

Operator: Good morning and welcome to Natura &Co's conference call to present the Wave 2 kick-off.

On this call today are João Paulo Ferreira, CEO of Natura &Co Latin America, and Guilherme Castellan, CFO of Natura &Co. Latin America team 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 to João Paulo.

João Paulo Ferreira: Good morning, everybody, and thank you for joining our call today.

Following the announcement of our Q2 23 earnings yesterday, we are now here to bring you even more detailed information on the initiative that intends to reshape our Latin America business, which we call Wave 2. So, what is this initiative? It is basically the acceleration of Natura and Avon's business integration in Latin America. Its main goal is to boost the profitability of the Avon brand in the region and, as a result, improve the profitability of the consolidated business unit.

It is also an enabler to explore new cross-selling opportunities that Natura and Avon can achieve together, something that we predicted since the acquisition, but we could only pursue after the achievement of certain milestones, which includes the simplification of Avon's commercial model and the optimization of its portfolio. And we are now ready to take this step.

You can see on this slide the main topics that we will cover during this conversation before we move to the Q&A session. Before we dive into Wave 2, let me take a step back and put everything into context. You know that we acquired Avon in early 2020, right before the world stopped with the COVID-19 pandemic. On top of that, in Q2 that year Avon faced a cyber-attack, which we disclosed to the market at that time. We began the integration process already in that period despite these challenges, particularly in the supply chain functions, followed also by the beginning of the portfolio optimization.

As COVID became more under control, we decided to start rolling out the new commercial model to Avon in Brazil. You may recall that this was more challenging than we initially expected and resulted in a big hit on the distribution channel around Q3 21, which took us a while to stabilize. Later, through 2022, we continued rolling out channel segmentation to other countries and optimizing

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the portfolio, especially in Fashion & Home. In addition, we integrated all the back-office areas and made important investments in marketing. We acknowledge that we underestimated some of the difficulties associated to those changes. But now we have a much deeper understanding of Avon's distribution channel, including the opportunities, the challenges and specially the reactions to the changes in incentives. Using the learnings from that period, we decided to start Wave 2 in Peru and then in Colombia before we rolled it out to Brazil, which will happen right now. The remaining countries in Latin America will follow in 2024.

So, what are the challenges that Wave 2 is intended to address? We announced Waves 1 and 2 right after the acquisition of Avon. Wave 1 was expected to improve the top line dynamics and also contribute to the margin evolution given the healthier distribution channel that would emerge as a result of the new commercial model rules. So, in the countries where we rolled out Wave 1, we did see improvements in the quality of the distribution channel with much higher Rep satisfaction and lower churn. We also saw a healthier top line dynamics within the Beauty categories. However, we failed to see any significant improvement in profitability. As much as we optimize our portfolio and increase prices, that was not enough to compensate for the high-cost inflation of that period. And at the same time, we resumed investments behind the brand improved the service level to our representatives.

So, it was in that context that we decided to leverage the potential of Wave 2 not only exploring cross-selling opportunities, but also integrating the Avon portfolio into Natura's commercialization and distribution processes. By totally integrating our networks of representatives and consultants under Natura's business foundations, we will achieve significant simplification in logistics, in technologies, and in G&A, and also accelerate the promotion of cross-selling opportunities, thus, delivering a significant profitability improvement to the Avon portfolio.

So, what exactly does full integration mean? Well, the Wave 2 has been built on three pillars: first, the channel combination creating one single and strengthened network of more than 4.1 million beauty consultants in the region operating with much higher productivity and hence delivering better earnings for the consultants; second, an optimized portfolio that combines the strongest offerings of each brand, which will increase the likelihood of cross-selling and improving profitability; and, finally, the third pillar will deliver a simpler and leaner structure as most processes and tools will be harmonized.

The marketing and R&D functions, though, will remain separate to make sure that we keep the different identities of each brand. We mentioned in previous occasions that Avon is much more exposed to lower productivity reps than Natura, and by the way, different from Natura, those smaller reps deliver a negative contribution margin. By combining the portfolios and using Natura's commercial rules, there will be a higher number of much more productive consultants in that network, delivering therefore a much better profitability.

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Now imagine that effect in countries where Avon has a much larger network of representatives than Natura. In that case, Natura will receive in one single day a network that would have taken years to develop, then Natura's digital platform will be used to enable these cross-selling opportunities and at the same time eliminate frictions by combining everything into one single order. By doing so, we are placing the beauty consultants at the center of everything we do. We are living to our DNA, simplifying the consultants' journey, and increasing their prosperity.

Up to a few years ago, whenever facing declining activity levels amongst the reps, Avon's reactions included launching new and additional SKUs, this way expanding the portfolio. As much as it helped driving activity up in the short-term, it also made the portfolio even more complex, jeopardizing its profitability and its attractiveness to the final consumer.

In addition to the portfolio reduction that we have already implemented along the last two years, you can see on slide 8 the much that these portfolios will be further optimized through Wave 2, a bit in Natura, a significant amount for Avon CFT, and even more so for the Home & Style product line. The new combined portfolio has been designed building on the strengths of each one of our brands, maximizing the value proposition to our consultants and to the end-customers. The selection will reduce the risk of cannibalization and eliminate less profitable SKUs.

The simplification of the commercial and administrative structures is another important pillar of Wave 2. As the integration accelerates, the overlap of functions will become more evident, and some assets will become idle. IT is a good example. Avon's IT systems are obsolete, complex and require a high level of maintenance. The current IT architecture and infrastructure owns serious limitations to speed and innovation.

By migrating Avon's business into Natura's IT systems, we shall reduce the number of systems from around 800 to less than 200 in the region. As regards logistics, eventually all products will be delivered to our consultants in one single box bringing additional efficiencies and reducing the environmental impact. Now, even though we are pursuing additional simplification, marketing and R&D will remain as separate structures to maintain differentiated the brand identities, their positionings, and value propositions.

By the way, as we talk about brand differentiation, it is worth mentioning that we will use part of the efficiencies generated through this combination to invest behind the innovation and the communication of our brands. For Natura, we will double down on its essence, the concept of "*bem estar bem*", delivering high-performance products with ultra sensorial experience, powered by bio innovation and by our sustainability commitments. As regards Avon, we will focus on delivering progress for women through a diverse beauty at irresistible value.

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To power the engine behind those brands, we have reviewed the innovation processes to reduce time-to-market and introduce new governance to make sure that the identities of each brand are protected, and the products remain differentiated.

Now, when we say that Wave 2 will improve the company's results, we are obviously referring to triple bottom line results, as it should also maximize social and environmental positive impact. We are combining the mobilization power of Avon and Natura to contribute to better standards of living for our consultants and for the society in the countries where we operate. As already announced in Peru and in Colombia, we are expanding the support to our network and their families to fight against domestic violence. We're also extending telemedicine to 100% of our consultants and helping them with the early detection of breast cancer. In addition, with the expected increased penetration of "*crer para ver*" (our social impact crowdfunding mechanism), we also plan to offer more scholarships to consultants and members of their families.

Finally, as regards to the climate crisis, we continue to increase the number of communities we work with in the Amazon, now including communities in Colombia and in Peru, and we are also transferring knowledge from Natura to Avon to neutralize its carbon emissions and increase the amount of post-consumption recycled material into its packaging.

Let's shift gears and discuss what you have been waiting to hear: the initial and expected data from the launch of Wave 2 in Peru and in Colombia. So, before we look closer at the data, I need to disclose that up to the beginning of this combination, we had not rolled out Wave 1 in Peru. Therefore, the data reflects the simultaneous implementation of Waves 1 and 2. The first number that calls our attention is the overlap, or interpenetration, referring to the percentage of our consultants that are ordering products from both Natura and Avon, that number is now above 70% and well ahead of our expectation.

Now let's drive our attention to the beauty consultants' count. You can see that the number increased right after the implementation because we gave Avon's reps a grace period of three campaigns, as if they were just initiating at Natura. After that period, the number starts to drop and will eventually stabilize at a slightly lower number along the coming campaigns. The main reason for that drop comes from the fact that even reps started to face a much higher minimum order, which drove productivity significantly up. By the way, that number shall continue to improve as the total count comes down and minimum order goes up again in the near future.

Another result worth noticing is the planned reduction of Home & Style, which decreased from more than 15% to less than 10% of the combined revenues. I imagine you might be interested in other metrics, such as household penetration, consultant satisfaction, and the churn of our total base of consultants, however, it is still too early for us to share any accurate measure of those KPIs.

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Now let's move to slide 14, where we can see data from Colombia. There you'll find basically the same trend, but with much larger productivity gains. I have to call your attention to the fact that in Colombia Wave 1 had already been implemented last year and it is also a fact that the Avon brand is much stronger there than it is in Peru. However, I must warn you that the data is very preliminary as it refers to only one sales cycle.

I want to close this section highlighting some of the main learnings and challenges from the rollout of Wave 2 in Peru and in Colombia, which helped us preparing for Brazil. I can tell you we've learned a lot and proven that entering other countries before going to our largest market was a very good choice. So, let me detail some of those points. The first has to do with the differences of minimal orders between Avon and Natura. By the way, those differences vary by country, and we know that when we increase the minimum order that has an impact on the activity level and on the rep count, especially for Avon. Therefore, the harmonization path has to be tailored by country. And is not the minimum order the only thing that differs by country: the social political context, the competitive scenario, and more importantly, the brand power also vary on a country basis, thus, requiring adaptation to our implementation strategy.

Other very helpful learnings came from the preparation of our IT infrastructure, both the back-end as well as the front-end commercial platform so that we could start feeding all the consultants' information up front, especially that related to Avon's network, which is much less digitalized than Natura's. And finally, the biggest challenge we had to face was number doubt the changes in the commercial structure and in the commercial rules as we have to rezone the entire country, redefine sales leaders, sales managers, basically resetting the whole commercial network.

So, given all the knowledge required, let me now explain how the implementation process will take place in Brazil. To begin with, let me remind you that Brazil represents roughly 50% of our business in Latin America and the complexity of this operation is significantly higher than of any other in the region. We have to take into account the size of the market, the complexity of the logistics network, the importance of credit to our beauty consultants, as well as the significant overlap that already exists. In addition, we benefit from the fact that the Avon brand is relatively strong here in Brazil in comparison to other countries.

After putting all those elements together, we designed a unique implementation process which I'll describe to you right now. The rollout in Brazil will be split into two different phases: in the first phase, we will integrate our IT systems, especially the commercial platform, and we'll also fully integrate our sales force, and of course, our beauty consultants, who will form one single commercial calendar and benefit from one single progression and incentives program. During the first six months, though, consultants will log into their app and place two orders, which will be delivered in separate boxes. By Q1 next year, the logistics infrastructure will have been fully integrated, thus, allowing us to

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eliminate any remaining friction. The roll out to the other Hispanic countries is expected to happen throughout 2024.

Let me now hand over to Gui, so he can further discuss the financial details of this initiative.

Guilherme Castellan: Hi everyone and good morning to all of you.

As João already mentioned, the main goal of Wave 2 is to improve the profitability of the Avon brand in Latam and consequently of our consuming data figures in the region. However, this will not come without an initial impact on revenues, as we have already made clear in the past. And why is that? This slide is important because it shows just how balanced Natura's distribution channel is, not only from a revenue perspective given the healthy balance of the most productive consultants into total revenues, but also because we see very healthy contribution margins among all the clusters of Natura's consultants. On the other hand, you can also clearly see the unbalance of Avon's current commercial model.

Not only star 1 and two clusters represent a greater percentage of total revenues compared to Natura's clusters, as João previously showed during his presentation, but also because it results in negative contribution margin for the less productive reps. The goal of Wave 2 is to balance the commercial model of Avon by using Natura's foundation, which should then harmonize Avon's commercial model in full. And of course, this entire process should lead to improving profitability for the region overall.

And what are the main drivers for that? We'd like to maintain the healthy gross margin of the Natura brands while significantly improving the Avon's too. This will be mostly driven by the portfolio optimization that João just mentioned. It's important to highlight, though, that the biggest benefit will come from margin of contribution. Just to be crystal clear, the way we calculate the contribution margin is by subtracting gross profit minus freight costs and marketing expenses and dividing it by net revenues. While the contribution margin of the Natura brand is pretty healthy, the contribution margin of the Avon brand needs to improve in two way: the first one is the increase in minimum orders, which helps improve the freight cost per order as a percentage of net revenues; and second, the integration of the Natura and Avon logistic routes and infrastructure, which will ultimately increase both logistic density and freight efficiencies as a percentage of net revenues.

Furthermore, credit losses are more concentrated on less productive representatives, which means that this entire process creates opportunities to improve our provision expenses. These effects, combined with a more efficient sales team and a simpler IT infrastructure, should result in a healthier consolidated EBITDA margin. Finally, let's not forget the Wave 2 also creates an opportunity to invest more in marketing given the other efficiencies that we expect to materialize.

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Of course, this process will not come without costs. Although we are not disclosing the OpEx and CapEx expected to be invested, we can expect costs to intensify depending on which phase of the integration we are rolling out. I would like to highlight that we may partially offset the cash effect through the monetization of some assets that become more idle as the integration accelerates, which João also mentioned earlier in his presentation.

As you can imagine, this transformational process comes with risks that we are currently working to mitigate. One example of our careful risk mitigation strategy was to implement Wave 2 in smaller countries before moving to the biggest one, which is Brazil.

So, what are those risks? Logistics integration and IT simplification are activities naturally exposed to operational risks. As we already highlighted, the process will involve the downsize of the distribution channel, which might be even more intense than we initially expected, mainly impacted by the increase in the minimum order. Furthermore, a more intense portfolio cannibalization is another potential risk that we need to follow closely, which we are already addressing through the initiatives mentioned during this presentation. Finally, the operation deleverage above our expectations remains a risk. We believe that over time this risk will be mitigated by the overall improvement in productivity, especially in the CFT category of the combined network of building consultants. On top of that, the expected gross margin benefits coming from Wave 2 plus the significant contribution margin improvements driven by logistics and the efficiencies in the G&A mentioned earlier will be more than enough to offset any potential volatility in revenues as we implement this important milestone in the region.

Before I hand the call back to JP, let us share a video of everything that we have been experiencing in the region over the last couple of months related to the implementation of Wave 2:

[in loco institutional video presentation sharing]

“Hemos estado viviendo una etapa única. No dudó en decir que estos momentos nos están dando la oportunidad de conocernos más, de entendernos más, de soñar juntos con dos marcas con las que seguiremos enamorando, pero sin duda alguna, todo lo que hemos vivido hasta hoy me ha mostrado el gran equipo que hemos formado, las grandes cosas que estamos construyendo juntos, en donde todos estamos en un mismo sentido, encantar, soñar y crecer en lo que somos y hacemos todos los días y en el cuidado de nuestras consultoras de belleza. Sigamos construyendo con esa pasión, con esa conexión, con esa alegría con la que hasta aquí hemos llegado.”

“Respetando sus historias, viendo la potencia de nuestras marcas, cada quien con su diferencial.”

“O que a gente é no agora? A gente é sempre um projeto da vida.”

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“É um sonho que se realiza, um sonho que vem de muitos anos.”

“Essas duas marcas hoje agregadas, combinadas, ampliam enormemente o seu alcance, e para a Natura esse encontro é voltar a um fato extraordinário.”

“Hay un sueño que tenemos listo de proteger la Amazonia.”

“No sabía el impacto que se está causando y se va a hacer a esta compañía. Estoy segura de que vamos a hacer al número 1. Bueno, y ahora estamos empezando una nueva historia ahora con Natura e Avon, me gustaría hacer historia aquí en Natura.”

“Estamos a pocas horas de vivir un momento histórico para nuestra compañía. Vamos a realizar el primer Encuentro Nacional Combinado de Natura y Avon.”

“Este evento ha tenido un pacto increíblemente positivo en mí, no me quedado fascinada.”

“Es un momento histórico, es un momento por el cual soñamos, nos preparamos, pero también me doy cuenta de que ni dimensionamos que el impacto y el tamaño de lo que esto tendría, de fusionar las dos empresas líderes es una gran oportunidad para nosotros como líderes de poder aumentar nuestra ganancia y de nuestras consultoras de poder entrar a muchos más lugares para poder seguir creciendo y llegar a más personas. Pero lo más importante, van a empezar a encontrar amigas, nuevas amigas, nuevas experiencias con las cuales van a poder de mejorar no solamente en su negocio, sino también en su propia vida personal.”

“Mucha gratitud, mucha emoción, mi siento contento.”

“Esperanza, prosperidad, alegría, hoy es un día muy especial. Vamos con todo, miren todo lo que tenemos por delante.”

*“¿Qué les pareció toda esa emoción do que están conociendo?”
“¡Espectacular! ¡Número uno!”*

“A mí me encantaron todos los productos, em especial la presentación de maquillaje.”

“Es fenomenal qué Avon y Natura ahora se han juntado y van a ser uno.”

“¡Y quiero contarte que estoy feliz, acabo de recibir mi caja de mis productos Natura, mi marca favorita que me encanta, pero también acabo de recibir la caja de los productos de la marca hermana Avon! Mira de nuevo.”

“Qué chévere, gracias, que lindo” ¡Me encanta, me encanta cuando vamos avanzando” Gracias, Natura, gracias, Avon!”

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“Por fin, este sueño se hizo realidad.”

[end of institutional video presentation sharing]

João Paulo Ferreira: Thank you, Gui. And I hope you have all enjoyed this video and got a feeling for what is happening in the field. I know we shared a lot, but I wanted to wrap up by highlighting just a few takeaways.

First, the growing CFT productivity will lead to improvements in the quality of our network, as well as (and most importantly) to increasing the prosperity of our consultants. Yet, we are expecting a hit in the distribution channel, which might temporarily affect revenues, particularly for the Home & Style category. However, when combining the harmonized portfolio, the cost structure simplification, the improved logistics density, this should lead to an evolution in profitability and on the return on invested capital, should also maximize social environmental impact, and finally, place us in a position to explore new opportunities to further invest innovation and in the strengthening of our brands. Thank you very much.

Question and Answer Session

Operator: Ladies and gentlemen, we will now open our question-and-answer session. If you would like to ask a question, please press * 1 on your telephone keypad. The confirmation tone will indicate your line is in the question queue. You may press * 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the keys.

Our first question comes from Daniella Eiger, with XP Investimentos. Please, go ahead.

Daniella Eiger: Hi, good morning. Thank you for the presentation and Congrats on the project.

I wanted to follow up on Brazil's first phase. From my understanding from what João mentioned, it would be slightly different from Peru in terms of like the integration between the two orders. So, at this first stage here in Brazil, Avon's reps will only like feel the hit of the minimum order increase without being able to use Natura products to complement to get to this higher order. So, I wanted to check if that's right and then in Q1 next year we should see this integration happening.

And how are you doing to mitigate any potential effect on like consultants leaving the base because they cannot get to this minimum order at this first stage because they will not be able to use Natura products to get there and if there will be some kind of grace period, as I think João mentioned, that there was in Peru? So, just to try to understand how you will address this potential risk of maybe losing reps that would be able to keep the minimum order if they

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would have access to Natura products to add on the same basket. So, I think that's my key doubt here. Thank you.

João Paulo Ferreira: So, hi, Daniella, thank you for the questions. So, the minimum orders will increase even for the Avon products, it is not for Avon reps anymore because there is no such a thing anymore, it's one single combined network, but there will be Natura orders and Avon orders, and for the Avon orders the minimum order will still be slightly lower than Natura's, but higher than it is today.

Now, having said that, we also created some smart shortcuts, so to say, bundles of products that can be easily added to one basket or the other. So, if you're getting close to the Avon's minimum order, there will be a few Natura products available for consultants in general to try and complete that minimum order more easily, so to say, and the other way around. So, we're getting the fast-moving items from one brand the other and making them available as sort of a one-click buy to be added to one basket or the other. Hence, we will incentivize cross-selling from day one. That's one of our goals.

Now, by doing so, we also think we're going to mitigate significantly the risk of losing some of those smaller reps. However, I have to say that we will lose some of them, and that's OK. We will create mechanisms to try and turn them into our best consumers rather than smaller reps.

Daniella Eiger: Just a follow-up, these products that you mentioned, João, are the unbeatable that you put on and you highlighted on the new magazines? Are those the ones? And probably those are the ones with the higher turnover like better sales dynamics, so also trying to already give a positive impression for reps on the other brands products, right?

João Paulo Ferreira: Not only those, Daniella, not only the unbeatables. So, when you log to the app, you're going to see in the sort of the carousel these rightly available bundles based on studies that we did in recent past of potential cross-selling, so that those will be added only to the app beyond those unbeatables that you referred to that are already printed in the magazine.

Daniella Eiger: Perfect. And they will come in the same box, right? Those that you add on the click on.

João Paulo Ferreira: Yes, the one-click buy cross-selling will come in one single box together with the order of one brand or the other, yes.

Daniella Eiger: Perfect. Thank you for the answers.

Operator: Our next question comes from João Soares, with Citibank. Please, go ahead.

João Soares: Good morning, everybody. Thanks, João and Gui, for the presentation. Great detail. I have two questions. The first one, I just wanted to

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understand how the communication is happening with Natura consultants in Brazil, how/where are the consultants of this integration and the cross-sell opportunities?

And the second point, you discussed some potential asset sales to mitigate some of the higher costs related to this integration. I just wanted to understand, what are the opportunities there? Can you talk a little bit about the size of this potential asset sales? Thank you.

João Paulo Ferreira: João, can you repeat your last question, please?

João Soares: On the asset sales, you discussed some potential asset sales. I just wanted to understand what size and further details on that you mentioned in the presentation.

João Paulo Ferreira: Good. Thank you. So, I'll take the first and I'll ask Gui to jump in and take your second question.

So, you asked about the communication to our network. So, that is already spreading, all of our consultants and reps have already received the magazines from the other brand, the sales structure is already in place; the sales managers, the leaders, they all have been appointed and they are now (and they have started already) contacting all of their consultants and reps to make sure that they understood the communication they already received through the digital channels in the boxes, so that is spreading.

As you know, more than two million people, we cannot be totally sure of how the message is landing, but that is the focus of the sales force as we speak. So, they are aware. By the way, I mentioned during the presentation that we have been feeding the consultants and reps information into our systems up front, which allow us to contact them directly through SMS, WhatsApp, the push cards in the apps, so that is also either being used already or will be used as we see that they're not active, so there's a whole script of contacts that will be deployed if any of those consultants are not being active.

With that, I'd like to hand over to Gui to talk more about idle assets. Please, Gui.

Guilherme Castellan: Thank you, João, for the question, and thank you, João, for the first answer. Yeah, moving to the asset divestment, as we highlighted in the presentation, it will be an important part to mitigate the cash investments that we have in the next few months. Basically, João, as you can imagine, part of the assets they were already integrated, especially admin assets, right, they were integrated in the first phase, in the first wave of the integration in Latam. However, there is still offices, distribution centers, et cetera, et cetera that again we're going to have the ability to divest as part of this major integration, which is Wave 2.

Now, it's hard for us to predict, of course, the timing of those divestments, but again, as we disclosed in the presentation, that is our estimates at this point,

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and as I mentioned before, will be an important source of funding as well for us to mitigate these important investments that we have ahead of them.

João Soares: Perfect. Thank you both for the answers.

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

Joseph Giordano: Hi, good morning, everyone. Hi, JP, hi, Gui. My question is on the overlap. So, different from the other regions where the overlap of sales reps was below 10%, in Brazil have something around 40%, as you guys flagged. So, my first question here and on this front is if you add the sales that those reps have on Natura and Avon side, how does it would rank them within the cluster? So, my question here is if like in Brazil we could be thinking about a lower churn than we actually saw in the other regions. Again, the churn would be high because you're not counting to reps, but I mean, like the sales, the overall sales would be less impact. So that's the first thing.

And the second one, OK, like we're going to... so we move those Avon reps that are on like the first cluster, we put them on the cluster 3 when we combine with the Avon sales with the Natura sales that they have on the other side, so how much high would be the contribution margin if I move one rep from the first cluster to the third cluster? And also trying to compare that with what Avon has.

So, just to give us some like, let's say, grounds to run some more detailed numbers here on the models. Thank you.

João Paulo Ferreira: OK, I'm not sure I can totally help you, Joseph, but let me try. So, as regards the already overlapped consultants, they're skewed towards the higher tiers, so silver plus, right. However, they are subject to different commercial rules including different credit rules. So, there will be upsides by eliminating those frictions and looking at their combined transactional histories with us, and we know that for sure because you may remember that I referred in other occasions that we have tried, we run many trials with the elasticities of combining that network through different mechanisms. So, that's the answer to question number one.

As regards your second question, you know, I'm not sure I got it totally right, but let me try, and if I don't get it, you let me know, OK? So, I mean, in the case of Natura, the contribution margin of each segment it's been designed to be very similar from bronze through to gold, right. Of course, the size of each one differs, but the contribution margin is similar, which is not the case for Avon, as Gui depicted in one of those slides there. So, that sort of distortion that exists in Avon will basically disappear because everyone will be subject to Natura's rules. Is that helpful?

Joseph Giordano: Yeah. I was just trying to understand the following, so if I add like those 40% of sales reps that overlap, right? So probably like they don't have the same tier on Avon and Natura. So, when I combine those sales, it's

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like I would be seeing materially higher contribution margin when versus what we see today. So, basically, like let's say that I have a rep that's like diamond in Natura and level one at Avon, right, of the diamond is already very high, but let's say that when I add this Avon sales, like how this would change the overall profitability of the business? So, I just try to put some numbers here to try to quantify. Thank you.

João Paulo Ferreira: Indeed, their average order size will go up, but all the cost to serve will not go up at the same proportion. So, yes, the profitability should go up, Joseph.

Joseph Giordano: OK, perfect. Thank you.

Operator: Our next question comes from Thiago Macruz, with Itaú. Please, go ahead.

Thiago Macruz: Hi, guys. Good morning. My question is regarding profitability. You showed us a very interesting bridge chart giving us an idea on a profitability improvement as time goes by. I just want to understand, if everything goes according to plan, if that estimate holds water, by when do you expect to reach peak margins? Whatever it is, by when do you expect to reach peak margins?

And my second question, I think it's a follow-up on the previous one, as you clean up Avon's (now it's going to be a consolidated, but) sales reps' level one and two from your base, shouldn't we expect immediately a step-up in profitability if and when that happens? Those are my two questions. Thank you.

João Paulo Ferreira: Hi, Macruz. So, let me try and answer that and I'll invite Gui to comments if he has additional comments. So, when are we expecting to peak on profitability? Of course, when transition is over, how long will that take? I cannot be sure. It's not a two-years transition, it's not a six-months transition, so somewhere in between. Not take into account of course non-recurring transformation costs, which have nothing to do with the operation so just focusing on the commercial activity, it's more than six months to stabilize the whole thing. It's not a two-years journey, it's less than that.

As regards the other optimizations of IT systems, infrastructure, G&A, et cetera, et cetera, you know, that has different timings for different reasons as we operate the entire region and are subject to other times, but the other thing that you said if and as much as we migrate the lower tier Avon reps to Natura, shouldn't we see a kick-in profitability as soon as that happens? Yes, we should.

Thiago Macruz: Fantastic.

Guilherme Castellan: Well, I can just add here one comment. I think, Macruz, you're right that that increase in profitability it should be immediate, right, as you take out negative contribution margins reps from the base and as your overall productivity increases. However, it's very important to highlight that, especially

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in the first quarters, right, the first two quarters at least, there are one-off expenses to the implementation of the project in terms of events, in terms of training, in terms of marketing, which will impact your SG&A and therefore will be very hard to see the full potential of the project within the first couple of quarters because of these investments.

As we go, as you know, Macruz, we are in this journey with two different markets, however, each market is different in the end of the day, so it's difficult for us to see that one-size-fits-all, but the things that we're learning right now with Peru and Colombia is that there is an immediate benefit, yes, coming from productivity as you saw in the charts and coming from the loss of the negative contribution margins, but there are some investments that again, especially in the first couple of quarters, they will happen and therefore we estimate to see the full potential of this happening after that.

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

Operator: Our next question comes from Felipe Casimiro, with Bradesco BBI. Please, go ahead.

Felipe Casimiro: Hi, good morning. Thank you very much for taking my questions. First one, you mentioned a few times opportunity to intensify marketing expenses. I'm just trying to get my mind around the strategy behind this. Will we see a higher focus on revamping Avon brand perception or consolidating Natura? Just trying to understand a bit more marketing expenses.

And second one, you also mentioned how there's an opportunity in credit, mainly lowering losses. Are there any additional opportunities, maybe an increase in credit offering to the representatives once the Wave 2 is rolled out? Should we see anything on this front as well? Thanks.

João Paulo Ferreira: Thank you, Felipe. As regards our investments behind marketing and innovation, we are planning to increase investments on both Avon and Natura, and we have been working to strengthen the innovation pipeline, I can tell you that I'm very impressed with the launches to come starting in the second half of this year and going forward through next year, those products associated with the improved positioning and communication of both brands will drive additional pool. So, we do consider this as being a high-return investment and we will use part of the proceeds of those efficiencies to reinvest behind both brands now going forward, and that will be very visible for the public, as you can imagine.

And as regards credit, yes, there are opportunities there. As you know, we've been running the Natura & Co Pay solution for quite a while primarily for the Natura operations, and there we developed over the last two years amazing solutions as regards credit scoring, financial products, and solutions for our consultants. We've retained spreading some of those solutions to Avon because we were on the edge of full integration, so as now we integrate the consultants base, yes, we will extend the quality of credit solutions and scoring

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that we are already witnessing in Natura to those consultants coming from Avon, and we know that that improves the quality of our channel.

Felipe Casimiro: Great. Thank you very much.

Operator: Our next question comes from Irma Sgarz, with Goldman Sachs. Please, go ahead.

Irma Sgarz: Yes, hi! Thank you for taking my question. So, I just wanted to explore a little bit more what you mentioned earlier in terms of the new commercial system that you've rolled out and where you said that you already put the new sales managers and leaders into place. Can you just talk a little bit about what this new sales structure looks like in terms of the different layers and how the incentive structures may or may not have changed from beforehand?

And then the second question is, Mexico is obviously pretty relevant market in the region. Remind us of just how relevant it is into this revenue contribution. And also, do you have any early thoughts on what the implementation could look like there just given that that is quite a different market in terms of the commercial model there? Thank you.

João Paulo Ferreira: So, Irma, the sales structure, the sales incentives program is basically Natura's, right. So, if you follow those rules, that's basically what is being used now for the combined network. Of course, that when you think about the individuals that occupy those functions, part of that team came from Avon, OK. Also, when we think about the short-term incentives, which actually are tweaked every so often, for the first period there is additional incentives to cross-selling and to bring in the new the newcomers to the network to make them more active. So, it's basically the same routine that already existed in Natura for the short-term, incentives have been tweaked to incentivize activity, relationship, closer relationship so that they know each other given the fact that many of the leaders and managers changed, so there's incentives for them to meet their teams and also to cross-sell.

By the way, this week we're putting together all of our sales leaders, more than 6,000 of them, around the country physically together with the sales managers so that they start building more confidence on each other, that they start sharing their commercial plans altogether, they experience and experiment all the products so that they can best activate them with their teams, with the consultants, OK?

As regards Mexico, I have not much to say at this point in time. As I said before, every country is different, and we have to customize the implementation strategy. Mexico is certainly the most different of all and we have already a dedicated team working to design that implementation strategy, which should come live somewhere mid next year, OK?

Irma Sgarz: Yeah. Thank you. And thanks for hosting this call. Very helpful.

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Operator: Our next question comes from Robert Ford, with Bank of America. Please, go ahead. Robert Ford, your line is open.

Robert Ford: Apologies. Good morning for all. Thanks for the presentation. Could you share your estimate of the non-recurring one-time transformation costs and the timing of those? And what's your estimate of the current earnings drag from the star 1 and star 2 consultants in Avon in the rest of Latam?

João Paulo Ferreira: So, unfortunately, I cannot share the transformation costs. Gui, Am I doing anything wrong?

Guilherme Castellan: No, no, you're right, João. I think I said, but we don't close that. All we can assume, of course, is that in the short-term those transformation costs they will remain high given all the investments that we have ahead of us.

João Paulo Ferreira: Right. So, as regards your second question, Bob, could you repeat that, please?

Robert Ford: João Paulo, is just about the earnings drag that's being created by that star 1 and star 2 rep base from Avon in Brazil and the rest of Latin America.

João Paulo Ferreira: The earnings drag?

Robert Ford: Yes, from the impact that that negative contribution margin that you alluded to, right?

João Paulo Ferreira: Yes...

Robert Ford: Because we're just trying to understand how much you're going to rededicate those resources to fund the implementation. I was curious how big that was. Because it seems fairly important.

João Paulo Ferreira: It is, I mean, if you look at the profitability of Avon, which you can roughly estimate already and you get a feel for that in our presentation, you know that we've been driving gross margins up in Avon through various activities there, and still the profitability is much lower than Natura's, that has a lot to do with this star 1/star 2 reps from Avon, so that is not sustainable at all and that has a huge impact on profitability and that's the cluster that will progressively disappear.

So, yes, indeed, we expect, as I mentioned before, significant improvements in the profitability from focusing only on the commercial activity, not including the transformation costs, which Guy had already explained earlier.

Robert Ford: So, what you're saying is that the delta in profitability is largely coming from that drag of the star 1 and star 2 clusters at Avon, correct?

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João Paulo Ferreira: Not only, there's also to do with lower gross margin, lower price points, and so on, which we are working to improve. But a good portion comes from those lower-tier reps, indeed.

Robert Ford: OK. That's very helpful. And just one other follow-up if I could, please. When you look at the brand equity and preference in Avon in the region, can you discuss how you can really reposition and drive much greater preference and recover the brand equity that Avon had in the past?

João Paulo Ferreira: Right. First of all, the brand equity varies significantly by country. It's relatively good in Brazil and Colombia, for instance, is not as good in Chile, not even in Peru it was that strong. So, it varies. We're starting from different starting points.

We still see, I mean, awareness tends to be high, there are some places where quality is not perceived as good as in fact it is, and one of the reasons was to do with the fact that the portfolio was too large, so we were wasting the strength of our Avon hero products because that network was commercializing far too many other products which were not as high quality as our hero products. So, by shrinking the portfolio that already gives us a better platform to strengthen the quality perception.

Moreover, the new launches have been designed to drive that quality perception and innovation perception. And finally, we will communicate those excellent products at an unbeatable value more often than we did before. So, we are confident that we will be able to do that. We will not spread that through all the categories, we'll focus on the big winners coming from Avon.

Robert Ford: Very helpful. Thank you so much.

Operator: Ladies and gentlemen, that concludes our question-and-answer session. I would now like to turn the floor back over to João Paulo for closing comments. Please Sir, go ahead.

João Paulo Ferreira: So, thank you very much for your attention, for you following us in this journey. It's transformational, it's complex, we prepared a lot for that, first results are encouraging. However, I mean, maybe turbulent, but we are very, very confident given what we've done so far and also given the resource we deployed, especially the teams who are working on those to make sure that this is a success.

So, I hope we talk more often, and I hope to see you soon with even better news in the near future. Thank you so much.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a great day.