

**Operator:** Welcome to Natura &Co's third quarter 2022 earnings conference call.

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.

Please limit yourselves to one question each in the Q&A session so we can allow more people to ask questions. Thank you for your understanding and cooperation on this.

I will now hand over 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. Guilherme will comment on the results shortly, so I will leave myself to a more qualitative commentary.

We continue to operate in third quarter in a challenging environment marked by high global inflation that is affecting discretionary spending, rising energy costs, and foreign exchange impacts, as well as a geopolitical fallout resulting from the war in Ukraine. In this context, Natura & Company posted results that were in line with what we had foreshadowed in the previous quarter with top line training better, growing by 2.2% at constant currency, while adjusted EBITDA margin, which was stable at the 8.6%, continued to be pressured by the external factors I just mentioned, notably on costs.

We saw some reasons for satisfaction in the past quarter: Natura & Company in Latam posted a solid performance driven by the Natura brand Avon in the CFT segment. Aesop recorded another strong quarter of double-digit sales growth at constant currency. Avon International continued to show a sequential improvement in results and in key channel performing indicators, such as activity and productivity. The Body Shop continued to post results channel with decline in the At Home segment and slower franchise recovery.

Clearly, we are not satisfied with this we are working on implementing measures to improve performance on which Gui will give you more color.

We have also made progress on the group reorganization that we announced last quarter, we have significantly reduced by 50% compared to 2021 costs at the holding company level and we started to implement steps to give each brand business more autonomy and responsibility, as mentioned when we started this process.

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Other steps are also advancing, we're further accelerating the integration of the Avon and Natura business in Latin America, the so-called Wave 2, starting in 2023 with Peru and Colombia and then followed by Brazil. This new phase aims at harmonizing the distribution and sales systems and optimizing the product portfolio.

We have already started to optimize our geographic footprint at Avon International with significant changes in markets, including already India and Saudi Arabia. We also announced the closing at Avon Suffern R&D facility in the United States, which should result in considerable savings on a recurring basis beginning next year. Also, as announced in the material fact published on October 17<sup>th</sup>, we continue to analyze strategic opportunities for Aesop. It is worth highlighting that we have never considered selling 100% of Aesop to third parties and the strategic opportunities that we are analyzing are focused on accelerating growth and unlocking value.

This strategic change, the potential alternative for Aesop under study and our expectation of a continued challenging and uncertain macro environment in some markets led us to withdraw the three-year guidance released to the market in April 2021 and further modified in November 2021 and May 2022. We are continuing our ongoing work to improve the fundamentals of our brands and business, and notably the underperforming regions which we regard as our principal challenge, but also our main upside driver.

Our priority remains very clear: we are strongly focused on improving margins and generating cash flow and the teams in the BUs are all mobilized and incentivized to achieve these goals. The aim is to deliver sustainable shareholder return and achieve our ambition of making Natura & Company the best beauty company for the world. We'll keep you updated on the progress.

With that let me now hand over to Gui to comment on our third quarter 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 grew by 2.2% in constant currency improved sequentially despite the challenging macro environment. In reais, sales were down 5.7%. We'll look at the performance by BU shortly, but in a nutshell, we posted solid growth at Natura &Co Latam with a strong performance by the Natura brand Avon CFT, and Aesop continues to post double-digit growth at constant currency. Avon International improved sequentially, but its performance was still impacted by the war in Russia. The Body Shop had another difficult quarter from a decrease in The Body Shop At Home while retail recovers slowly from the pandemic.

We turn to adjusted EBITDA margins on slide 6, which was stable at 8.6% in Q3, these reflect the different moving parts: first, the main possible impacts are an important improvement of holding expenses, which are down nearly 50% year-on-year, this is the result of our efforts to create a leaner and simpler organization; also improving margin at Natura &Co Latam driven by strong top line performance, strict cost control, we continue to deliver cost efficiencies in SG&A

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across all BUs, which are more than compensating for commodities and FX pressures in gross margin. These benefits were offset by the conjunction of continuous sales deleverage at The Body Shop and also continuous investments for sustainable growth at Aesop.

On slide 7 we focus on net income and underlying net income. Net income in Q3 was negative R\$560 million, this was due mainly to lower EBITDA and higher net financial expenses, partially offset by some tax credits associated to Brazil's tax on foreign income related to 2021. Let me remind you that Q321 net income had also benefited from even higher taxes gains related to credit recoveries in Brazil.

Underlying net income was a negative R\$198 million, and the slide shows you the bridge from net income. The difference between the two comes from transformation costs for R\$163 million, R\$76 million from discontinued operations, and the PPA effect from the acquisition of Avon for R\$124 million.

On slide 8 we focus on free cash flow, which as we have communicated before is one of our biggest priorities. We recorded an outflow of nearly R\$129 million as action taken to improve cash conversion are starting to take effect. This shows an improvement of more than R\$400 million from the Q321 outflow of nearly R\$543 million. This was driven by an improvement in working capital efforts, which was a positive R\$353 million compared to unfavorable R\$268 million in Q321 driven mainly by sharply improved inventory efficiencies and account payables.

Finally, it is worth mentioning that despite these two challenging outcome and leverage position – which we will comment more on the next slide – the improvements already delivered allow us to post an almost flat free cash flow to firm.

On slide nine we look at our liquidity profile. We ended the quarter with a cash position of R\$4.6 billion, our net debt to EBITDA ratio stood at 2.85 times at quarter-end, up from 2.46 times in Q2 and 1.83 times in Q2 of last year. This leverage ratio reflects a lower EBITDA given FX and cost pressures jointly with higher integration costs.

You see on the second graph our cash position of R\$4.6 billion is higher than the total of our debt payments through 2027. The average maturity of our debt is 6.8 years, and we face limited debt repayments until 2028. In line with the group's liability management plan to improve its capital structure, Natura Cosméticos issued on September 19<sup>th</sup> R\$500 million in commercial notes maturing in 2025 guaranteed by Nature &Co holding. The funds were used primarily to repay the maturity of the 9<sup>th</sup> issuance of debentures of Natura Cosméticos, which mature on 21<sup>st</sup> of September, and in October 2022 Natura Cosméticos completed the issuance of a little over R\$1 billion in real estate receivables certificate maturing between 2027 and 2032.

Let's turn now to our performance by business unit beginning on slide 11 with Natura &Co Latam, which posted another solid performance. Total net sales were up by a solid 10.2% in constant currency, this was driven by double-digit growth

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at the Natura brand, which grew by 18.5% at constant currency while the Avon brand was also up slightly in constant currency thanks to the growth in beauty. The Natura brand gained momentum over the previous quarter and posted year-on-year growth of 19.3% in Brazil supported by an acceleration in consultant productivity, up by 21.4% in Q3.

In Hispanic Latam net revenue was up 17.3% at constant currency and 0.3% in reais. Growth was mainly driven by Argentina and Colombia. Excluding Argentina, sales in Hispanic markets were down in low single digits at constant currency impacted by a weaker performance in Mexico and a decline in Chile. At the Avon brand in Latam net revenue grew by 0.7% at constant currency. In Brazil trends continue the sequential improvement we have seen every quarter since Q3 2021. In Q3 net revenues declined by 1.4%. It's important to highlight that the beauty segments actually grew by 11%, which was offset by a 26% sales contraction in Fashion & Home. The beauty segment in Brazil saw a double-digit gain consultant productivity.

In Hispanic markets net revenue was up 2.3% at constant currency mainly driven by Ecuador and Argentina but impacted by a decrease in Mexico and Chile. The beauty category grew 9% in constant currency, but this was mostly offset by a drop in Fashion & Home. Total number of available representatives improved sequentially and was up 6% versus Q222, but it's still down 9.6% year-on-year.

On slide 12 we turn to Natura &Co Latam's Q3 Adjusted EBITDA margin. As shown on the graph, adjusted EBITDA increased significantly by 22.7% while margin at 11.3%, was up 170 bps. This result was supported by strong top line performance by the Natura brand, strict financial discipline. However, this was partially offset by the impact of selling expenses increasing as percentage of net sales, reflecting Natura brand investments combined with a deterioration in gross margin. This deterioration is mainly due to value-added input price dynamics, which are pressured by rising energy prices, wage inflation, and foreign exchange.

Let's now move to Avon International on slide 14. Revenue was down 8.1% at constant currency and 19.8% in reais. This drop was a strongly impacted by the situation in Ukraine. Excluding that, sales were down a limited 3.1% at constant currency and continued to improve sequentially since Q1. Sales also reflected lower purchase power in Europe. Fundamentals continue to show improvement and the new commercial model now implemented in 20 markets – 4 more than in the previous quarter – result in better rep productivity digitalization.

Q3 adjusted EBITDA margin stood at 3.6%, down 30 bps versus the same period last year. This was due to gross margin dynamics, but partially offset by a more efficient SG&A as a percentage of sales given the transformation of savings. Adjusted EBITDA margin was also impacted by the war in Ukraine. Excluding that impact, adjusted EBITDA margin would have shown a significant improvement year-on-year.

On slide 16, we now move to The Body Shop. Q3 net revenue declined 19.5% at constant currency and 29.8% in reais. Footfall stores continue to show signs of

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recovery with store sales up 7.7% year-on-year, but it's slower than anticipated as inflation and cost of living has impacted the consumer confidence. The improvement is not enough to offset the drop in the At Home channel and high product inventory levels held by our franchisees' partners during the year. However, sellout sales at the franchisee partners are improving, which are leading level of stocks to approach pre-pandemic levels. Our business distribution channels, in other words own stores, e-commerce and franchisee combined were up 0.6% on a same-store-sales base showing sequential improvement.

Q3 adjusted EBITDA margin was 6.3%, down 11.7 percentage points from Q321 resulting from sales deleverage and gross margin pressures. It is also worth remembering that Q321 EBITDA margin benefited from the government aids that ended in 2021. In the face of these numbers, management is looking closely at the business and continue to act on all the fronts under our control. We have enacted strict cost containment, minimizing discretionary spent and right sizing the overhead structure in some channels. Also, we are stimulating demand from head franchisees by taking advantage of opportunities to manage inventory levels and focusing on positioning for peak fourth quarter sales. A new global structure was installed to provide support to head franchises.

Finally, we continue the store footprint optimization and deployment of the new workshop store, which is showing a 15-percentage point uplift on sales compared to the traditional model. Furthermore, 103 franchise stores have also been refitted.

On slide 18 Aesop again recorded an excellent performance with another quarter of double-digit growth in constant currency, up 21.5%. Revenue in reais was up 8.9%. All regions delivered double-digit growth, except for Europe. Aesop continues to consistently post superior sales growth on a like-for-like basis while continuing to rollout new stores. Aesop is also continuing to see channel rebalancing as consumer behavior normalizes post-Covid. China entry plans are on track for lunch by the end of 2022. With the opening of physical stores, as well as the launch of an online platform and a domestic team of operation, Q3 adjusted EBITDA margin was 16.8%, down 280 bps compared to Q321. This reflects plan investments to deliver sustainable long-term growth in such areas, as technology, supply chain, and sustainability.

As disclosed in material fact published on October 17<sup>th</sup>, we are studying strategic alternatives for Aesop, and we will maintain the market updated in respect to such studies.

Let me now hand back to Fábio.

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

First, structural steps such as accelerating the integration of Natura and Avon in Latin America or in motion aiming to boost our performance. Second, the group reorganization is progressing in order to strike the right balance between brand

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autonomy and accountability. We will maintain the market updated regarding our plans related to Aesop. Third, our immediate focus and bet of our business units is on defending margin and generating cash flow. The whole organization is mobilized and incentivized to achieve these goals. And fourth, all the actions we have outlined aim at improving capital and resource allocation, and thus, delivering better, sustainable shareholder return.

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

## 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 1 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.

We'd like to ask you to limit yourselves to 1 question each in the Q&A session.

And our first question will come from Guilherme Vilela, of JP Morgan. Please, go ahead.

**Guilherme Vilela:** Hi, Fábio, João Paulo, and Guilherme, and thanks a lot for taking my questions. First, I'd like to have an idea of the impact in terms of margin that the outsourcing of Avon's IT infrastructure team for the division. Also, what it can allow in terms of data analytics and digitalization for Avon?

And secondly and more rapidly, I'd like to get a color on Natura brand in Brazil, how much of the 19% growth was volumes, and how much was price or mix? Thanks a lot.

**Guilherme Castellan:** Guilherme, thanks for your question. I'm going to ask you, please, to repeat your first question because we were not able to hear very well. So, if you can please repeat your first question that'll be great.

**Guilherme Vilela:** No problem. I would just like to have an idea of the impact in terms of margin that the outsourcing of Avon's IT infrastructure can bring for the division and also what that can allow in terms of data analytics and digitalization for the branch.

**Guilherme Castellan:** Perfect, thank you, Guilherme, for the questions. I think, as you probably saw, right, not only in this quarter but in the last few quarters, Avon is investing a lot in its transformational programs and aiming to deliver significant SG&A savings across the world. So, it's both a strategy in terms of top line, as Fábio mentioned, not only boosting its new commercial model, but also revisiting the footprint for some unprofitable markets, but also a strategy focus in the bottom line with the transformational cost, and as we mentioned, excluding the Russia-Ukraine war, the margins even with the sales leverage will be significantly higher in Q3 of this year.

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I think there are two things to highlight for Avon International in this particular quarter related to transformational: the first one is the closure of the Suffern facility. Basically, as we disclosed, which was again a facility that Avon had in the US for basically R&D, and that basically boost generates significant savings on an annual basis; and the second one is related to the outsourcing of IT, which is also a key program for Avon transformational program.

There are significant results that we're aiming to get from both of these initiatives with a quite compelling payback in terms of investments and returns, however, we don't disclose necessarily the return for those investments.

As you can see in this quarter, though, what we can say is that most of the transformational savings for Avon is related to the outsourcing of the IT program. So, most of the costs that we're going through this quarter in terms of transformational savings, as you can see in the table of adjusted EBITDA, is related to this, and as I said before, both Suffern and the outsourcing of IT, both of them they have a pretty compelling payback that we expect to flow into the bottom line of Avon starting in 2023.

Now on the digitalization program, basically, I'm going to start talking a little bit about the Avon International then I'm going to pass to João to mention a little bit about Latam, but we continue to evolve on Avon International as planned, of course, with some discretion in different countries with a few countries evolving more than the others, but as you look in our research, the penetration of the Avon app basically measured by the active reps who log in at least once in the last three campaigns reached almost 20% this quarter, which is a 7 percentage point increase compared to the previous one.

So, we continue very much focused on that. As I mentioned, some countries are evolving more than the others, but this is one of the key pillars for Avon going forward.

I'm going to pass to João so he can mention a little bit about Latam.

**João Paulo Ferreira:** So, Guilherme, to your question on top line growth of Natura brand in Brazil, it came both from price and volume growth.

**Guilherme Vilela:** That's pretty much clear, thanks a lot.

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

**Andrew Ruben:** Hi, thanks very much for the question. We're just hoping to clarify on the guidance, understanding the withdrawal of the 2024 targets, but as it pertains to synergies, I'm curious with the withdrawal, how you're thinking about the synergy opportunity, if there's any change fundamentally about the opportunities between the companies and any updates on how you might be tracking them. Thank you.

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**Fábio Barbosa:** So, just making sure that I understood the question correctly, the question is about the withdraw of the guidance and in more particular the synergy guidance, right? Is that correct?

**Andrew Ruben:** That's exactly it, thank you.

**Guilherme Castellan:** OK, perfect. Yeah, sorry, I mean, we're hearing some background noise here, so the sound is not perfect. So, sorry I'm repeating every question.

But, look, yes, as Fábio explained and I reiterate that point, with the new strategic program going on starting with basically the holding restructuring followed by the acceleration of the integration in Latam, informally known as in Wave 2, and the strategic options that we are analyzing for Aesop based on the material fact that we issued last month, and of course, given the uncertain scenario as well, we thought that would be a good moment for us to withdraw all the guidances that we have, especially because, again, we're not planning to give any mid-term guidance anymore, right.

So, it didn't make sense for us to keep just a synergy basically guidance when we are also withdrawing the EBITDA guidance and revenue guidance when you know that everything is combined to the same thing.

What I can say, though, is that the surgeries were on track, so the synergies delivered by Wave 1 in Latam they were on track, part of those synergies of course they were consumed by the very high and challenging inflationary pressures that we faced in the last couple of years, but the plan was on track and we continue to work on the plan and deliver synergies.

Now we're entering into a new phase for Latam, as João can explain more, we're entering for the acceleration of Wave 2, which of course brings different benefits for us, both in the top line and bottom line, and we thought that, again, it didn't make sense for us to keep basing and leading the market in the previous guidance given everything that is going on, and as I mentioned, new opportunities ahead of us with the Wave 2 in Latam.

**Andrew Ruben:** Great, very clear, and appreciate your clarifying that. thank you.

**Operator:** The next question comes from Gabriela Moraes, of Itaú BBA. Please, go ahead.

**Gabriela Moraes:** Hello, guys. Good morning, thank you so much for taking my questions. We would like to make one question regarding Aesop. So, we have seen the company making successful efforts to enter in China and because of that we have been seeing a partial pressure in the digital profitability – as expected –, but we would like to get more color on how this entering process into China has been going on so far and also to get a better view of the division profitability outlook going forward. That's basically it, guys. Thank you.



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**Guilherme Castellan:** Gabriela, thanks for your question. Yeah, we're quite excited with another strong quarter of Aesop results and quite excited, as you mentioned, with our plans for China entry, which as we mentioned in the Q2 results and now also in the Q1 results, are planned to happen before year-end. So, we're still planning to open two stores in Shanghai by 2022 and we're quite excited with the progress that the team has made there with the retail, and of course, how the business is evolving in terms of product registration and everything else.

So, we are quite excited with that, China has been, again, in the plans for Aesop for already a couple of years and finally it's happening.

Just to put a little bit more color on how important this is for Aesop, Asia is the largest market for Aesop in the world, as you probably recall in a couple of calls before we had mentioned how important is the Japan and South Korea market for Aesop, both of those markets being the largest markets for Aesop in the world. Asia continues to deliver very strong double-digit growth in Q3, so the brand continues with a very strong pace on a same-store-sale basis, but also with a new store launch. Our fragrances are we doing extremely well as well in the regions, specifically in South Korea. And needless to say, there is a big Avon impact, especially for the Guangdong province when you look at China for other regions in Asia, in Hong Kong and another countries.

So, quite excited with that, we are following basically urban center approach in the beginning, so as I said, the focus in the beginning will be in Shanghai, but the team is already making plans to expand that to other urban centers after that, and we truly believe that in a few years China will be a key market for Aesop in the world and continue to push ahead the APEC sales in the future.

**Gabriela Morais:** That's very clear, Gui, thank you.

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

**Irma Sgarz:** Yes, hi. Thank you. I was curious just to hear a little bit about cost pressures going forward. Obviously, we're seeing some commodity price pressures abating, but as you commented in the release and your earlier remarks, there is obviously sales inventories to work through and given that you buy a lot of sort of finished product, is obviously like longer cycle until that works its way into your cost line.

So, I'm just curious, help us understand a little bit maybe how we should think about cost pressure into 2023. Can this turn already along the next year from a headwind into a tailwind in your mind?

And maybe related to that, if you could just make some comments, it feels like you've seen maybe somewhat Aesop aside, but in pretty much all markets you've seen gross margin pressure from cost inflation, so just sort of showing that you weren't able to pass all of that through.

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So, I'm just curious to sort of see some differences in pricing power that you feel given the economic backdrop across the different brands if you just sort of outlay where you've seen more pricing power versus where it's just been a little bit more difficult. Thank you.

**Guilherme Castellan:** Thank you, Irma, thanks for your question. Yeah, look, I mean, we've been talking a lot about this pressure of commodities and FX, right – let's not forget FX –, especially for a company like Natura that operates in several countries, not only you're facing constant transactional FX challenges, but also translational effects challenges as country mix plays a big role in this equation.

So, Q3. I'm going to start talking a little bit about Q3 just to set the stage here and making sure that we understand a little bit the path going forward, but Q3, as you can see, we had different dynamics for each one of our BUs. So, putting Aesop aside, which again didn't face any pressure in terms of gross margin, as you can see, Latam only had 40 bps pressure compared to previous years, and that was mainly because of their revenue management program because the cost pressure was significant. And when I say revenue management, it's very important to distinguish that it's not only a price increase gain, but also a mix gain, and we had a very good quarter for Latam in terms of mix as we were able to adapt the sell-in much better to the sell-out and we see mix improving across the board.

For Avon International, which was one of the biggest negative impacts in gross margin, it's very important for us to highlight that, yes, part of that was commodities, but the main issue there was also FX, right. We saw a big FX translational impact in mix impacting the overall gross margin of the company. And needless to say, keep in mind that the war in Russia-Ukraine also impacted the gross margin of the company.

But, yes, you should expect gross margin to be under pressure going forward because again, as we have always said, not only Avon International, but all the other BUs as well, we buy the value added material, so it's not only a matter of commodity prices, which you're right, they are reducing from the peak in several categories, but also it's the labor inflation, the energy prices and so on, which of course in a few markets continue skyrocket.

Finally, The Body Shop. Just to mention The Body Shop, though we are also significantly impacted in terms of cost pressure, I think The Body Shop, as we had also mentioned in Q2, hasn't passed fully the price increases to the consumers given the level of inventories, but it's planning to do so over the next few quarters.

So, what to expect in the future, I think as we mentioned in Q2, we will continue to see the pressure in our margins at least in the short-term. We mentioned that in Q2 for the full second half not only for Q3, so you should expect that to continue. We still have the inventory cycle, and again, we still have some contracts that we have to renew basically in the first quarter of last year, which

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we should see again depending on the market conditions some benefits flowing into our P&L later in 2023.

So, I continue to repeat what we said in Q2; our expectations is for our top line to continue to trend better going forward, we're seeing that basically across the business and we're excited to have a very strong Q4, which as you know is our strongest quarter in terms of seasonality, but we should continue to expect to see margins pressure, especially gross margin and especially the SG&A that is impacted by labor inflation.

**Irma Sgarz:** Great, thank you so much. Maybe just one follow-up there. When you talk about the FX pressures impacting Avon International, is that because you're producing in some countries and then transferring into other countries and you just have a bigger mix of sort of revenue pool and country, and the production is concentrated in a few locations and you probably also had to move some of those around given the war in Russia and Ukraine?

**Guilherme Castellan:** Irma, let me make just one quick clarification, right, if we can distinguish the transactional FX risk and the translational FX risk. The transactional FX risk is the risk that we have that impact our margins in a direct way, and that is to your example when we buy basically from one country to the other, when we buy the raw material from one particular country. Just to be clear, that transactional risk we hedged for most of the countries, OK? Especially in the short-term, so that is hedged of course, it is hedged, the hedge only basically gives us time to react and protection in the short-term, because as you know, we should basically adjust the prices depending on the market, right. But that risk is a risk that is hedging of course depending on the impact of the currencies, that risk will flow into our hedges.

Now what I meant before which is very important is the mix of countries, and that is represented by the translational FX. So, as we have some countries in Avon International that operates with higher gross margins than the others, and those countries they may be growing less or declining more than the others, we have a mix impact that is reflected in the translational FX, and again, the overall mix of countries of Avon, and that's where again we can see some headwinds in the short-term as well.

So, it is both, but I just want to make the clear distinction that for the transactional FX we have a hedging program in place, but of course, we don't hedge the translational impact of FX in our results.

**Irma Sgarz:** Yeah, perfect, that was what was trying to understand. Thank you.

**Operator:** The next question comes from Gustavo Sunday, of XP. Please, go ahead.

**Gustavo Sunday:** Hi, good morning, guys, thank you for the question. My first question is regarding working capital. So, inventories played an important role for improving working capital in the quarter, but on top of the year-end seasonality, how are you guys seeing inventory levels so far? Are you comfortable with your

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current inventory levels for the year-end? And can we expect Q4's cash generation as stronger as last year's?

And my second question, if I may, is regarding Avon International's footprint. You mentioned in the release you left Albania and launched partnerships in some other countries. So, can we expect more moves similar to that in the coming quarters? And what would be an optimal footprint in terms of numbers of countries Avon International operating? Thank you.

**Guilherme Castellan:** Thank you, Gustavo, for your question. I'm going to start here, and of course, Fábio and João they can add anything they feel it's relevant. We're comfortable with the level of inventories. Keep in mind that when we say we're comfortable it doesn't mean that we're not happy because even though Q3 there is a natural seasonality for us to build inventories, so for inventories to increase in the balance sheets therefore for you to have a negative impact in your free cash flow due to this seasonality and that impact is significantly less than last year, keep in mind that we are coming from a position of high inventory, as we have also discussed in the last two quarters.

So, it is moving in the right direction, I think that the actions that the BUs have taken to improve inventory management is trying to take effect as we mentioned, and we believe that we are again in a good position for Q4 even though again in some countries we still see some supply chain issues that may impact our results.

But we're quite comfortable with that and we'll continue to work on optimizing inventory and optimizing our accounts of working capital to improve the cash conversion going forward.

Now your second question was...? Can you remind me? Oh, the footprint of Avon. Yes, thank you. Yes, look, this is no news and Fábio had mentioned a little bit about that in Q2 and also in this quarter. Let me be clear, it's not only about Avon, I mean, we are of course revisiting all the countries that we operate that are not profitable in the world, so as Avon operates in more than 40 countries around the world internationally, you should expect that we have some quite profitable countries there and other countries that are not that profitable and operate with losses.

So, I think that has been... the focus is basically to tackle those markets first. So, as you mentioned, we exit a few markets, we changed the operating model in other markets and will continue to do so if there is a market that is not profit, we'll continue to look for alternatives in those markets.

So, I'm going to pass here to Fábio to see if he has anything to add, but basically, in a nutshell, I think that's the essence of it.

**Fábio Barbosa:** Hey, Gustavo, thank you. Not much to add, I just want to say that we are finally, say, revisiting every country, Avon's presence has different levels; it can be a through presence, it can be through distributor, it can be through a head franchisee, so we are also revisiting the model in which we operate in order to make that more profitable. So, we are going through, in India and Saudi

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Arabia we have already made the change, Albania you just mentioned, but of course, we are going through every country, especially the ones that are not profitable and seeing how we can readjust it.

It's a matter of investing for a full presence, it's a matter of having distribution at franchisee and how to, I mean, adjust everything so that we can have profitability in those countries. Thank you.

**Gustavo Sunday:** Thank you.

**Operator:** 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 very much for being with us today. As you saw from the presentation, we are all operating in a very challenging environment, but we have clearly defined our priorities, we are mobilized to deliver them, and we are optimistic that we can see evidence that changes made and focus revisited are starting to make the difference.

Thanks for your attention and have a great weekend. Thank you.

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