais, of BTG Pactual. Please, go ahead.

Luiz Guanais: Hi, guys, good morning. So, 2 questions here on my side. The first one, if you could comment about the competitive outlook in Latam and the space to increase prices in the next few reporters it would be good to hear about that.

And the second question also regarding the social selling platform, how do you think that the customer acquisition cost is going to evolve in the next few quarters as you guys' scale more this platform, not only here in Latam, but also to the global operations of Natura? Thank you.

João Paulo Ferreira: Hi, JP here. As regards the competitive environment in Latin America, well, we see a relatively slowdown in consumption, growing inflation, as you all know. Nevertheless, we have been

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managing revenues very actively not only price, but also product mix and promotional investments to make sure that we remain competitive in terms of our gross margins and EBITDA margins.

And as regards the cost of acquisition of social selling, actually, as our reps and consultants master their skills in terms of the usage of the social selling tools, they are acquiring the clients they had formally, so that's not increasing at this point in time.

Luiz Guanais: OK, thank you very much, JP.

Operator: The next question comes from Steff Wiziq, of Jefferies. Please, go ahead.

Steff Wiziq: Thank you, good day everyone. I have 2 questions. The first, maybe Roberto for you, just as an observation, is to see the strength of both Avon and Natura in Brazil and the ability for your reps to sell those 2 brands both prestige and mass. Talk a little bit about what you're learning early on from the Brazil market and what that might mean for some of the international markets.

Roberto Marques: Hi, Steff, good hearing from you. Listen, we are excited about some of the opportunities that we call cross sell and upsell between Avon and Natura, not only Brazil, in Latin America, we think that there is tremendous potential, the data is very encouraging about the opportunity there and we are progressing – and all ask JP to elaborate the little bit more about it.

On the international side, again, we are very pleased to see not only some of the leading indicators and the fundamentals of Avon strengthening, but I would highlight the market share gain that we are seeing on Avon International in key markets in 2 very important categories, which is color cosmetics and fragrance. This is actually something very encouraging, again, we are still facing in some markets strict lockdowns and pandemic that impacting the overall growth of those categories, but the fact that we're seeing market share gain on those key markets are also very encouraging.

I'll ask JP to elaborate in more detail about this opportunity of the cross sell and upsell between Avon and Natura in Brazil. Please, JP.

João Paulo Ferreira: Thanks. We are at a very early stage of proactively managing the cross-selling opportunities, but we have already started those using big data, analytics, CRM, so we are probing various promotional and cross selling mechanics and that is proving effectively. It's not yet rolled out at a larger scale, but it will towards the end of this year/beginning of next year.

Having said that, we have also experienced both brands gaining share in Latin America in Q2, which again proves the complementarity of those portfolios. So, very excited with that growth avenue.

Steff Wiziq: That's great. And then my second question is just on APAC. There wasn't a lot of comments, but just curious where you are in casting a vision for the Asia Pacific market in China in particular, how you're thinking about entering that market? I think The Body Shop and Aesop maybe a bit ahead of the others, but maybe hear a little bit about when we could start to see China and broadly more the APAC region contributing to the business.

Roberto Marques: Yeah, so great question. So, one I think we mentioned a lot of this outstanding result of Aesop again is driven by Asia Pacific, so Aesop is really hitting all cylinders I would say, especially in the north Asia, which is very encouraging and give us the confidence again about the enter in China.

The situation in China is as follows: we welcome some of the change in the regulatory space in China that will allow us to produce and import products to China without compromising our non-animal testing and we are progressing now that registration, that requires that we obtain a GMP certification on manufacturing sites in the countries that we actually produce and that's ongoing both for Aesop and The Body Shop, and in parallel, we are registering our SKUs both for Aesop and The Body Shop.

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You are correct, the priority will be actually number one Aesop and then followed by The Body Shop and we are on track to potentially have a physical presence with Aesop in probably, you know, first I would say first half of next year. So, very encouraged by that.

Besides China, as you know, we also made an important investment acquiring the head franchisee of The Body Shop in Japan, which is any strategic market for us. Early indicators about us taking over the business with our local team in a more direct contact, there is a company market, is also promising, of course, Japan is also facing the pandemic and some back and forth in terms of lockdown, but we encourage by that. Aesop continues to perform extremely well; Japan is now the largest market for Aesop and Korea is also performing very well.

My last point on Asia Pacific, Avon in Philippines, which is a very important market for Avon, also post important market share gains in the Philippines, but I would also caveat the Philippines right now is facing one of the most strict lockdowns with the resurgence of the pandemic, so it is something that we are monitoring very closely.

Steff Wissink: Very helpful, thank you so much.

Operator: The next question comes from Bob Ford, of Bank of America. please, go ahead.

Bob Ford: Good morning, congratulations on the various sources of traction. Can you talk a little bit about your balance sheet tax assets in the path of monetizing those? And with respect to the tranches being recognized in the 2 quarter, what's the realistic time frame for monetization? I think the press release makes mention of a 20_-year period, but that seems a bit conservative.

And then you call out Tukumã, you know, it's doing very well within Ekos. How innovative is it and how well-protected is the IP, and is there a possibility of maybe adding Tukumã to other brands?

Roberto Marques: Thanks, Bob. I'll ask Guilherme to answer the first one then JP can talk about the exciting new ingredient Tukumã. So, please, Guilherme.

Guilherme Castellan: Thank you, Roberto, and Bob. It's a pleasure to meet you and looking forward to meeting you soon.

Yeah, as you mentioned, basically this quarter we recorded more than R\$800 in deferred tax assets as we continue to optimize our subsidiaries' structure, which is caused by the Avon integration, right. As you probably remember as well, this was enabled by the prepayment of the Avon 2022 bonds that had some restrictive covenants that allow us to execute those restructurings.

It's important to highlight here that this gain was not factor in the guidance that we gave of US\$350 million to US\$450 million in synergies from the Avon integration, so it's an upside to that, right. And as you mentioned, there are definitely more opportunities to be captured. We feel very good about capturing those opportunities and we're working hard on that though of course we cannot comment on whether and when we will record additional deferred tax assets.

To your question on the 20 years, yeah, I mean, this is what we close at this point and basically this is what we're comfortable and the valuation allowance were recognized in the time frame this quarter is appropriate at this time.

With that, I'll pass to JP.

João Paulo Ferreira: Hi, Bob, thanks for asking. We're very excited with the Tukumã, actually, it highlights one of our strengths, one of the strengths of the group: bioscience understanding the richness of bio ingredients and the ability to transform those ingredients into active agents in the cosmetics industry, which ties to one

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of your questions, if anyone just squeezes that fruit won't get that property, so there is significant science behind the transformation of Tukumã into this active ingredient which is protected by patent. And it has regenerative properties which translates to your skin, which is then to generate its own hyaluronic acid.

So, we're very excited with that and is now the second-best selling variant under the Ekos line. Thanks.

Bob Ford: And is there a role for Tukumã in brands where Natura does not overlap? I mean, is there a role for this within Aesop or The Body Shop and in other markets outside of Brazil and in Latin America?

Roberto Marques: So, as an explicit claim, you know, that's a lot to do with the Ekos line. Now, as an active ingredient, this is one of the areas where the group now is discussing how to translate those active ingredients into various formulations of the various brands even though if it's not explicitly claimed.

Bob Ford: And could you just discuss, you mentioned the patent, how long do you have the rights or how long is the duration of the patent?

Roberto Marques: I wouldn't know the details at this point, Bob, but I'll be glad to share those with you later on.

Bob Ford: Thank you very much and again congratulations on all the traction.

Operator: The next question comes from Felipe Casemiro, of HSBC. Please, go ahead.

Felipe Casemiro: Thanks for taking my questions. First, I would like to explore Natura &Co in Mexico. Could you give us a bit more color on the updates on the recent initiatives in Mexico that have helped the country to step up as the second largest market in Latam?

And also, on the operational side in Mexico, do you see additional synergies to be gaining with the integration of the brands in the country?

And second one, I would like to explore a bit more on APAC follow-up on what Roberto said – thank you for the colored explanation on all the initiatives there – I would just want to follow up maybe on Avon in Philippines that the plan is doing so well. Is there any perspectives of interest of Avon in new markets—e of South in the next 12 months maybe? Anything on this? Thanks.

João Paulo Ferreira: Hi, thanks. JP speaking. As regards Mexico, sure, I mean, a couple of things happening recently there: heavy and growing investments behind the brand, that's number one; then the development of the omnichannel solutions with the opening of the e-commerce and various stores. As regards synergies, operational synergies there are many being explored at this point, but the main one I would like to highlight is the usage of Avon's manufacturing plant in Mexico to manufacture some of the Natura's SKUs.

Roberto Marques: And regarding to Avon in Asia, our priority is really to continue to focus on the new commercial model, the, you know, rejuvenation of the brand and digitalization. So, right now, I would say we're not planning to enter a new market, but really strengthening our presence to the commercial model digitalization and the brand rejuvenation, and let's not forget that Avon is also present in China and with this new effort of the group we also want to make sure that we can strengthen our position at Avon in China.

Felipe Casemiro: OK, thank you very much.

Operator: The next question comes from Andrew Ruben, of Morgan Stanley. Please, go ahead.

Andrew Ruben: Hi, thanks very much for the question. So, just pivot back to Natura Brazil, I was wondering if you could talk a bit more about the balance between consultant growth and productivity. Any color on

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how you think productivity trends will progress into the second half? In bigger picture, any update on how you think about the right consultant count for the business. Thank you.

Roberto Marques: Thank you for the question. As you know, I mean, the events of Q2-Q3 last year were exceptional, they distort somehow the way we report productivity, consultants' productivity at this point. There was a huge increasing the number of reps, of consultants in Q3, right, very abruptly and they are younger with us, they are less productive. In addition to that, in Q3 last year there was a shift of channels from in-store to out-of-storage channels and a shift of portfolio towards essential items, so those numbers will be distorted for a period and should return to normality, towards Q4 this year. Thanks. Thanks for the question.

Andrew Ruben: Thank you.

Operator: The next question comes from Richard Cathcart, of Bradesco. Please, go ahead.

Richard Cathcart: Hi, guys, good morning, thanks for taking my question. A couple here just totally on The Body Shop. You mentioned I think 20 stores have been renovated into the new format over the quarter, so just wanted to hear a little bit about underperformance and the plan to continue rolling out that new concept to other stores across The Body Shop portfolio.

And then, the second question I think to Guilherme, just on debts. Just wondering if you got any additional potential renegotiation on the horizon and, you know, what kind of, let's say, the next steps for debts over the next 6 to 12 to 18 months. Thanks.

Roberto Marques: Hey, Richard. I will start and then I'll pass to Guilherme. So, on the new store design for The Body Shop, the good news is, you know, right now we have approximately 50 already in place and they are showing double-digit gains versus call it the previous design, so that's very encouraging.

We are planning to potentially get to 100 by year-end and as part of that, as you know, we are also driving the refill stations within The Body Shop stores, which is also very much in line with our commitment to life, but it's also very much tie to the values and the strategy of The Body Shop, and on those refills, we're planning actually to get to 300 refill stations in the stores by end of this year. So, it's progressing well.

Of course, we continue to monitor it, the retail reopening in some of the key markets, and again, a lot of markets going back to lockdown and we're still very much paying attention to that, but all the indicators that we have, the early indicators on the new store design are pretty encouraging.

So, I'll pass to Guilherme to talk about the debt strategy here.

Guilherme Castellan: Thank you, Roberto. Yeah, on the capital structure side, I think, as you probably saw, we ended the quarter with a very strong liquidity position, right, of R\$8 billion in cash and equivalents. We continue, of course, to deleverage our balance sheet with net debt to EBITDA of 1.4x, and I think the highlight of the second quarter, as we read close in the Q1 results, was the issuance of the US\$1 billion sustainability-linked bond.

We're quite comfortable right now with our capital structure, I mean, when you look at the liquidity in hand and when you look at that the debt, the amortization schedules, we are covered basically all the way until 2024. When you look at our exposures by currency, we're extremely well-matched as well. So, we are comfortable where we are, of course, we're always assessing opportunities in the market, but at this point, I think that, again, especially after the follow-on in the second half of last year, we're quite glad on where we landed.

Richard Cathcart: OK, thanks very much.

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Operator: The next question comes from João Soares, of Citibank. Please, go ahead.

João Soares: Hi, thanks. Two quick points on my side. First one on APCA, and I appreciate the color on the physical strategy there on Aesop, but I wanted to get more color on the digital strategy. Could you give us an update in terms of how your e-commerce operation is right now in APAC? What types of opportunities you think you can explore in the short-term maybe through partnerships and maybe some M&As? So, anything you can give on that would be very interesting.

And a second point regarding Avon International, we saw a pickup in digital investments, the penetration is clearly moving very well, so if could just give us some idea in terms of how those investments are progressing going forward, maybe calling back to your guidance on the low-to-mid margins for Avon International by 2024, how the digital penetration plays out into those margins that they would be very interesting to hear. Thanks.

Roberto Marques: João, thank you for the question – Roberto here. So, in regarding to Asia Pacific – and I'll focus a little bit on China –, right now our presence is to the cross board and it's all e-commerce, and it is actually progressing very well, we are doing some partnerships, in fact, this quarter we just launched the cross border we chat; a mini program that are allowing users to purchase Aesop products directly within the app, and the good news is because to some extent we are late entering China, and we're going to really optimize the e-commerce and social selling and not needed to actually invest heavily in brick and mortar. Yes, we're going to have retail and will be important, but maybe the only good news of us being a little late entry in China is that our omnichannel approach and the focus much more on the e-commerce and social selling and use of key opinion leaders will help us to penetrate probably the last capital investment compared to some of the other early entry in China.

What is again the second question?

João Soares: Yes, Roberto, thanks for the answer...

Roberto Marques: Oh, the digital! Sorry!

João Soares: Yes, the digital.

Roberto Marques: The digital piece at Avon International is progressing well, João, I mean, we are really moving similar to Natura; one app for the representatives to actually do all the business, having all the information content being able to share (it's called) Avon On, and there's been a lot of investment to the point that you made that we are actually putting a lot of investment and digital for Avon as a whole, this is actually going to facilitate a lot for the representatives to, you know, move into social selling.

So, more to come on that, we still think that we have a lot to catch up on that, but the good news is the team is investing, the reps will be able to access in one platform, in one app, and similar to what we have within Natura, and that should be a pretty excitement improvement for the reps with Avon International.

João Soares: Great, thanks for the answers.

Operator: The next question comes from Irma Sgarz, of Goldman Sachs. Please, go ahead.

Irma Sgarz: Yes, hi, good morning, thanks for taking my question. I was just curious to come to Brazil for a second. You do [unintelligible], and I think it's certainly evident the number of different sectors the raw material input cost pressures, and I was just curious how you think about potential price increases into the that half or maybe you've already taken prices up and at the outgoing cycles of the second quarter, and how we should think about gross margin for the operation. I guess that implies to specifically, I'm interested in Brazil for both the Avon and the Natura brand. Thank you.

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João Paulo Ferreira: Hi, Irma, JP speaking. So, indeed, the cost pressures are present, and we have been managing actively revenues, we did increase prices, we have others scheduled, but that's not the only source of value, as I mentioned. We have been improving and shifting the mix of products, both Natura's and Avon's, as well as promotions to maintain, keep, and ideally even improve gross margin going forward. Thanks.

Roberto Marques: Yeah, and one thing, Irma, that I'd also add on top of what JP said, which I would just call attention for all of you, if you look at a year to date, as a group we are actually up in gross margin, which I would say in this environment is very unique, and even in Latin America, even in Latin America, you know, year to date our gross margin is up versus prior year, and that is because not only I think the team is doing a great job on revenue management, we are leveraging our volume increase, but also the synergies, which is very somehow unique to this combination in this group. The synergies are kicking in and we have on the quarter over US\$40 million, in the year to date almost US\$80 million of synergies that are helping us navigate some of this pressure in terms of cost inflationary and currency.

So, that's just one additional comment here on the gross margin.

Irma Sgarz: Perfect, obrigada.

Operator: This concludes today's question and answer session. I would like to invite Mr. Roberto Marques to proceed with his closing statements. Please, go ahead, Mr. Marques.

Roberto Marques: Before I close, it seems that we have one additional question, and just I would hate not to answer Joseph. So, Joseph, please, if you have your question, we're happy to answer, and then I'll do the closing.

Please, go ahead, Joseph.

Joseph: Right, thank you, Roberto. So, that should be a quick one. So, on the digital front, you are really doing like major advancements in connecting directly to consumers. So, my question to you is like: how the fulfillment has been working on this front? I recall that you guys are delivering more to the clients, so how are you involving on this front, both on Natura and Avon front? Thank you.

Roberto Marques: Yeah, so thank you for the question, Joseph. So, you know, we are progressing well our fulfillment, our supply chain are really showing tremendous resilience and being able to, again, you know, since the pandemic, to really be very responsive, and not only in Natura and Avon, but also I would say The Body Shop and Aesop with the surge and the growth, again, our e-commerce and our social channels are 3x, 4x higher than the pre-pandemic, and that, to your point, it is changing our fulfillment in the way we are serving both our apps and also our customers directly.

So, we feel good about that, we are also investing on that, but it something that at this point we don't envision any major disruption.

JP, do you want to add something, please?

João Paulo Ferreira: Yeah, Joseph, I just want to add recent information is: one, both Avon's representatives and customers in Brazil are scoring service levels very high, the best NPS in ever to be honest; and as you may have seen, Natura's e-commerce has just received the Blue Diamond Award, which is granted by end customers that have rated our e-commerce as the best in the country recently, which I think speaks somehow to our fulfillment capabilities.

Roberto Marques: That's a great way actually to end the call. So, I just wanted to, again, thank everybody, we are very pleased with our strong Q2 results, which you once again demonstrates the strength of our omnichannel model, the power of our brand products, and most important, our people, our organization,

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our network, who continue to be really focused our direct-to-customer reach and really as a group continue to progress in our strategic ambitions.

I want to thank everybody for being with us today, I wish you all a good day and on behalf of us stay well, stay safe, thank you very much.

Operator: That does conclude the Natura &Co audio conference for today. Thank you very much for your participation and have a good day.