

Operator: Good morning, welcome to Natura &Co's first quarter earnings.

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

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

I will now hand over the call to Fábio Barbosa. Please, go ahead.

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

Natura &Co performance in the first quarter is in line with our plan and previous communication, this is reflected in our Q1 numbers with a solid improvement both in gross margin and adjusted EBITDA margin. In this meanwhile, the company continues to put in action important structural changes in its portfolio focusing on simplifying its structure and improving its capital structure.

Excluding Aesop, Q1-23 showed a strong profitability improvement mainly driven by gross margin expansion across all business units and continuous cost control that were partially offset by sales deleverage at The Body Shop and Avon Latam.

This quarter's gross margin is driven by price increases carryover and more favorable mix, more than offsetting the inflationary environment we continue to experience. As per the normal seasonality of the business, cash consumption in Q1 was high, as planned, and working capital Management was impacted by buildup of inventories for Q2 and changes related to the continue integration of the Natura and Avon brands in Latam.

From a revenue standpoint, the highlight remains the Natura brand, which continued its strong momentum from last year with Natura Brazil sales growing 25% along with volume and productivity growth.

Shortly after the close of the quarter, Natura &Co announced decisive strategic steps. First of all, the group announced it has entered into a binding agreement to sell Aesop to L'oreal for an enterprise value of US\$ 2.525 billion. The transaction is still subject to customary regulatory approvals and is expected to close in Q3 2023. The proceeds from the sale of Aesop will strengthen and deleverage the Natura &Co balance sheet freeing up resource and to sharpen our focus on strategic priorities with discipline, notably implementing the second wave of integration of our brands in Latin America, further optimizing Avon's

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international footprint and accelerating The Body Shop's transformation agenda to generate sustainable and profitable growth.

On the second wave in Latin America, we launched full integration in Peru and initial KPIs are encouraging.

Finally, The Body Shop announced it was entering its next chapter with Ian Bickley taking over as interim Chief Executive after David Boynton stepped down.

Our ESG agenda continues to advance and I'm very proud of the progress we've made on our Commitment to Life 2013 Sustainability Vision. We made further progress on the share of renewable or Natural ingredients, as well as on the biodegradable formulas.

Natura &Co also released its third-party equity report which also looks at gender balance across 73 markets. We maintain our target of equal representation with 52.7% of women in leadership roles (director and above) at Natura &Co.

With that, let me now hand over to Gui to comment on our Q1 performance in greater detail. Gui.

Guilherme Castellan: Thank you, Fábio, and hello to everyone. I'll start with Natura &Co's consolidated revenue on slide five, which stood at just over R\$8 billion and grew by 3.4% in constant currency, improving sequentially despite the challenging macro environment. In reais, sales were down 2.8% reflecting the depreciation of some operating currencies versus the real.

We look at the performance by BU shortly, but in the nutshell, we posted solid constant currency growth at Natura &Co Latam with a very strong performance by the Natura brands, notably in Brazil, with growth in the mid-20s percent. Furthermore, Avon Brazil and International were in positive territory in the beauty category. Avon International's fundamentals improved; the performance was still impacted by the war in Ukraine. The Body Shop had another difficult quarter with trends quite similar to the previous quarters in core channels while The Body Shop At Home continue its steep decline. Aesop also continued to grow double digits, following the trends of the previous quarters.

As you know, Aesop is now classified under discontinued activities pending the closing of the transaction with L'oréal. Excluding Aesop, Natura &Co's Q1-23 consolidated net revenues stood at R\$7.3 billion, up 2.2% in constant currency and down 3.8% in reais.

We turn to adjusted EBITDA margin on slide 6, which stood at 10.5% in Q1, marking a strong improvement of 330 bps year-on-year. This reflected different moving parts and business unit dynamics. The main positive impacts were: first, a strong margin expansion at Natura &Co Latam, up 400 bps mainly driven by higher gross margin; second, an improving margin at Avon International, up 170 bps also boosted by gross margin improvement, transformational initiatives and phase-in of expenses, partially offset by sales deleverage, investments in lead markets and inflation increase on fixed expenses; finally, an improvement of

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holding expenses down 36% year-on-year. This the result of our efforts to create a leaner and simpler organization that we started last year.

These were partially offset by 2 factors: first, slight margin pressure at The Body Shop mainly due to sales deleverage, partially offset by strict financial discipline and some gross margin expansion; and also continue investments at Aesop that led to a drop of 320 bps in its margin. Excluding Aesop, adjusted EBITDA margin was 9.7%, up 370 bps year-on-year.

On slide 7, we focus on net income and underlying net income. Net income in Q1 was a negative R\$652 million, broadly in line with a net loss of R\$642 million in Q1 of last year and a sequential improvement over the last quarter.

Higher EBITDA was more than offset by higher net financial expenses, which should be addressed by the Aesop transaction and by higher losses from discontinued operations. Q1-23 underlying net income, which is net income excluding transformational costs, restructuring costs, discontinued operations, and PPA effects, was a loss of R\$372 million. This compares to a loss of R\$155 million in the same period in 2022.

You see the bridge on the slide with the main impacts coming from restructuring costs, discontinued operations, and other effects for R\$150 million, PPA effect for R\$82 million and transformation and integration costs for R\$83 million.

In Q1-23, free cash flow from continuing operations was an outflow of R\$1.813 billion compared to an outflow of 2.140 billion in the previous year. Despite the positive impact from net income in the year, cash flow from continuing operations was slightly worse to minus R\$1.542 billion from minus R\$1.425 billion given working capital dynamics. Working capital increased in Natura &Co Latam supporting the strong growth in the Natura brands offset by improvements across The Body Shop and Avon International as percentage of net revenues as we continue to prioritize cash generation and working capital management.

Furthermore, Latam increase was driven by inventory buildup for Q2-23 and accounts receivable, which is primarily due to the strong growth of the Natura brand and adjustments to Avon Latam representative payment terms in several regions to be more aligned with Natura in anticipation of wave 2.

These effects were partially offset by continued working capital management activities, particularly in accounts payable, as discussed in prior quarters, and other assets and liabilities including recoverable taxes.

As mentioned last quarter, we continue our disciplined resource allocation efforts, which resulted in lower Capex in Q1-23, an outflow R\$258 million, 8% lower year-on-year while still investing our priorities to maintain a sustainable and healthy operating company.

As planned, cash consumption in Q1 was high, following the normal seasonality of the business, and working capital management was impacted by the buildup of inventories for Q2 and changes related to the continued integration of Natura

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and Avon brands in Latam. Our priorities remain the same and we continue to expect improvements in cash conversion of full-year basis though we may experience some volatility between the quarters.

On slide 9, we look at our liquidity profile. We ended the quarter with a cash position of approximately R\$4 billion, our net debt at the end of the quarter was R\$9.4 billion and the net debt to EBITDA ratio stood at 3.96x, up from 3.49x at the end of the year, and 2.13x one year ago.

Despite improving EBITDA year-on-year, the R\$2 billion increase in net debt versus the previous quarter was mainly due to seasonal cash consumption combined with increases in inventory and accounts receivable, mainly due to the strong growth of the Natura brands.

As you know, the sale of Aesop, which we expect to close in Q3, will bring sufficient proceeds that will allow us to largely eliminate our debt and put us in a net cash position.

As you see on the second chart, our cash position of R\$4 billion is higher than the total for debt payments through 2027. The average maturity of our debt is 6.5 years, and we face limited debt repayments until 2028.

Let's turn now to our performance by business unit beginning on slide 11 with Natura &Co Latam, which posted a solid performance this quarter. Total net sales were up by 9% in constant currency and 2.4% in reais. This was driven by solid double-digit growth at the Natura brand which grew by 25.1% at constant currency while the Avon brand was down 9.8% in constant currency but saw a growth in beauty category.

The Natura brand posted strong momentum with year-on-year growth of 24.9% in Brazil. Growth was supported by volume, but also price increases and mix effect, which led to a strong 20.4% growth in consultant productivity. Retail also had an excellent performance this quarter, in line with our channel diversification strategy. The average available consultant base was up 3.6% year-on-year, but slightly down versus the previous quarter given normal seasonality of the business. This aligned with our ongoing strategy of focusing on increasing productivity with a more stable consultant base.

In Hispanic Latam, net revenue was up by strong 25.5% at constant currency despite the challenging situation in several countries in the region, notably Argentina and Chile. Revenue was up 6.7% in reais. Growth was mainly driven by acceleration in Argentina and Colombia boosted by channel and productivity gains. Excluding Argentina, sales in Hispanic markets were up in mid-single digits at constant currency despite a decrease in Chile.

At the Avon brand in Latam, net revenue was down 9.8% at constant currency, a deterioration versus the previous quarter. In Brazil, revenue was broadly flat at minus 0.6%, slowing down from the 7.5% growth in the previous quarter, but against a stronger comparison base. The beauty segment continued to grow by

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5.6% while Fashion & Home was down 18%, in line with our portfolio optimization strategy.

The beauty segment in Brazil again saw high single-digit gain consultant productivity. In Hispanic markets, the total number of available representatives decreased 25.4% year-on-year as expected amid the rollout of waves 1 and preparation for wave 2 in some countries.

In addition, in preparation for this rollout, adjustments to commercial incentives, minimum order, tickets increase, and fashion & home portfolio adjustments were made in several regions to move towards integration, which also impacted number of total representatives. In such context, net revenue was down 14.8% in constant currency and down 22% in reais, impacted by a decrease in Mexico, which has higher exposure to the Fashion & Home category, as well as in Chile, which were affected by political and economic volatility. The beauty category was broadly stable in constant currency, but beauty productivity per representative is up more than 20% year-on-year.

As Fábio mentioned, we began the full integration of Natura and Avon in Peru and while still early the days, we're seeing encouraging first results in terms of increase in cross-sell activity level and consultant productivity.

On slide 12, we turn to Natura &Co Latam's Q1 adjusted EBITDA and margin. As shown on the graph, adjusted EBITDA grew by strong 47.6% to R\$633 million from R\$429 million in the same period in the last year. Adjusted EBITDA margin was up by a solid 400 bps to 13%. The margin expansion was driven by a 450 bps improvement in gross margin benefiting from price increases, richer category mix, and marketing efforts, but still partially impacted by input prices and FX dynamics.

It's important to highlight that Q1-23 benefits from full price increase carry over from the previous year, as most of price increases last year happened Q2 onwards. Also, there were additional price increases in some countries during Q1-23 related to expected commodity and FX pressure to arise in the upcoming quarters. While we expect to continue to see year-on-year gross margin expansion in the next two quarters, it won't be at the same magnitude as in the first quarter of this year.

We also benefited from SG&A efficiencies by the Avon brand in Brazil while the Natura brand continued to make investments and Avon Hispanic showed operational deleverage amid the rollout of wave 2.

Let's now move to Avon International on slide 14. Revenue was down 7.5% at constant currency and 12.8% in reais. This drop continues to reflect the war in Ukraine. Excluding that, sales were down by a more limited 3.7% at constant currency, net revenues were also impacted by the earthquake in Turkey, which we estimated had a negative effect of 1 percentage point. The beauty category entered positive territory growing low single-digits in constant currency excluding Russian and Ukraine driven by fragrance and color categories. Fashion & Home decreased by 21% in constant currency, in line with our strategy to focus on

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beauty. The TMEA region showed year-on-year growth while Western Europe posted softer but improving performance. As expected, the number of representatives is still down 19% amid the new commercial model rollout and the footprint optimization impact. Digitalization is showing good progress and the use of digital tools reached 30.4% while other KPIs, such as units per rep and activity rate, are also improving.

Adjusted EBITDA margin was 6.1%, up 170 bps year-on-year. The gross margin expansion of 480 bps and continue focus on transformational savings were partially offset by sales deleverage, brand investments in lead markets, and inflation of fixed expenses. It's worth highlighting that the comments made for Natura &Co Latam gross margin are also applicable for Avon International.

On slide 16, we now move to The Body Shop. Q1 net revenue declined by 9.4% at constant currency and 16.5% in reais. Combined sales of core business distribution channels – in other words, stores, e-commerce, and franchisees – showed a long single-digit decline in constant currency, in line with the trend observed in the previous quarter, but on a softer comparable base. This reflects a macro environment in the UK and the Europe that remained challenging, impacting retail sales.

Revenue was also impacted by a decrease at The Body Shop at Home, which continued its steep decline. Gross margin showed an inflection point, expanding 50 bps year-on-year to 78.6%, this was mainly driven by mix and pricing, partially offset by continued high inflation. Despite the operational deleverage, adjusted EBITDA margin stood at 6.1%, down a limited 30 bps year-on-year given the slight gross margin expansion and strict cost control, in line with the previous quarter.

As Fábio mentioned, Ian Bickley assumed as interim CEO. Jointly with the executive leadership team, he will be working to refine The Body Shop's current business plan and transformational agenda while continuing to prioritize profitability and cash conversion.

On that note, as mentioned last quarter, management already took some important steps to improve long-term profitability, this includes the announcement in January of the closure of the At Home business in the US and of the dedicated distribution center in the UK. And in February, we announced a restructuring of our global management structure reducing leadership positions by 25%, as well as a 12% reduction in the rest of global overhead staff. The benefits of this restructuring will accelerate throughout the year.

On slide 18, we turn to Aesop, which as mentioned is now classified as discontinued operations. Aesop again recorded a solid performance with another quarter of double-digit growth in constant currency, up 16.8%. Revenue in reais was up 9.2%, all regions delivered double-digit growth despite the challenging environment, retail and wholesale show solid growth partially offset by a softer e-commerce performance reflecting post-COVID normalization of consumer behavior. Gross margin was 86%, down 30 bps versus the same period last year.

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It was mainly driven by price increase, but still impacted by inflationary cross pressure, mainly higher freight costs and unfavorable channel mix.

Adjusted EBITDA margin was 18.5%, down 320 bps year-on-year, still pressured by planned investments to deliver sustainable future growth, mainly in technology and supply chain enhancements and Aesop's China market entry.

Let me now hand back to Fábio.

Fábio Barbosa: Thank you, Gui. I'll conclude now on slide 20 with our key takeaways.

First, strategic actions are underway across the group to improve our performance, this include accelerating the integration of Natura and Avon in Latin America, optimization of Avon International's footprint, and continuing to right-size The Body Shop. At group level, we are simplifying the structure and improving our capital structure.

Second, the sale of Aesop, which we expect to close in the third quarter, as I said, will enable significant deleveraging and free up resources to invest with discipline in our strategic priority and unlocking value for our shareholders.

Third, Natura &Co continues to focus on profitability and cash conversion, this our priority that we have set already since the beginning of... since middle last year.

And fourth, while 2023 will likely be another challenging year, our strategic priorities are clear, and the first results give us confidence that we are on the right track. We expect a continuous improvement in full year adjusted EBITDA and cash flow though we may see some volatility from one quarter to the next.

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

Question and Answer Session

Operator: Thank you. We'll now begin the question-and-answer session. If you have a question, please press star 1 on your telephone now. If you wish to be removed from the queue, please press star then 2. Please, hold while we gather your questions.

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

Daniela Eiger: Hi, good morning. Thank you for taking my question. I have 2 from our side. The first one on margin dynamics. Can we think about this margin expansion that you posted, especially on the gross margin level, as a structural one going forward – obviously, respecting seasonality? And also, are there any more levers to be used on the gross margin levels or should we see margin gains coming from more on SG&A efficiency in the coming quarters?

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And my second one regarding wave 2, I know you mentioned it's too early to reach more final conclusions, but it would be interesting to hear if the rollout has been evolving according to the plan in Peru or if you already mapped some adjustments needed. And also, what we could expect in terms of next moves in the coming quarters including the timing of the rollout in Brazil?

Fábio Barbosa: Gui, you can take the first question and JP will take the second one. Gui, go on.

Guilherme Castellan: OK, thank you, Daniela, thanks for your question, thanks for listening to the call. I'm going to talk a little bit about the margin dynamic, as your question, and of course, deliveries of EBITDA margin expansion going forward.

So, look, I think a strong quarter in terms of gross margin expansion on a consolidated basis, more than 360 bps, Latam itself delivering 400 bps, Avon International with 450 bps of gross margin expansion, it has been a focus for the team, and of course, especially in the last 12 months. As you know, we have been following up very disciplined strategy of price increases to mitigate the challenging inflationary environment that we're experiencing today, and of course, additional FX pressure that comes with it.

So, having said that, I think that it is important to highlight that Q1 has the full carryover of price increases from 2022 because most of the price increases last year it happened in Q2 onwards, right, so we have the full carryover in Q1. In addition to that, the teams acted strategically in some countries, in some categories with additional price increases in the beginning of this year to have the full impact in the year and of course to protect the margin going forward versus expected inflationary pressures that we may see coming up in our P&L in the rest of the year, especially in the second half.

So, I think we were clear and I repeat what it is in the release that we are expecting to see gross margin expansion year-to-go on the quarters, however, given again the full carryover of the 2022 price increases and the anticipation of price increases in the Q1 of this year, most likely it won't be to the same magnitudes as we are looking ahead, as we saw in Q1 compared to what we're looking at.

So, having said that, moving to your second question, I don't think that we're done in gross margin. To be quite honest, you can't... the teams they have done fantastic job in the last 24 months expanding gross margin, if you can look at the trajectory of Avon International, if you look at the trajectory of Latam, specifically those two, right, it has been really an effort of not only price increases, but really focusing on the right mix, they strategy of deprioritizing Fashion & Home and prioritizing CFT plays a big role on that, even within CFT there's a very strong revenue management strategy to focus on the right categories and of course the products with better mix.

So, I think that there are room, there are room of course for expansions of gross margins going forward, however, of course, given potential seasonality of

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inflationary pressures that may not be linear every single quarter, but definitely there are room for us to see more gross margin flowing into EBITDA.

And you're right, there is a lot of room in SG&A, and I think there's no particular any one-off for us to highlight this quarter as you can see, so in the case of Latam most of the EBITDA margin expansion is coming from gross margin, there is of course additional efficiency for us to seek with the wave 2 and João and the team they're pretty much 100% focused on that – and he can talk a little bit more about that later.

And in the case of Avon International, as you probably saw, the main impacts for not seeing the full flow through of the gross margin to EBITDA margin was the operational deleverage, and I invite you to think about sales stabilization of Avon International when is that going to happen because the operational deleverage has been one of the main detractors for EBITDA margin because the effort that the team has on the transformational savings is really visible.

And by the way, it's really protecting the P&L, it's one of the reasons why we continue to see a good not only gross margin but a good EBITDA margin expansion in Avon International for this quarter as well.

So, I hope it helps. I'm going to pass now to João so he can talk more about the wave 2.

João Paulo Ferreira: Thanks, Gui, thanks Daniela. So, as regards the full Natura/Avon wave 2 integration, we have just gone live in Peru, we haven't yet closed the first campaign, however, as mentioned before, the first results are encouraging, we are pleased with the cross penetration of both brands into the combined new network of consultants with the consequent productivity gains, and it looks like the activity level is pretty healthy. So, I need to be cautious, but the first results are encouraging.

I'm also pleased with the fact that from an operational standpoint, systems, IT infrastructure, logistics all worked pretty well without any major incident, which in combination gives us the confidence to roll this initiative out to Colombia around the middle of the year, OK?

Daniela Eiger: OK, and just on the rollout for Brazil, does that depend on how Colombia evolves?

João Paulo Ferreira: Well, it's planned for the second half of the year, as previously announced. So, we are sticking to that plan unless any unplanned news arise.

Daniela Eiger: Perfect, thank you. Thank you very much for the answers.

Operator: Thank you. Our next question comes from João Soares, with Citigroup.

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João Soares: Hi, good morning, everybody. Thanks for taking the question. I have 2 questions as well. The first one in Brazil, we're really seeing Natura performing very well, gaining market share in a tough macro and growing at 20+ percent versus Avon, the beauty category growing mid-single-digits. So, I was wondering if you could elaborate the dynamics behind the performance of these units.

What explains such a big outperformance of Natura in Brazil? Is it the price increase, the combs, is it demand for fragrances and soaps that are far outperforming the core beauty categories of Avon?

And the second question is on The Body Shop. You're carrying out a big structural cost reduction as you as you pointed out in the release, and so, I just wanted to understand that time, when should we start to see this big margin expansion coming in right and the timing of this restructuring cost? Thanks.

Fábio Barbosa: Just coordinating here, JP I'll take the first one, Gui will take the second. I'll just say one thing, we are in São Paulo, Gui is in United States, so we're trying to coordinate this via video; that's why I'm saying here all the time. So, JP, please.

João Paulo Ferreira: OK, thank you...

Operator: Ladies and gentlemen...

João Paulo Ferreira: ... yeah, thanks for the question. So, Natura is actually performing well for several quarters already, reflecting the strength of its brand, its multiple channels where it acts and also the digitization of its sales force. So, what you see there is the consequence of all those elements combined, which is not yet the case for Avon. As you know, we are adjusting the portfolio, we are optimizing the number of Avon reps and that has a relative weaker effect than what you saw in Natura. That's basically it.

Fábio Barbosa: Gui?

Guilherme Castellan: Yes, thank you, João, for your question. I'm going to talk a little bit about the The Body Shop. I think, look, the way to think about it is the team as you mentioned. They have done – and they're still doing, by the way, it's not complete – a lot of a lot of work on transformational of the company, specially focused in SG&A, as you saw also in the Q1 results we changed trend in gross margin, in the last few quarters we were seeing gross margin contraction, now we're seeing gross margin expansion, and one of the reasons for that I think the discipline on the discounts and the price increases flowing in full into the results, which is very important for us and I guess we have said this, one of the pillars for The Body Shop transformation is the L'oreal acquisition, right.

But the way to think a little bit about the future is, as you mentioned, the main lever for EBITDA margin expansion coming from SG&A in The Body Shop case, and especially coming in the second half of this year where again most of the transformational actions will be taken by them.

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It is important to highlight that the revenues of The Body Shop they remain under pressure, and they should remain under pressure in the near future, and again, we are at this point expecting revenues to stabilize more towards the second half of this year. And I think the same rationale that I explained for Avon International in the previous question, the sales deleverage is making The Body Shop an important tool in terms of EBITDA margin because there is inflationary pressure in the SG&A, so it is very important for us to basically stabilize the revenues, and again, we expect that to happen towards the second half of this year.

Also, there's a channel mix story there that is important to highlight, so we expect increase of sales from stores and franchisees specifically, which from a mixed perspective should benefit more the EBITDA, and again, I think that the mix will again be more visible in the second half of this year.

So, I hope it helps, but glad to take a follow-up on that.

Fábio Barbosa: João, I just want to add to what Gui said here talking about the gross margin and saying how much this has to do with the strategy we have been following, which is, as I said, to give priority and incentivize margins and cash generation rather than sales. So, we increase the prices, we gain gross margin, of course we are working on the brand so that we do not have to work as much on discounts, as it was the case, and some stores have already been renewed, or rejuvenated if you will, so that we can work on that with better margins, less complex SKUs, portfolio and so on.

So, that was the strategy and then some of the results are showing up on the difficult economic scenario in main countries like UK, which is one of the key for TBS. But that's just to give the context. Thank you. Go on.

João Soares: Thank you, Fábio, thanks JP and Gui.

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

Joseph Giordano: Hi, good morning, everyone, thanks for taking my question. Actually, I have a few ones. So, the first one, looking into Latin America, we do see like sales at Avon being rationalized with a significant impact on the sales rep base. So, here like I would like to understand what the marginal profitability of those sales reps that are leaving the base because it looks like that those sales were highly unprofitable when looking at the bigger scheme of things.

Then the second one goes into the working capital. So, we had higher sales and apparently, we are about to see a very good Mother's Day season ahead. So, my question to you is when we should be seeing some working capital normalization?

And last, but not least, on the holding structure, we do see the structure shrinking significantly over the past quarter, so my question to you is if we should see further gains from this front. Thank you very much.

Fábio Barbosa: JP, you get the first two ones, I get the third one.

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João Paulo Ferreira: Sure. Joseph, as you know, the restructuring, optimizations we are doing at Avon in Latin America they are meant to deliver a more profitable and healthier business and channels. So, for instance, we have been increasing minimum order, we have been reducing the portfolio on non-profitable items and lower ticket items, we've been reducing incentives and pushing the churn down. So, overall, the goal is to remain with the most productive reps on the base, which then prepares that base for the full integration with Natura. So, all that we are doing is to try and improve the health and the profitability of the Avon business immediately.

Fábio Barbosa: In terms of the holding, I mean, we have dates from the beginning when I started here (maybe I think it was June, about 10 months ago, something like that), we had important reductions and we keep on working on that, OK. So, we cannot give any guidance on what is going to happen, but the idea is it's an ongoing effort that we will continue focusing on, Joe. Thank you.

Guilherme Castellan: Joe, right, you get the three of us now in the same answer, so I'm going to talk a little bit about the working capital because you know that was your second question, right?

So, you're right, I think that they're dynamic of the of the first quarter was an increase in inventories and increase from accounts receivable, there is again nothing unusual in those numbers, I think that the inventory of course is mainly driven by the big performance of the Natura brand in the region, of course preparation for Mother's Day, preparation for Valentine's Day in the second quarter, which are important events for us, and the increase in accounts receivable was also due to the increase in revenues, especially in Latam, especially in Natura in Brazil that drives of course accounts receivable higher, and also, some normalization from accounts receivables terms in other countries, but the main impact coming from Brazil.

So, we still expect to see working capital pressure in the next quarter, but as we were clear in the release, we're looking at these on a 12-month basis and when we look at the full year 23, we expect to see significant cash conversions improvements not only in Latam, but in all BUs, Avon International as well and The Body Shop, and of course that flowing through to the holding even the point in the race of the lower holding expenses in the year.

So, we still expect to see a significant cash conversion improvement on a full year basis though we may expect some volatility between some quarters.

Joseph Giordano: Perfect. And if I may ask about like this inventory normalization, can you add any comments around like what you're seeing around Mother's Day? Thank you.

Guilherme Castellan: João, do you want to talk about the Mother's Day in Latam? I think it's a good question.

João Paulo Ferreira: Right. Well, without saying much, I'm pleased with our performance for the Mother's Day campaign.

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Joseph Giordano: Alright, thank you very much.

Operator: Thank you. Our next question comes from Irma Sgarz, with Goldman Sachs.

Irma Sgarz: Yes, thanks for the opportunity to ask a question. Just a very quick follow up on Natura Brazil. Obviously, quite strong growth, which I think quite a lot of questions have focused on this. I think I'd love to understand just how the sellout was, obviously we're seeing sell in being strong and there's some sellout also in the number because of the retail component, but I'd love to hear on the level of the reps, how much of that growth also came from sellout and if you think that the inventory levels in the channel are very healthy at this point.

And then on logistics integration between Avon and Natura in Brazil, if you could just spend a minute on just updating us where that is and what the next biggest steps are in that integration process.

And the third question briefly, gross margin for Avon, for the Avon brand in Latin America, how much of the gap that you currently have to the Natura brand do you believe you can close? Thank you.

Fábio Barbosa: JP, go on.

João Paulo Ferreira: A lot of questions. So, there is no indication that our reps are overstocked so far, so we keep continuous tracking on that, so it seems to be OK. Having said that, Irma, I think that consumption in general in Latin America, including Brazil, is getting softer towards the rest of the year. Well, but that's no news, we follow your reports as well, and if the macroeconomic environment stays challenging, I think consumption will end up paying a price.

Well, having said that, there's no indication that our consultants are overstocked at this point in time.

The second one was to do with the logistics integration in Brazil between Avon and Natura. Well, basically, we keep integrating distribution centers and manufacturing capabilities, and that continues and that will be even more important as we enter the wave 2 full integration towards the end of the year. And finally, on gross margin, well, we are bridging that gap, so we are not there yet between Avon and Natura, but we are making a much stricter selection of the portfolio, both in terms of fashion & home and beauty, and you probably noticed that we've been pricing products accordingly, some of them are still below their ideal price tiers, and of course that with further manufacturing logistics integration that will end up delivering additional benefits also to the gross margin.

So, the gap is being bridged. That's as much as I think I should comment at this point in time.

Irma Sgarz: Thank you very much.

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Operator: Thank you. Our next question comes from Erick Huang, with Santander.

Erick Huang: Hi, good morning, thank you for taking another question. A very brief question from our side. Looking specifically at capital structure, since the announcement of Avon BUs, has management seen or seen data view only optional capital structure going forward? And any updates on this time?

Fábio Barbosa: Gui, I'll pass it on to you in a second, just make a comment. We are very committed to have discipline on the allocation, utilization of the capital. Gui will talk a little bit about what we think in terms of capital structure, but I have been reassuring internally and externally that we are being very disciplined in terms of financial returns that we can have on backing up investments in each one of our 3 BUs, OK? This something that we have been very proud of, being very rigid on the last year.

So, Gui, talk a little bit about our thoughts about capital structure itself.

Guilherme Castellan: OK, thank you, Erick, for the question. Look, I think that this topic on capital structure is something that we have discussed a little bit with the market in the previous quarters, and I'm going to repeat a little bit what was said.

Thinking about optimal capital structure and the percentage of debt that we should have in our total capital, I think that this conversation makes a lot of sense when the company is operating net profit because then of course you can use your tax shield accordingly and try to maximize the value of your discount rates and therefore maximize the value of the firm.

So, the focus in the short-term – and of course, as we mentioned – part of Aesop's proceeds will be to deleverage the company, so it is important to highlight that the Aesop's proceeds will put the company on a net cash position, so the focus in the short-term is for us to continue to work on profitability, and profitability of course in the gross margin, profitability in the EBITDA margin and profitability in the net profit as well. So, we continue in that route in the short-term to maximize our bottom line.

Having said that, and again as we have mentioned before, once that we have the right capital structure in place and of course we are backing operating in that profits, we expect that the optimal capital structure for this company will be in something approximately 1.5 times. But of course, there's a dynamic exercise, it moves as the company continues to deliver improved results, and again, in the short-term, I repeat, we are focused not only in the right capital structure; we're focused in making sure that we have the right capital structure, but also the right of profitability in the P&L.

Erick Huang: Alright, thanks. Perfect.

Operator: Thank you. Our next question comes from Bob Ford, with Bank of America.

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Bob Ford: Hey, good morning, everybody, Fábio, Guilherme, JP. Thanks for taking my questions. JP, if I understand correctly, you're intentionally driving a further contraction in the soler base in wave 2. How abrupt is that transition and how do you expect productivity in network growth to play out upon the implementation?

And then, you know, how much of Avon Latam sales is that cultivated today, and how should we think about the pace and magnitude of that one down?

And then why was there a need to build up inventory ahead of Natura and Avon integration in Latam? How much of that is transitory? If any, how big was the effect in reais? And how exactly have the Avon receivables terms changed, and again, what's that impacted in reais?

And then lastly, Ian's been on the Board for a few years now and he is very familiar with The Body Shop. What's his assessment of what's broken and what are his KPIs? Thank you very much.

João Paulo Ferreira: Bob, JP here. I felt I need to show you the entire business plan with all your questions, but you know, I'll try my best.

Anyway, well, look, as regards the channel contraction, the first the first point of your question. I suggest you look at our Avon Brazilian operation because that's where we implemented all of the structural changes altogether around May/June last year, and you saw the level of contraction around 20% of the channel. So, right now we are contracting fashion & home beyond what we did at that time, but if you want to use general figures, I think this a reasonable one.

As said, Fashion & Home is bigger in some other Hispanic countries, more than 50% of revenues say in Mexico for instance, so it puts additional pressure on that. But with the accumulated experience, we are trying to contain that contraction around similar levels we saw before.

Then if I'm not wrong, you asked about inventory building, is that correct, Bob?

Bob Ford: Yeah, inventory building and this transitory, kind of one-time effect as you consolidate some of the manufacturing, that's what it sounds like, and I was just wondering what that impact was in reais and also on the receivable side. How much did the actual receivables terms change with Avon and [inaudible -]?

João Paulo Ferreira: Right. So, there is no structural inventory change, so everything that we are observing right now is temporary, so no structural reasons for increasing the inventory. And as regards payment terms, they will be aligned with Natura's payment terms, which always comes with higher productivity, so we only give credits to more productive consultants anyway, so the net effect should be... all those effects should be netted in the medium term.

I hope it helps, Bob.

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Bob Ford: No, absolutely. I just the one question on The Body Shop, the assessment of what's broken and on the KPIs, please.

Fábio Barbosa: Gui, do you want to complement something?

Guilherme Castellan: Yeah. Bob, if I just may say, I think that João was extremely clear, I just want to reinforce the first question, which is that you should expect to see, as we mentioned last quarter and we continue to repeat this quarter, Avon Hispanic sales into significant pressure in the next quarters. I think, as João mentioned in the previous quarter, the main focus is going to be EBITDA market, and again, it's going to meet of course for the profitability of the channel to improve significantly.

So, you should expect to see that trend to continue with a softer, weaker revenues, especially in Hispanic Latam, but of course in the medium/long-term with a significant improvement coming from EBITDA margin.

Bob Ford: Yeah, as you do that, sorry to interrupt you, but as you do that, Gui, can you help us understand the brand equity evolution? Because we're going to be looking at some pretty negative numbers probably in terms of the network and sales consolidated. We won't be able to see the breakdown of sales that you see.

Whatever you can help us to do to that brand equity dynamics in the most important markets in Latam would be super helpful.

Guilherme Castellan: OK, thanks for the feedback, Bob, we'll take that into consideration and of course share what we think it's necessary for the market to have the right visibility going forward.

On The Body Shop, Bob, because that was your last question, I'm going to let Fábio talk a little bit more about Ian's first day. All I can say is that his KPIs were remain very strong focused on the profitability and cash flow for The Body Shop, and again, we should expect to see strong results coming from those two lines already this year.

So, I'm going to pass to Fábio a little bit to talk about the first days of Ian.

Fábio Barbosa: Thank you, Bob, for your question. Ian has been there for something like 20 years... 20 days, 20 days! So, but I have been there with him, we went there he was very enthusiastic and I am having almost daily calls with him and he's excited, he loves the brand, I mean, he has been working on that for a long time, his background he was a CEO of Coach and he was within the Board the person responsible for what we call the TBS committee, and in other words, people which were focusing on one of the different BUs and Ian was on TBS, so he had some knowledge there, and his first impression it's just I mean there are lots of things to be done, some of things which are being done are in the right direction, like reducing SKUs, like rejuvenating the brand, like working on stores and so on, working with the head franchises.

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So, he's excited about that, but we have to accelerate that, so David has done the job, has put some things into place, but all we need is to accelerate and focus on profitability. This has been my mantra since day one here, which is increase margins and improve cash generation, and that's what his focus will be, but probably at the next call with him there for 90 days I will be able to talk more, but for the time being, his first insights are there are quick wins to be made and his team is behind him and he will be working on that. Thank you, Bob.

Bob Ford: No, thank you, Fábio. All that self-funded, correct?

Fábio Barbosa: Part of that self-funded, yes. We are not, at this point in time, we do not have any new projects. As I said, discipline in capital location is the name of the game, and on what TBS was doing, there was a budget for this year, we haven't changed that, so there are only minor investments in some stores, but only to the magnitude that could be self-funded by TBS, yes.

Bob Ford: Thank you very much.

Operator: Thank you. Our next question comes from Andrew Ruben, with Morgan Stanley.

Andrew Ruben: Hi, thanks very much. Most of my questions have been answered. Just one quick follow up. On the inflation environment, called out again as a headwind on the gross margin side. Curious if you have any visibility on when inflation might ease and potentially become a tailwind? Any of you on the progression would be very helpful. Thank you.

Fábio Barbosa: Are you saying about Brazil or about worldwide?

Andrew Ruben: Worldwide. Any pockets, any color you can have to share would be helpful.

Fábio Barbosa: Gui, go on then.

Guilherme Castellan: Hey, Andrew, thanks, thanks for the question. Look, the way that we're looking at this right now is that we're not expecting, let's say, the inflationary pressure to significantly improve in the next quarters, and that's why, again, I mentioned in the beginning of the call we took actions in terms of price increases also in Q1 to mitigate part of again those potential pressures that can arise in the remaining of the year.

So, I think we follow our strategy even though, again, we don't expect to see inflationary pressures to ease significantly. Of course, we may have some quarters with better comps, but we expect this trend to continue in the short-term, at least until the end of 2023. But I think we follow our strategy of course given prices, but with different dynamics between brands, categories, and counters. So, I think it's also important to highlight that.

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So, I think that... I don't know, João, if you want to complement anything for Latam? But I think that Latam and Brazil follow the same standard here, as I mentioned before.

João Paulo Ferreira: Oh, no further comments there, Gui.

Guilherme Castellan: OK. Just before the operator passes to Fábio, I just wanted to say that unfortunately the time is almost up for a call, there are several questions that unfortunately we didn't get to answer, but of course, the IR team will get back to you with the respective answers.

Operator: Thank you. This concludes today's question and answer session. I would like to invite Fábio Barbosa to proceed with his closing statements. Please, go ahead.

Fábio Barbosa: Thank you. I just want to stress what Gui said that the Investor Relations team is at disposal, many questions to be answered, we are ready too, I mean, it's our obligation, but it's our pleasure too. Thank you very much for being with us today.

As you saw from the presentation, we are operating in a challenging environment, but we have clearly defined priorities and are mobilized to deliver them. We see the first results coming, we are happy with it. Thanks for your attention and have a great day.

Operator: The conference has now concluded. Thank you for attending today's presentation for Natura &Co. You may now disconnect your lines.