

Natura &Co

Q3-20 Results Earnings Conference Call Transcript

Operator - Good morning ladies and gentlemen, thank you for waiting. At this time, we would like to welcome everyone to Natura and Co's third quarter 2020 results. This event is being recorded and all participants will be on listen-only mode during the company's presentation. After Natura's remarks are completed, there will be a question-and-answer session. At that time further instructions will be given. We have simultaneous translation into Portuguese and questions may be asked normally by participants connecting from abroad either in English or Portuguese. Should any participant need assistance during this call please press star zero to reach the operator. This presentation may contain forward looking statements. Such statements are not statements of historical fact and reflect the beliefs and expectations of Natura &Co's management. Forward looking statements speak only as of the date they are made, and the company does not undertake any obligation to update them in light of new information or future developments. This presentation also includes adjusted information and reference produced by the company for information and reference purposes only, which have not yet been audited.

I will not now turn the conference over to miss Vivian Behar, Investor Relations Officer at Natura &Co. Miss Behar the floor is yours.

Viviane Behar - Good morning or good afternoon to everyone! I'm Vivian Behar, Natura &Co's Investor Relations Officer. Thank you for joining us today for this call to present Natura &Co's third quarter 2020 earnings. I am joined today by Roberto Marques, Executive Chairman and CEO of Natura &Co, Jose Filippo, CFO of Natura &Co, as well as João Paulo Ferreira, CEO of Natura &Co Latin America, who will join us for the for the Q&A session. Our Investor Relations team of Natura &Co is also with us as. The presentation we will be referring to during the call is available at the Natura &Co Investor Relations website. Roberto will start with an overview of our performance, Filippo will detail our financials for Natura &Co and after that, Roberto will make concluding remarks and we will open the floor to your questions. For the sake of timing, in order for us to accommodate questions from all of you, we'd like to ask you to please limit yourselves to one or two questions each, at the most, in the Q&A session.

Thanks for your understanding and cooperation, let me now hand over to Roberto. Roberto, please.

Roberto Marques - Thank you Viviane. Hello to everyone, thank you for joining us, I hope you're all safe and well in these still challenging times.

Let me begin on **slide 3** with our Q3 highlights. Overall, we posted a very strong performance in Q3 amid the continuing pandemic, with a robust 32% sales growth, significantly outperforming the global CFT market and with a strong EBITDA and margin improvement as well. We saw growth in all of our businesses, driven by Natura &Co in Latam, with strong growth in Natura and Avon in Brazil, showing continued productivity improvement and the strength of our digital social selling model. The Body Shop and Aesop saw further acceleration in digital and e-commerce, even as retail gradually reopened. Avon International's fundamentals showed improvement, with early positive signs in some key markets. Digital social selling continued its strong acceleration in the quarter, with group e-commerce sales doubling in the quarter. I'm also pleased to announce a new step in our digital journey with the launch of &Co Pay, our proprietary financial services platform. &Co Pay will help drive productivity for our consultants and representatives by allowing them access to key financial services while promoting digital

and financial inclusion. &Co Pay launches first in Brazil, will be rolled out in Latin America, and then globally within the next couple of years.

Second major highlight: the continued progress we made on the integration of Avon, which is proceeding according to plan. Synergies are on track with USD18 million captured in Q3 and we made further progress in working together, including cross-company manufacturing, distribution, storage and combined logistics contracts. We also initiated the pilot of Avon's new commercial model in Brazil, then will be Mexico early next year and in South Africa, capitalizing on learnings from Natura. At Avon international, we moved to monthly campaign cycles from two to three-week cycles in five markets, including the UK, which will simplify the business model and reduce costs. The Avon brand relaunch began with the rollout of the Watch Me Now campaign in mid-September, through online and digital channels in over 30 countries.

Third key highlight is our ESG agenda. We are very pleased to announce that Aesop was certified as a B-Corp, joining now Natura and The Body Shop. Also, in-line with our 2030 sustainability commitment we are partnering with the United Nations on two key initiatives: the ambitious 1.5° Celsius and Target Gender Equality, both attest to our determination to tackle issues of climate change and diversity and inclusion. We also participated in Amazonia Day with Natura and in breast cancer awareness month, led by Avon, with education programs for millions of women around the world.

And fourth major highlight, we strengthened our financial structure in October with the successful completion of a USD1 billion capital raise that was the largest ever in the Latin America consumer stage. We do appreciate the strong vote of confidence from the market and the credit rating agencies, which attests to the attractiveness of our group and validates our strategies. The capital raise was done to optimize our capital structure by accelerating deleveraging through the prepayment of the Avon 2022 bonds and allow us also to make investments and accelerate strategic priorities, including the Avon integration, group digitalization, geographic expansion and the 2030 Sustainability Commitments.

Let me end here by saying that while we have seen a very strong quarter and a return to some normalization in our retail operations. The COVID-19 pandemic is far from over. We are closely monitoring its evolution worldwide, particularly the recent lockdowns or restriction measures adopted in parts of Europe. In this context I'd like to thank our teams across the group and across the world, our excellent performance in these challenging times that we face is the result of their efforts, purpose driven, resilience and dedication. Let me now hand over to Filippo to go into our financials in greater detail.

José Filippo - Thank you Roberto and hello to everyone. On **slide 5** you see that we posted very strong consolidated sales growth in the quarter of 31.7% in Reais and 11.6% in constant currency. Excluding the phasing effect of the Q2 cyber incident, sales were up 26% in Reais and 6.7% at constant currency, significantly outperforming the global CFT market. Natura &Co Latam's revenue increased by 29.5% in Reais and 20.1% at constant currency. The Natura brand performed particularly well, growing by 41.2%, while the Avon brand grew 19.3%. The Body Shop and Aesop also had very strong performances, with sales in Reais up 51.9% at The Body Shop and 8.2% in constant currency. At Aesop, revenue up 67.2% in Reais and 19.9% at constant currency. Avon International's revenue increased 22.5% in Reais, down 7.3% at constant currency. In the nine months consolidated net revenue increased by 7.0% in Reais and was down 5.8% at constant currency.

As Roberto mentioned, we managed to largely offset the impact of the COVID-19 pandemic in our business with the rapid pivot to online, complemented by the gradual reopening of retail stores throughout the quarter.

On **slide 6**, the group's online sales grew 115% in the quarter, supported by 83% at the Natura and Avon brands, 264% at Aesop and 102% at The Body Shop. At the Natura brand, content sharing grew by 170% since Q1, online orders grew by 45% year on year and consultant online stores increased by 75% versus the same quarter of last year and topped the 1,000,000 mark. At Avon international sales from representatives sharing e-brochures more than doubled, the number of consumers accessing the e-brochure was up 70% and e-brochure sales in the UK grew by 300%.

Slide 7 shows that we posted very strong 71% increase in consolidated adjusted EBITDA, reaching more than 1.5 billion Reais excluding transformation costs. Adjusted EBITDA margin in the quarter was 14.8% up 330 bps. The strong growth in adjusted EBITDA was supported by cost discipline across all businesses and was notably driven by solid EBITDA at Natura &Co LATAM and followed by The Body Shop and Aesop. In the nine months, adjusted EBITDA reached more than R\$2.7 billion with adjusted EBITDA margin of 11.0%, down 60 bps.

Now turning to **slide 8** we look at Natura &Co's underlying net income. In Q3 it stood at R\$587.1 million, up 2.6%, excluding Avon acquisition effects and transformation costs. The growth in net income was driven by higher income and lower income tax offsets, partially offset by higher depreciation and financial expenses. Reported net income was R\$381.7 million in the quarter, up 1.3% in the nine months. Underlying net income reached 88.5 million Reais with reported net loss of R\$837.6 million.

On **slide 9** we show that we have strengthened our balance sheet by the USD1 billion capital raise that we successfully completed last month. In the quarter we had strong cash generation of R\$783 million, which allowed us to end the quarter with eight billion Reais in cash, before the capital raise. We used the proceeds from the capital raise to prepay Avon's USD900 million bond due in 2022 in the beginning of this month. This will allow us to accelerate the leveraging, reduce US denominated debt, currency volatility and high interest costs. As you see on the graph, our net debt to EBITDA ratio was three times at the end of Q3, down from 3.63 times at the end of Q2, and it dropped to 1.38 times post the prepayment of Avon bonds. Attesting to the strengthening of our balance sheet and improved credit profile, we were upgraded by S&P and Fitch in October to early November, respectively. The rating outlook by both agencies has also been revised to stable from negative. The second graph provides you with our amortization schedule and shows that we have limited debt maturities this year of under R\$1 billion with an average maturity of 3.4 years.

Let's turn now to our performance by business unit on **slide 11**, beginning with Natura &Co Latam. Total net sales were up 39.5% in Reais and 20.1% in constant currency. Ex-cyber incident, net sales were up 21.2% in Reais and 12.6% at constant currency, driven by the Natura brand, whose sales were up 41.2%. The brand strongly outperformed the CFT market in Brazil and posted solid growth in Hispanic Latin America. Avon showed early positive signs with 19.3% growth in Reais and 9.9% in constant currency. Ex-cyber incident sales were up 3.3% in the quarter in Reais and up 6.1% in Brazil. This was driven by increased representative numbers and higher activity.

On **slide 12** we look at the Natura brand. Sales at the Natura brand in Brazil rose 30.5% in Q3, which represented an exceptional performance, with continued brand preference and market share gains. This demonstrates the success of our social selling model which led to the 16th consecutive quarter of higher productivity in Brazil up 13.8%, even with the higher consultant base which increased by 12.8% year on year to nearly 1.2 million. In Spanish Latin America net revenue grew by an impressive 65.7% in Reais and 32.7% at constant currency in the quarter. We saw growth across all markets, notably Argentina, Chile and Mexico. The average number of consultants increased by 13.3% versus Q3 2019, to 759,000.

Let us turn to Avon on **slide 13**. The Avon brand's revenue in Brazil grew by 24.9%. Ex-cyber incident, Avon's growth was 6.1% in Q3, the first growth since Q4-2018, supported by higher activity levels and number of representatives. In Hispanic Latam, the Avon brand posted revenue growth of 15.7% in Reais and was down 3.3% in constant currency. Ex-cyber incident, revenue increased 1.4% in Reais and was down 14.9% at constant currency. The region saw improved trends towards the end of the quarter with key markets such as Argentina, Mexico and Chile posting growth in September in constant currency.

On **slide 14**, adjusted EBITDA for Natura &Co Latam nearly doubled in the quarter, reaching R\$1 billion, driven by strong revenue growth and operational leverage at both Natura and Avon. Adjusted EBITDA margin was up 560 bps to 16.5%, with improvement at both Natura Brazil and Hispanic LATAM. Avon Brazil also contributed to this increase, helped by operational leverage and the positive impact of sales from the cyber incident.

Let's now move to Avon International on **slide 16**. Net revenue grew 22.5% in Q3 in Reais and was down 7.3% at constant currency. Ex-cyber incident, sales were up 19.5% in Reais, down 9.6% at constant currency. Most markets showed signs of recovery from the impact of COVID-19, notably in Western and Central Europe. Key markets such as Russia and Turkey reported growth versus Q3 2019, offset by markets still impacted by strict

lockdowns such as South Africa and the Philippines. Adjusted EBITDA was R\$183 million with margins of 7.4%, down 200 bps as a result of the impact of lower constant currency revenue, foreign currency impact, higher sales leaders and fewer investments to accelerate recovered revenues and also IFRS conversion adjustments in G&A.

We now move on to The Body Shop on **slide 18**. Net revenue increased by a very strong 51.9% in Reais in Q3 and by 8.2% in constant currency, driven by growth in the UK and Australia, as well as the direct sales and online channels. The direct sales At-Home grew 332%, supported by 261% growth in consultants, and on-line sales increased 103%, helping offset slower retail sales as a result of the pandemic. On stores like-for-like sales decreased 16.5%, but by the end of the quarter, 97% of retail stores had reopened. Adjusted EBITDA in Q3 increased 81.1% to R\$308.3 million, with a margin of 22.3%, up 360 bps, driven by revenue growth, lower discounts, reduced discretionary spending and COVID-19 related government support.

On **slide 20** Aesop posted outstanding net revenue growth of 67.2% in Reais and 19.9% at constant currency. This performance was driven by strong growth in digital sales, offsetting partial retail closures relating to COVID-19 in markets such as the US and Australia. While retail like for like sales were down 16%, online sales were up 264%. Q3 EBITDA stood at R\$154.4 million, up an impressive 121.6%, with EBITDA margin of 31.3%, up 770 bps, driven by top-line sales growth, target cost reduction and utilization of government support programs to mitigate the impact of COVID-19.

Let me now hand back to Roberto.

Roberto Marques - Thank you, Filippo. Let me now conclude on **slide 22** with the key takeaways.

First of all, Natura's omnichannel model has shown its strength in the past quarter and more generally throughout the COVID-19 crisis. All of our businesses and brands are showing resilience and increasingly becoming omnichannel. E-commerce and digital social selling drove also strong results this quarter. We are planning increased investments in those areas to further build on this momentum. We posted strong performances in Latin American driven by Natura and Avon in Brazil. The integration and digitalization of Avon is progressing well, with some early positive signs in our Q3 numbers. Our digital journey took another step forward with the launch of &Co Pay. Our ESG agenda is advancing as demonstrated by Aesop becoming a b-corp and our active involvement at UN climate week. Lastly, we have optimized our capital structure with the successful USD1 billion capital raise, we continue to deleverage our balance sheet and we have further resources to boost investments in key areas to accelerate growth. That positions Natura &Co very well for the future.

So, this has been a rewarding quarter despite challenging circumstances, and I would like to conclude by expressing once again my gratitude to the teams across our group who enabled this performance. Thank you very much for your attention, we are now going to open the question-and-answer session with Filippo, JP and I happy to take your questions, so the floor is yours.

Operator – Ladies and gentlemen we will now begin the question-and-answer session. If you have a question, please press the star key followed by the one key on your touchtone phone now. If you wish to be removed from the queue, please press the pound or the hash key. Ladies and gentlemen as a reminder, if you would like to post a question please press the star key followed by the one key on your touchtone phone.

We have a question from **Helena Villares** from **Itaú BBA**.

Helena Villares - Hi guys, good morning! Thank you for taking my question and congratulations on the results. My first question is for JP. We want to understand a little bit more about the Natura brand dynamic. We saw very strong results in terms of top-line and profitability this quarter and what we're trying to understand here is about the market share gain that you showed. So, we're just trying to understand if you have any kind of KPI figures that you could share with us to understand how much of these market share gains is going to be sustainable for the next coming quarters, in the next year. So that is our question. Maybe something about clients, new clients, the profile of these clients, could help us a little bit. The second question is about the direct sales for The Body Shop,

so it's a completely new channel and what we're trying to understand here is about the consultant profile. So, who is this consultant, why do you think that is going so well and how you are seeing this channel for the future? Thank you.

Roberto Marques - Hi Helena, Roberto here, how are you? I will let JP talk about the Natura brand and the market share and then I'll take The Body Shop, so JP, please.

João Paulo Ferreira - Hi Helena, thank you for your question. So indeed, this year we are experiencing market share gains in the Natura brand in Brazil. The market year to date has grown more than single digits, however, in Q3 the market was affected by other incentives. The market has grown high single digits in Q3. Nevertheless, when you compare that to Natura's performance, yes, indeed, we have gained significant market shares. This has been the case for the Natura brand in the last four years, so we have succeeded in gaining and sustaining market share continuously over the last four years. So, this period there are some new elements as we indicated. We saw an increase in new consultants which were recruited fundamentally through digital channels. These consultants are tech savvy, they are younger, some 10 years younger than the average of the network, and they already bring new customers who are also more used to online or digital shopping. That has also come together with the strengthening of the brand. The way the company and the brand expressed themselves during the pandemic was completely in tune with society's concerns and that reflected in brand preference and brand desire, following also from a continued launch of new products, which didn't stop through the pandemic. Just to finalize, we saw consultant's loyalty increasing to levels that we had not experienced in the last years. So, with all that combined, the ability to acquire new consultants, acquire new shoppers, and the omnichannel solutions for the shoppers and consumers, and the strengthening of the brand, we are well positioned to retain that acquired market share. To a lesser extent that's also what we witnessed with the Avon brand and I can give you more details later. Roberto?

Roberto Marques - Thank you JP. Helena, on The Body Shop At-Home there is some similarity to what JP just said in Brazil. What we are seeing on At-Home is an exponential growth, like we have seen this quarter over 300% growth in the two markets that we have At-Home, primarily in the UK and Australia, as you know we are expanding now At-Home into the US, we are already present in a very short period of time in 50 states, recruiting about 4,000 consultants. The profile of those consultants tends also to be more tech savvy therefore more native in digital social selling, but one thing that is very important, which I think that JP alluded to, is the very symbiotic connection with the brand identity, right? And the strength of The Body Shop brand now, especially in the UK, is also driving the recruitment of new consultants into the brand. So, the whole effort of the brand rejuvenation, the activist positioning of The Body Shop, it helped bring a profile of younger more digital savvy consultants into the profile of the At-Home business, and that is helping accelerate the social selling at The Body Shop At-Home business.

Helena Villares – Great, and just to follow up about this subject, because you just talked about this for Natura and in The Body Shop. We're seeing here that maybe this can also be an upside for Avon.

Roberto Marques – Absolutely. So that's why one of the key priorities for Avon is the rejuvenation of the brand because we think that, also, there is a very strong belief in our ability, as we strengthen the brand and we make the brand more relevant, to also attract new consultants with a more social selling profile. That is one of the things that we're very excited about as we roll out this quarter in over 30 countries new positioning of the Avon brand Watch Me Now campaign, which is exactly to try to make that connection even stronger.

Operator – Thank you. Our next question comes from **Bob Ford** from **Bank of America**.

Bob Ford – Hello, everybody and congratulations on the quarter. JP, in addition to the changes from the commercial model, what makes you optimistic in terms of, or most optimistic, in terms of the broader turn-around of Avon International based on what you're seeing in Latam and when it comes to brand and consultant digitalization or the synergies in Brazil? And how is that being transferred and prioritized for Avon International?

Roberto Marques - Hey Bob, so, let me start on the Avon International and then I'll ask JP to comment on Brazil. At Avon International to your statement, we are taking a lot of learnings from Natura on the commercial model, on the segmentation, those things to be honest haven't been implemented yet, ok? So that's still to come, right? We are planning a pilot with South Africa using kind of the same framework of segmentation from Natura, actually the plan is to be implemented in Q4 this year, JP will comment on some pilots as well in Latin America, but what we are already seeing at Avon International, and I would call it some quick-wins, we are seeing an increase on the channel, especially on 4 key markets growing double digits, and the retention is also increasing, so, we are seeing a lower churn. And again, those are things that we already did, call it quick-wins on strategy and of Avon International, and we are starting to see market share gains, so we saw market share gains for the first time in the UK, Russia, Poland, which is encouraging, but I want to be clear there is still a lot to be done. The true changes on the commercial model segmentation yet to be implemented but we're seeing some positive wins, especially in terms of making the channel a little easier for new consultants to come in, driving digital key adoption to a much higher level than what it used to be before. So, all those things are contributing to some increase in productivity as well and number of active reps, especially on some of the key markets. So, I'll turn to JP to comment specifically about Brazil and some of the things in Latam.

João Paulo Ferreira - Hi Bob, so, we are positive about the more recent results of Avon across Latin America and in Brazil in particular. They are based on quick wins, they are not yet the structural changes as Roberto pointed out, but it suggests the path that is ahead of us. Starting with the brand, we resumed investing behind the Avon brand so, for instance, in Brazil, Avon advanced 10 positions in the Merkel reputation rank. We also resumed communication, advertising, the new Power Stay and line a couple of weeks ago and only two days ago we launched the new black skin line with outstanding technology, very relevant for our market and still associated with social causes related to inclusion. So, that is pointing towards the relaunch of the Avon brand that is to be seen here in Latin America early next year but already started in other geographies. We also talked about strengthening the relationship with the representatives and in this period, Avon in Brazil, as well as Avon in Mexico, reported highest satisfaction indices of the last many years, which is showing that the proximity with the field, some of the incentives that are being put in place, are also in the right direction. So, with that combination we are starting to be able to show the sort of tailwinds that we have been leading through in this market. That gives us the confidence that when the structural changes come, early next year, based on the pilots that are already going on we will be able to sustain the positive momentum that is growing through Avon across the entire Latin America.

Bob Ford - Thank you very, much and just one follow-up and that is there is a big step up in the SG&A in Avon International and I was hoping you could give some additional color on how you're channeling those resources.

José Filippo - Hi Bob, how are you? I think that what we saw is more of a less dilution in some of those expenses, I don't think this is a trend. I wouldn't consider that. I think there's very specific things that you see here but I believe there is, as you said, there is a lot of programs that were put in place for efficiency. Also, in terms of Avon International, we have to see there were investments also in the channel, so it helps us a lot in that impact. So, I don't think that is something to be considered as a trend, it's just a situation that we had specifically in the quarter, and I don't think this is the standard that we can see going forward.

Our next question comes from **Richard Cathcart** from **Bradesco**.

Richard Cathcart – Hi, guys! Good morning and thanks very much for taking my question. Just wanted to ask you a little bit more about the performance of Avon in the UK. I know it's a market that you're doing lots of testing and piloting and so just in addition to the implementation of the digital tools and the channel, can you just talk a little bit more about what the drivers of the market share gains are in the UK over the last couple of quarters? And then the second question was just whether you could give us an update on your plans for building out a bigger presence in China. Thanks.

Roberto Marques - Hi Richard, Roberto here, so you are right, we are putting a lot of focus in the UK on social selling and really, we are seeing an incredible increase in the adoption of social selling tools in the UK. One data point is the e-brochure sales were up in the UK almost 300% this quarter so, really, this is a key driver of the market share gain. I also would say that we are putting more focus on the simplification of the portfolio of Avon, on the catalogs, on the campaigns, UK moved now also to a monthly cycle. So, all those simplifications focus on the key categories and the key brands and the heavy adoptions of digital tools. E-brochures are really the key drivers of the market share gains in the UK. The UK for us is the market that we will continue to invest in and will continue to drive a lot of social selling tools, new campaigns, the Watch Me Now campaign, it's an online campaign, so the UK will benefit also from that. So, still a lot to be done but we are seeing some early wins, early signs, positive signs, that are very encouraging in the UK. Regarding China it's in early stage for us, but we are now very committed to making a more robust entry in China especially with Aesop and The Body Shop. We already established our Natura &Co legal entity, and The Body Shop and Aesop are now starting the process of product registration, that will take probably about the first half of next year, of course we are being very careful and working with the right provinces to make sure that the way we do it will continue to align with our value of no testing in animals. So, we are potentially planning to have a first physical store likely to be Aesop in Shanghai in the fourth quarter of next year and then, as we enter 2022, expanding that also with The Body Shop.

Richard Cathcart – Perfect. Thanks very much, Roberto.

Operator - We have a question from **Ruben Couto** from **Santander**.

Ruben Couto - Hi everyone, can you talk a little bit more about &Co Pay? This seems to be a very interesting and a new initiative, so I wanted to understand what the difference is compared to the previous financial solutions that you already offered to consultants in partnership with banks. And I also wanted to understand what to expect in terms of resources from this kind of initiative. Is it chiefly to improve consultant productivity and benefits that you give to the channel or could you expect an increment of features that eventually could be monetized and bring direct contribution to revenues or other source of revenues? Thank you.

Roberto Marques - Hi Ruben, Roberto here. I would just start by saying that &Co Pay is something that we're going to treat as a business unit, incubated initially in LATAM to validate it, and then we go to scale that up in other countries in Latin America and then worldwide in a couple of years. We are going also to dedicate part of the proceeds that came from the capitalization to accelerate the development of &Co Pay and I'll ask JP now to give some details about your questions on the productivity and benefits. We are very excited about this. So please, JP.

João Paulo Ferreira - Thank you, Roberto. Ruben, as Roberto pointed out, it is a new business unit and hence it has its own P&L, it generates new revenue streams. However, it is meant to strengthen our core business, precisely for the reason that you pointed out: better payment solutions and financial solutions drive higher consultant productivity, and we know that from our previous experiences. So, this is an initiative that has double benefits: it enhances the core, and it captures new revenue streams. It is different from our previous experiences because it is now all integrated, orchestrated within Natura through partners and completely embedded in the consultant's experience. Also, all the information that is captured is used to improve the knowledge we have

about that relationship, that commercial relationship that is building. So, that is all new, completely embedded into the beauty consultant journey.

Ruben Couto - Thank you.

Operator - Thank you. Our next question comes from **Gustavo Oliveira** from **UBS**.

Gustavo Oliveira - Good morning everyone, thank you for taking my question. I would like to understand, Roberto, you mentioned that you are basing the Avon's new commercial model out of what you are doing in Brazil to roll it out to Avon in other countries. What are the key features that you think that can travel well across several countries and if there will be a lot of adaptation or if the plan is to follow a more standardized approach? And then, if I may a second question would be: there was a very nice increase in the number of new consultants in Brazil in the Natura brand. If you could comment on what would be the drivers that led to this increase in new consultants and what are the characteristics of the new consultants that are joining the base, thank you.

Roberto Marques - Hi Gustavo, Roberto here, thank you for the question. What are really the key elements of what we believe are transferable and, again, the Avon International team is working very closely with the team in Latam and Brazil to really understand, is the notion of a lifetime value approach and the segmentation where the retention driving productivity sometimes is very important, more than just the transaction, the first transaction, and just growing the channel. So, there's a lot of simplification that is already being implemented by the Avon International organization, as I mentioned, monthly cycle, focus on earnings model that is simpler than what used to be, all those things are already ongoing, but I would say the segmentation approach of a lifetime value of the reps are probably something that, again, we want to validate it, we want to do some prototypes and pilots, we want to make sure that also it works well. We know that even here in Brazil and Latam, it's not as simple an execution because we need to adjust in each segment, create P&Ls for each one of those segments, to make sure that it works well as a whole. But we are excited about it and I think, as I mentioned, we are preparing a pilot in South Africa and then the idea, if we validate that, is starting a rollout sometime next year, but it's really based on this notion of lifetime value and segmentation approach. I'll turn to JP, just if you want to comment on anything else, just in terms of the model that is transferred to Avon International, then you can comment on the specific question.

João Paulo Ferreira - I will just highlight that Avon International, Angela and her team have been in continuous contact with our team here in Latin America, so we can exchange all the learnings we have over the last many years and so that gives us the confidence that the acquired know-how will be transferred with the necessary adjustments. And to your other question, Gustavo, on new consultants, the number of new consultants in Brazil, I think there are two main drivers for that increase, one is all the investments and know-how that we have developed on digital recruitment that became really seamless, facilitating those new-comers to learn about the activity and the product and how to reach their customers, one of the drivers. The other one, of course, is the fact that people spend more time at home, unemployment, trying to find new alternatives and guess what? That combination allowed us to attract a higher number of consultants, new consultants and they are on average 10 years younger than the average of the network. They are tech savvy, they join our network already through the digital environment and, because of that, we are being able to reach customers that love the brand but didn't find a good shopping experience so far, so, they are coming back to the brand with these new recruits. So, thank you for the question.

Operator - Thank you. The next question comes from **Tobias Stingelin** from **Citi**.

Tobias Stingelin – Good morning, yes, thank you. Good morning and congratulations on the results. I think the question is a follow-up on the question that Gustavo just posed with regards to this increase in the number of

consultants in Brazil, JP, and do you think that this trend will continue? And you mentioned that they are more tech savvy, that they already are more native to the environment, do you have kind of productivity indicators of these consultants already? This is the first question. The second question is just in regard to Avon Brazil, you mentioned that the consultant satisfaction is very high, can you let us know why the satisfaction increased so much, what are you doing that is increasing the satisfaction of the Avon consultants, please?

Roberto Marques – Thank you, sorry, we had a problem with our connections here. So, let me resume from where I think we stopped Tobias. As we talked about the new recruits and I was saying that it's too early to talk about their lifetime productivity however, I can tell you that they started with a performance that is ahead of our historical records in terms of new consultants, right? And you also asked about Avon's representative satisfaction, a combination of new sales incentives, elimination of burdens in the operation and the proximity of our sales team with them during the pandemic, helping them to navigate through all sorts of difficulties that they faced in that period. Thank you.

Operator - Thank you, we have a question from **Irma Sgarz** from **Goldman Sachs**.

Irma Sgarz – Hi, good afternoon, good morning, actually. Sorry, and thank you very much, or good afternoon to those in Europe, but thank you very much for taking my question. I was curious in the sales to sales growth in reopen of stores, are you able to provide a little bit on how that has been trending for both Aesop and The Body Shop? It was very useful to have that number for the third quarter, but I'm just curious specifically when you just look at the stores that have been reopened, how those have been trending and maybe connected to that, about how you're thinking about the store footprint for Aesop and The Body Shop in 2021 and beyond. I know that you've a position already for a large chunk of the adjustment of The Body Shop, but I'd just be curious for both franchises where you sort of see the growth trajectory from here. And the second question, just a minor question, government support for Aesop and The Body Shop, I know it helped to some extent the EBITDA margin this quarter but if you just sort of indicate to us the magnitude or sort of how we should think about this impacting margins in the next quarters, thank you.

Roberto Marques – Hi, Roberto here, thank you for the question. Regarding the store reopening in this quarter at the end we saw, approximately 95% of the stores opened. What we're seeing again, and that explains a little bit a very strong quarter, even with the reopening of the stores we still continued to see very strong momentum of our e-commerce at The Body Shop and Aesop, so of course the e-commerce came down a little bit versus what it used to be in Q2, which is, if you remember, the number is about 30 plus percent almost 40% of the revenue, it came back down but it is still almost more than double than what it used to be before the pandemic, so, even with the reopening of the stores we still see very strong performance of the e-commerce. The store itself, we are seeing traffic still way down versus prior to the pandemic, about 40%, but we are seeing higher tickets, average tickets, per person in general. Of course, you know we continue to monitor now as we enter Q4, which is our most important quarter, and with some of the lockdowns in some markets, especially in Europe, but one of the things that we are seeing is that we also got a lot of learning in terms of being able to adjust things. So, things like click and collect, curbside delivery, all those things that are still in place and the combination of e-commerce, these two things that we are going to be able to manage over Christmas season well. But, of course, we will be monitoring that. Regarding margins, what I can say is that in our calculations I would say it's probably about 100 to 150 bps in terms of the subsidies for government incentives that are non-recurring, that at some point will disappear. But even if we exclude that, we're still showing margin improvement on a recurring basis, which is again, which shows the strength of our fundamentals. Thank you for the question.

Operator - Thank you. The next question comes from **Andrew Ruben** from **Morgan Stanley**.

Andrew Ruben – Great, thanks very much for the question. Just following up on the margin points, so, more broadly, you showed some strong leverage at Latam, The Body Shop and Aesop, so, if you could just provide some color on the bigger margin drivers and if there's anything in addition to the government support that might be more temporary or any spending shifts in general we should be aware of as we think about modeling for Q4 and 2021? And then if you could clarify the 100 to 150 bps gap, is that just for Body Shop and Aesop, or is that on a consolidated basis? That would be very helpful. Thank you.

Roberto Marques - Hi Andrew, yes, I think that just to answer your question, the 100 to 150 bps is on a consolidated basis, it is not specific. Also, there is a piece of that which is related to the cyber phasing that we already mentioned before, so we can consider like half of it to be cyber and half to be the stimulus. So, again, like we said with that, taking that even if we do that, we still have an especially margin compared to Q3 last year, so, I believe this quarter we had this increase but I think the trend is to see that going forward on an adjusted basis, like we said, and that's how we expect it to be.

Operator – Our next question comes from **Joseph Giordano** from **JP Morgan**.

Joseph Giordano – Hi, good morning everyone, thanks for taking my question. There are actually a couple. The first one is on the Avon integration. So, if you could shed some light on how you are deploying the technology you have on Natura to Avon, so what can be done now, particularly in the context that you prepaid your most restrictive bond, so that's my first question. Second question is how do you guys feel about the outlook for Christmas, so particularly in Brazil, we saw an outstanding growth, we had some emergency aid probably helping this, and you mentioned that you sold mostly perfumes and fragrances so how do you feel about it and what's the strategy in terms of packaging and bundling like you have done in the past calendar events? Thank you.

Roberto Marques - Hi Joseph, Roberto here, so, in terms of the restrictive aspects, or the covenants of the prepaid bond, this will allow us again to continue to optimize our structure as a group, especially in terms of the subsidiaries, and combine some of those at a global scale and some of the opportunities that we have at Natura, Avon, The Body Shop and Aesop and overlapping some of those geographies, so that will give us some more flexibility for optimization on that. In terms of the synergies, they are on track, I would say that it also explains part of the improved margin because we're already capturing about USD17 million of synergies this quarter so that's on track based on our communication and guidance that we talked about it back in Q1. So, we are excited about it, we're already seeing very mature examples of distribution centers, manufacturing sites, especially in Latin America, are working in a combined way between Natura and Avon, and that's very promising in terms of not only getting costs down but improving services to our reps and our consultants. So, that's also pretty exciting, and I think that's it. Did I miss anything on your question? I think that was it right? Christmas? Do you want to comment on that JP?

João Paulo Ferreira – Yes, so, Joseph, JP here, as regards to Christmas you know that for Aesop, The Body Shop, Natura all these celebratory dates are quite important and all the businesses around the world are well prepared to fulfill the demands of Christmas and actually, the good thing that is part of the pandemic, people will be willing to see each other, touch each other, send a token of gratitude and so we think that the money will be here and we learned how to service customers in different ways, that's what you've heard so far. Perhaps, what might be new and relevant is that Avon didn't look at those dates with the same intensity as the other businesses do so I can tell you that we are upgrading Avon's passport for those celebratory dates and Christmas in particular. So, I think, you know, Avon will see a positive performance from the Christmas campaign.

Operator - Thank you. Next question comes from **Daniela Brethauer** from **Eleven Financial**.

Daniela Bretthauer – Hi, good morning everyone, congratulations on the results, thank you for taking my question. Most of them have already been answered but I just wanted to follow up on the channel growth at Avon. You mentioned lower churn. An actually two-fold topic. One is it was very impressive, not only the productivity growth, but the channel growth in Brazil but then on Avon you mentioned in the release that it's still decreasing so, do you think, number one, the productivity and channel growth in Brazil will remain at this fast pace? Because it clearly doubled on a sequential basis. And second, on Avon, the reduction has it flattened and when do we see a change in that? And then I'll ask my second question.

Roberto Marques – So, in terms of the overall for Avon, what I would say is, again, some of these structural things we haven't implemented yet, we are seeing again some of the actions that we took to simplify the model, to make it easier for consultants to join, you know, of course all the efforts on social selling and adoption is part of that and while we are seeing also a couple of changes on the earliest models that is also helping the reps sustain longer and that is what translates in a reduction of the churn that we mentioned. Regarding Brazil, I'll invite JP to comment some more specifics.

João Paulo Ferreira - Hi Daniela, good to hear from you. So, you know that we are going to push for productivity gains, that is the nature of our approach to direct selling and social selling. In Brazil both Natura and Avon representative console grew the number of representatives and consultants across Latin America though we didn't see Avon growing yet the number of consultants. Just to conclude, saying that many of the Spanish speaking countries were much stricter lockdowns and so we're going to see improving numbers as of now, thank you.

Operator - Thank you. We have reached the end of the question-and-answer section. I would like to invite Mr. Roberto Marques to proceed with his closing statements. Please, go ahead.

Roberto Marques – Thank you everybody. So, let me first apologize, I don't know what happened, somebody entered the lines so, apologies for that on behalf of Natura &Co. We are very excited about this quarter and how we really performed, it's really an outstanding result in many ways, in any angle that you look at it from a top-line growth, from a margin expansion, from a very solid performance in each one of our businesses, which is really a testament of our teams, our four amazing iconic brands and our approach on a direct to consumer, omnichannel, retail, e-Commerce working in synergistic way, then our direct selling, both physical, and now through social selling, also compounding the performance of our businesses. So, really very excited with the quarter. Having said that, we are also monitoring, cautiously optimistic about the future. We believe we will continue to outperform the market, but we will continue to monitor some of those recent events on the lockdowns in parts of Europe. We are still not past the global pandemic and we, of course, will continue to monitor and adjust and respond to those challenges anyway. Thank you so very much for joining us, hope you all stay well, stay safe and hope to talk to you guys soon.

Operator - Thank you, this concludes our audio conference for today, thank you very much for your participation and have a good day.