

# Natura &Co

## 1Q-21 Results Earnings Conference Call Transcript

**Operator:** Good morning ladies and gentlemen, thank you for waiting. At this time, we would like to welcome everyone to Natura &Co First Quarter 2021 results.

This event is being recorded and all participants will be in listen-only mode during the company's presentation. After Natura's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press star zero to reach the operator.

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This presentation also includes adjusted information prepared by the Company for information and reference purposes only, which have not been audited.

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

Mrs. Behar, the floor is yours.

**Viviane Behar:** Good morning or good afternoon to everyone. I am Viviane Behar, Natura &Co's Investor Relations Officer. Thank you for joining us today for this call to present Natura &Co first quarter 2021 earnings.

We're delighted to be with you again after our Investor Day last month. I'm joined today by Roberto Marques, Executive Chairman and CEO of Natura &Co, José Filippo, CFO of Natura &Co, as well Guilherme Castellan, Deputy CFO, and João Paulo Ferreira, CEO of Natura &Co Latin America, who will join us for the Q&A session. Our Investor Relations team of Natura &Co is also with us.

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

For the sake of timing, in order for us to accommodate questions from all of you would, we'd like to ask you to please limit yourself to one or two questions each in the Q&A session. Thank you very much for your understanding and cooperation on this.

Let me now hand over to Roberto.

Roberto, please.

**Roberto Marques:** Thank you, Viviane, and hello to everyone. Thank you for joining us. I hope all of you are keeping safe and well in this still challenging times.

Let me begin on **slide 3** with an overview of our first quarter highlights.

Natura &Co turn in another strong performance in the first quarter of 2021. Our Group sales were up nearly 26%, outperforming the global CFT market, and we post a significant increase in EBITDA and margin with our report EBITDA margin up almost 700 basis points.

# Natura & Co

This outstanding performance was achieved while we continued to operate in a challenging health environment with lockdowns and restrictions in certain key markets. This attests once again to the resilience of our omnichannel business model, with a further ramp-up in online sales and to our unparalleled direct-to-consumer reach.

We saw double-digit growth in Brazilian Reais across our brands and a very good performance in our key markets. Natura & Co Latam had an outstanding performance with both the Natura and Avon brand contributing. Avon International improved its performance in Western Europe and Asia Pacific. The Body Shop continued to offset store closures with very strong growth in online and At-Home channels. And Aesop had another remarkable quarter of growth driven by Asia and online.

Digital sales continued to grow, digital enabled sales account for 48% of our total, up from 33% in the same quarter last year and total online sales were up 166% in the quarter compared to the same quarter last year.

The Avon transformation journey continues to show progress. The roll-out of the new commercial model is underway, and we are seeing green shoots, such as positive advance in market shares and representative base, even though key geographies and categories like makeup and fragrance, are still heavily impacted by the pandemic.

The transformation plan we presented in our recent Investor Day, supporting initiatives to drive growth and optimize cost, is progressing and let me remind you that we also raised our target synergies for Avon integration to now a range of between US\$350 million and US\$450 million, an increase of US\$50 million over the period.

Another recent highlight I would like to mention here is the successful completion earlier this month of a US\$1 billion ESG bond issue that is linked to sustainability targets on greenhouse gas emissions and use of post-consumer recycled plastic in plastic product packaging. This is full in line with our commitment to life 2030 sustainability vision, and it shows again how we are aligning and connecting financial and environmental targets.

The bond issue improves our indebtedness profile and our capital structure. We ended the quarter with a robust cash position of R\$6.6 billion and we made further headway on deleveraging, with our net debt to EBITDA ratio at 1.18 times at the end of the quarter, a significant improvement over the 3.93 times at the end of Q1 last year.

So overall, I think we can be very proud of the performance of the entire organization has produced in a very challenging context. It is another demonstration of the strength of our business model, which aims to make positive impact while delivering sustainable growth and value creation.

With that, I'll hand over to Filippo for a closer look at our financial performance.

**José Filippo:** Thank you Roberto, and hello to everyone.

On **slide 6**, we focus on our online performance, which includes both e-commerce and digital social selling. As Roberto mentioned, digital sales largely offset the impact of COVID-19 in our retail activity, which continued to be impacted in the quarter, mainly in Europe.

The group's consolidated e-commerce and digital social selling grew by a very strong 166% in Q1, reaching 12% of the total sales supported by strong growth in all brands. At Natura, digital sales were up a spectacular 253% in the quarter. At Avon International, digital sales also grew by 132% in Q1. At The Body Shop, online at-home sales combined reached 51% of total sales, and at AESOP, online accounted for 29% of total sales in Q1. Overall, our digitally enabled sales accounted for 48% of our total sales.

**Slide 7** shows that we posted an impressive increase of 470% in reporting EBITDA, which reached over R\$829 million in Q1 with margin of 8.8%, up 690 basis points versus the same quarter last year. Adjusted EBITDA, which excludes transformation costs in both years as well as Avon-related acquisition costs and non-

# Natura & Co

recurring purchase price allocation effects in 2020, was R\$963.2 million. This represents a very strong increase of 68.5% with margin of 10.2%, up 260 basis points.

The strong increase in adjusted EBITDA and margin resulted from higher sales and operational leverage at Natura & Co Latam and Aesop.

Turning to **slide 8**, we see that Natura & Co reached R\$60.2 million in underlying net income in the first quarter, reversing the negative R\$264.1 million we posted in Q1 last year. The sharp 122.8% improvement in Q1 was driven mainly by the strong increase in EBITDA.

Underlying net income excludes Avon acquisition related effects of R\$215.3 million. This includes transformation and integration costs of R\$134.1 million and the purchase price allocation amortization effect for R\$111.3 million. These were partially offset by positive discontinued operations expense of R\$28.7 million and positive noncontrolling interests of R\$1.4 million.

Taking this impact into account, Natura & Co posted a reported net loss in Q1 of R\$155.2 million. This marks a very significant improvement over the net loss of R\$820.8 million in 2020 driven by higher EBITDA and lower income tax expense, partially offset by higher depreciation of R\$47 million and higher financial expenses of R\$19 million.

On **slide 9**, we look on our cash and balance sheet. We ended the quarter with a strong cash position of R\$6.6 billion, in line with projections and well above our minimum thresholds. We continue to deleverage our balance sheet and at the end of the quarter Natura & Co Holding's consolidated net debt to EBITDA ratio stood at 1.18 times, significantly down from 3.93 times in Q1 last year including the effects of IFRS 16.

As Roberto mentioned, we improved our indebtedness profile with a US\$1 billion sustainability-linked bond issued by Natural Cosméticos with a guarantee by Natura & Co. The funds will be used to refinance existing debt, in line with the Group's liability management plan to improve its capital structure. The 7-year notes mature in May 2028 and carry an interest coupon of 4.125% per year.

The second graph provides you with our motorization schedule and shows that even before the bond proceeds, we have cash far in excess of the R\$3.2 billion in debt maturing this year.

Let's turn now to our performance by business unit beginning with Natura & Co Latam on **slide 11**. Total net sales were up 24.6% in Reais and 15.9% at constant currency in Q1. This excellent performance was driven by growth in Reais at both the Natura and Avon brands.

The Natura brand was up 29.6% in Reais and 24.6% at constant currency support by a strong performance across the board both in Brazil and Hispanic Latam, attesting to the strength of our digital social selling model and a robust innovation pipeline.

The Avon brand reported another consecutive quarter of growth of 20% in Reais and 8.1% in constant currency, driven by key markets in Hispanic Latam. Natura & Co's clear leadership in the CFT market in Latin America was confirmed by Euromonitor. The group recorded market share gains of 0.7 percentage points in 2020, reaching 12.5%. Brazil was even stronger with market share of 17%, up a full percentage point over the prior year.

On **slide 12**, sales of the Natura brand in Brazil rose 12.6% in Q1, with market share gains. Growth was driven by continued digital social selling penetration, an increase in the average number of consultants of 14.2% versus Q1 2020 and higher volumes of most categories.

Natura Brazil's online sales including e-commerce and social selling were up 150% versus Q1 2020, notably driven by consultants' online stores. At the end of Q1, we surpass it 1.1 million Natura consultant online stores, with a significant year-on-year increase in the number of orders and visits.

# Natura & Co

The Natura consultant loyalty index in Brazil remains strong and business leader's loyalty was also significantly higher versus last year. Productivity per consultant was down 3.5% in the quarter after 17 consecutive quarters of growth since the successful implementation of our segmented relationship selling model in mid-2017. This is a result of an increase in our consultant base since Q3. This temporarily diluted productivity as new consultants are in early stages of building up their activity. Overtime, we expect these consultants to progress in higher productivity segments on our commercial model.

In Hispanic Latam, the Natura brand recorded spectacular growth of 60.4% supported by all markets, notably Argentina, Chile and Peru. Natura saw productivity increase in expansion in the consultant base of 19.4%. The quarter ended with a significantly higher consultant loyalty index in the region, up 530 basis points versus Q1 2020. We also launched Natura's e-commerce in Mexico completing the brand's e-commerce platform in the region.

Turning to Avon brand on **slide 13**, Avon's integration in Latam is on track with important progress in procurement, customer service, financial services, distribution and digital.

In Brazil, the Avon brand's revenue was down 2.8% in Q1 2021 versus Q1 2020. This decrease is largely an effect of the preparation for the new segmented commercial model implementation. As we saw in 2017 at the Natura brand, the structural change caused a drop in the number of representatives, but once the representative base stabilizes and the representatives progress towards higher segment levels based on higher sales, we expect productivity growth to resume.

Volume was slightly up in the quarter, picking up in March. A highlight of the period was the Avon brand sponsorship in the reality show Big Brother Brazil. This helped Avon connect with younger consumers, strengthening the brand's power and improving consumer perception. The brand engaged with the audience in various online and offline platforms and we saw e-commerce sales nearly triple with record breaking number of impressions in social media channels.

In Hispanic Latam, Avon's net revenue grew by a strong 35.1% supported by a higher activity level and higher representative productivity, which helped offset the 5.5 decline in average number of representatives. Growth was driven by fashion and home, and most beauty categories, such as body care, fragrances, and face care, while color continues to be impacted by the pandemic effects.

On **slide 14**, adjusted EBITDA for Natura & Co Latam more than doubled in the quarter, growing by 119% to R\$630.3 million driven by revenue performance and operational leverage in Brazil at the Natura brand in Hispanic Latam, both at Natura and Avon brands. Adjusted EBITDA margin expanded by 530 basis points to 12.2%.

Let's now move to Avon International on **slide 16**. Net revenue was up 11.4% in Q1 in Reais and was down 10.7% at constant currency. Sales were impacted by the second wave of COVID in certain markets, notably in Central and Eastern Europe, and also by key categories like fragrances and cosmetics, which were more affected by the pandemic. Avon gained market in Q1 2021 versus Q1 2020 in Western Europe driven by UK and in Asia Pacific. All regions improved share month after month including Avon stock countries.

Avon UK's market share increased for the fourth consecutive quarter and it became the third brand in the beauty market over the last 12 months, up from 10th one year earlier. Avon International adjusted EBITDA was R\$97.4 million with margin of 4.1%, down 70 basis points due to the impact of lower revenue and higher strategic investments in digital and commercial areas to accelerate future growth.

On **slide 18**, we now move to The Body Shop, with sales up from the 47.7% in Reais and 10.7% at constant currency, driven mainly by the UK and North America. We saw particularly strong performance of the At-Home channel, up 251% and e-commerce, which was up 119% versus last year. Together, both channels represented slightly more than half of the total sales, and this growth more than offset the impact of the pandemic's second wave in retail.

# Natura & Co

About two-thirds of retail stores were open at the end of the quarter, while the UK and other markets in Europe were under lockdown in Q1. EBITDA rose by 45.4% to R\$194.2 million, while EBITDA margin was 14.7%, down 30 basis points year-on-year. This largely reflected the impact of the buyback of the Japan head franchisee. Excluding this effect, EBITDA margin would have been up 110 basis points versus last year to 15.4%, despite the pandemic's impacts on retail sales and channel mix.

On **slide 20**, Aesop again recorded an outstanding performance. Net revenue was up by exceptional 71.9% in Reais and 30.6% at constant currency in the quarter. Aesop saw growth in all regions. Performance was particularly strong in Asia with sales up 67% at constant currency. Retail revenue grew by 6% globally, supported by strong positive like-for-like growth in Asia, although stores remained closed across Europe, in Canada and parts of Australia.

Online again offset the retail impact with impressive growth of 102%. Online sales accounted for 29% of total revenue. Q1 2021 EBITDA more than doubled, to R\$156.6 million with EBITDA margin of 26.7%, up 390 basis points driven by top line sales growth, higher EBITDA notably in Asia, and cost efficiency.

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, we are on a sustainable growth path. The Natura brand continues to post double-digit growth both in Brazil and in Latin America while the Avon brand is growing in Hispanic Latam. The Body Shop and Aesop continue their strong growth even with retail being impacted by the pandemic.

Second, Natura & Co's omnichannel model has shown its strength throughout the COVID-19 crisis, helping to offset the impact of the pandemic. All of our businesses are increasingly omnichannel and digitalization of consultants and reps continue to gather momentum. Digital social selling and e-commerce have been key to our strong market outperformance in the quarter.

Third, the Avon integration is on track, with the roll-out of the new commercial model underway and positive advances in market share and representative base. We also have raised our synergy target and are implementing a transformation program to drive growth and optimize costs.

And finally, we have improved our capital structure as we deleveraged our balance sheet, and we successfully completed the issue of our US\$1 billion ESG Bond. So, while the COVID pandemic is far from over and we continue to be vigilant, we continue to grow and progress on our strategic initiatives.

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

## QUESTION AND ANSWER SESSION

**Operator:** Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by the 1 on your touch tone phone now. If you wish to be removed from the queue, please press the pound sign or hash key.

Richard Cathcart, with Bradesco, is online with a question. Please, go ahead.

**Richard Cathcart:** Hi, good morning everyone. Two questions for me. The first one on the Natura & Co Latam business, a very big increase in margin there and even when we compared to pre-COVID levels and the

# Natura & Co

Q1-19 pro-forma numbers. So, I just wanted to ask you if you could give us a little bit more color on the various drivers of margin improvement there, you know, Natura versus Avon and also Brazil, Latin America, and you know, perhaps what we could expect through the rest of the year.

And then the second one, just a quick one, if you could give us any color on Mother's Day, you know, obviously an important day for you guys, for the sector as a whole, you know, we've had some positive feedback from other retailers, so it would be interesting to hear your feedback as well. Thanks very much.

**Roberto Marques:** Hi, Richard, Roberto here. Thanks for the question. I'll kick off here and then I'll turn to JP.

So, on the margins, you know, we're very pleased with the margin progression, but I would also remind everybody that we have some of the synergies kicking in, which is very encouraging to see that they are materializing and it's helping us navigate in some of the pressures that we're seeing in some of our raw materials, etc. So, we will continue to monitor that, but we're very pleased with the efficiency that we're seeing in distribution and manufacturing and really materializing in margins.

I'll turn to JP to talk a little bit about Hispanic Latam that we're very happy with also the progress in margin and also a little bit of Mother's Day.

So, JP, please.

**João Paulo Ferreira:** Hello, Richard. So, the market in Latin America is being seen a very modest growth, slightly better in Hispanic Latin America than in Brazil in beginning of the year. Natura has been riding on significant advances in brand power and brand preference and amazing market share gains throughout last year, so that gave us a base of a continued growth.

I remind you that the share of the Natura brand in many of the Hispanic Latin American countries is still below our fair share, particularly in the northern part of the region, Colombia, and Mexico. So, on that base, you saw that amazing growth and there's our reasons to think that is going to continue.

Similarly, with Avon now we're benefiting from the quick wins, the harmonization of various commercial practices I've talked about in previous occasions, also the much sharper selection within our portfolio there of categories across country, hero brands, and we could use the mix of different categories in our favor.

So, we're pretty happy to see Avon growing again in Hispanic Latin America with a smaller dispersion as well in terms of the various markets, so all in all, that volume increase also helped us with margins, of course, plus the synergies that Roberto referred to.

**Richard Cathcart:** Perfect, thanks very much. And perhaps just quickly on Mother's Day.

**João Paulo Ferreira:** Here in Latin America, we're pretty pleased with the performance of our Mother's Day campaigns throughout the channels and the brands.

**Richard Cathcart:** OK, thanks very much.

**Operator:** Robert Ford, with Bank of America, is online with a question. Please, go ahead.

**Roberto Ford:** Thank you and good morning everybody and congratulations on the quarter. I was hoping, you know, maybe you could discuss some of the changes that accompany the new Rep compensation model in Brazil at Avon. You know, clearly, there appears to be some changes in terms of the profile of network leaders and there's certainly a cultural change and the new KPIs.

I was hoping you could expand on that to the extent it's not strategic, and you know, given your prior experiences and learnings and now greater scale, how long do you think it will take to stabilize the network in Brazil and then begin to grow reps in productivity rates?

# Natura & CO

**João Paulo Ferreira:** Hello, Bob. JP here. So, the nature of the change, of course, is well, first of all, the roll-out happened towards the end of the first quarter, so a significant part of the quarter was dedicated to preparing the ground for that, which included changes in the sale structure, significant changes in the sale structure. Now, as regards the representatives, they are now on a model that values lifetime value and progression and segmentation, which has to be communicated again and again to cascade down that huge network.

And as regards the sales leaders, they are now required to dedicate time to developing those reps so that they are teaching them more about the products and how to develop their client base and by and large rather than just acquiring new reps. So, the changes are important indeed.

Based on Natura's previous experience, we expect the system to stabilize within one to two quarters, so second half of this year it should be stable again.

**Roberto Marques:** The other thing that I would add, which is also important, this change on the commercial model it's not just happening in Brazil and Latin America for Avon. I mean, Brazil, as JP said, already implemented that and we're encouraged by the early results, but we're doing the same thing at Avon International. In fact, we already have 2 pilots with a new segmentation model implemented one in South Africa and the other one in the Nordics. And the results are pretty encouraging from increased retention in productivity and the goal for Avon International is to expand to four key markets in the second half of this year and then really for all markets in the first half of next year.

So, again, applying all the learnings, all the KPIs, all the lifetime value approach that Natura has taken very successfully, it's now being implemented at Avon both in Latin America and Avon International.

**João Paulo Ferreira:** And I guess I should have said, Roberto, that the results in Brazil for Avon are above our expectations.

**Roberto Marques:** Correct! **Roberto Marques:** Right, we're very pleased, Bob.

**Robert Ford:** Ok, that's pretty clear. Great. And then, my second question is: as you integrate Avon into the Natura systems platform, what functionality does that enable across administrative and commercial considerations?

**Roberto Marques:** So, I will start. I mean, on the administrative thing, I mean, especially in Latin America, we are integrating more, but I would say even there are some now integration that goes beyond Latin America. So, HR platform now is being integrated, so we now have all associates in Latin America under one platform from compensation, benefits, and those things were not small undertakings and that's done. We're now doing the same thing in some of the other areas, of course, the whole supply chain, in procurement, distribution, manufacturing, it's coming and that's producing some of the synergies already that are, you know, helping us with gross margin.

In terms of the commercial one, I'll invite JP to talk a little bit about the platform, especially with social selling and some of the plans for integration here.

**João Paulo Ferreira:** Yeah. I think it's worth mentioning, for instance, the credit collection engine, which is now being fully integrated, improving the way we assign credit and also reducing delinquency rates. The one that I think is worth mentioning is the CRM, so the way we now can track transactions of the representatives and use the same CRM algorithms that we use for Natura now adjusted for Avon, which is already helping to drive additional revenues. And, of course, all the social selling tools that we keep spreading across all the various countries you're aware of producing, sharing content, and linking it back to their online stores.

**Roberto Ford:** Great, that's very helpful. Thank you very much.

**Operator:** Helena Vilarés, with Itaú, is on with a question. Please, go ahead.

# Natura & Co

**Helena Vilares:** Hi guys, good morning, thank you for taking our question. So, our question goes to TBS, we are very interested in the growth that the brand has been showing in the last quarters, it's much above the historical level that we had seen. So, what we're trying to understand here is if these new channels, the online and the At-Home channels, if they are able to reach new clients, new type of clients, and if so, what kind of new public are you able to reach? Are you able to feel that the brand is achieving their purpose in these new channels? That's the first question.

And in this sense, what kind of growth you're already seeing coming from Asia for this brand? Or it's very early stage yet and we can see much more goals coming from Asia? That's our question, thank you.

**Roberto Marques:** Hi, Helena, Roberto here. Thanks for the question. You're right and we are seeing in fact this increase in e-commerce and At-Home through social selling really bringing also different profiles of customers to The Body Shop. Interesting to also, you know, this is not just in isolation. What we are seeing a tremendous job by The Body Shop team is really reigniting the brand to its purpose, right, a more activist, a brand that has now clarity in terms of its position in the marketplace.

I mean, we just launched a couple products, some iconic brands, like the white mask, you know, vegan now, the new body butters, and those things are really resonating with existing customers, but also attracting new customers, which also gets enhanced by this expansion of the e-commerce and the At-Home. So, we're encouraged by those results and I think as we also started to reopen stores, you know, some of the new store designs, that somehow, we stop some of the roll-out last year as we also progress and expand some of those new layouts with refuel stations and everything else, we also think that this will create more momentum.

On Asia, I still think that it's early for The Body Shop, we were seeing spectacular results on AESOP. I think there's a lot of upside in Asia for The Body Shop as we know, we acquired the head franchise in Japan, there's some early good indicators, but there's a lot of opportunity and upside for The Body Shop in Asia, particular in Japan.

**Helena Vilares:** Thank you.

**Operator:** Ruben Couto, from Santander, is on with a question. Please, go ahead.

**Ruben Couto:** Good morning everyone. Can you share more color on Avon performance in international markets, particularly in the UK? We were surprised the jump to the third spot in UK specifically, which is great news. And in the earnings release you mentioned contribution from key categories behind this performance, but what is behind all of these? I mean, not thinking specifically about the categories. Is there something related to new products launches, maybe to the relaunch of the brand globally or even related to improvements in sales channels? Can you elaborate a little bit further on this performance?

And a second question, actually, a follow-up on Richard's question on Mothers' Day, I mean, you have been highlighting over the past couple of years on how the Natura brand managed to pass the game in gifting, and we noticed that Avon had some developments in the same direction. So, I understood that you guys are pleased with the performance in Mothers' Day, yeah, can you hear me?

**Roberto Marques:** Yeah, we can, Ruben. Yeah, we can hear you. Can you hear us?

**Ruben Couto:** Yeah, I can. Sorry about that.

**Roberto Marques:** OK. No worries, thank you for the question, Ruben. So, on Avon International and in particularly UK, we are seeing really significant improvement in many fronts: one, we made already some changes on the earnings model for the reps in UK, which again we simplify, and it's been applied now in many other markets at Avon and that is creating more traction with the channel, we're seeing productivity increase in UK, the channel is growing, which is very encouraging. So, that's one factor; the second is digitalization. UK is being the market that we've been applying more the social selling, the e-brochure and we're seeing quarter after quarter strong increase in adoption of the digital platforms and very strong



# Natura & CO

increase in terms of sales through e-brochure. So, that's point number 2; and point number 3, we are seeing traction in some of the new products, Protinol is really working very well under a new and creating some good momentum specifically for the UK market.

So, I think it's a combination, but if I were to tell you one thing, it is probably again the commercial model, the simplification of the model and getting more traction with the reps combined with the digitalization.

**Ruben Couto:** Right, thank you.

**João Paulo Ferreira:** He also asked about gifting for Avon. So, yes, gifting became one of the areas of opportunity for Avon, we're developing that offering based on our learnings here in Latin America, still is as important on relative terms as it is for Natura, but it is growing.

**Ruben Couto:** Got it, thank you, guys.

**Operator:** Andrew Ruben, from Morgan Stanley, is online with a question. Please, go ahead.

**Andrew Ruben:** Hi, thanks very much for the question. I was curious for a bit more detail on the rep count at Natura Brazil. I'm curious with the newer consultants, if there's any color you can provide on how long a consultant takes to ramp. And any sense on what you think now might be the right number of consultants, if you're looking to increase the base versus say the 1 to 1.1 million. Any color there would be very helpful. Thank you.

**João Paulo Ferreira:** Thanks for the question. So, normally, we look at consultants like beginners when they have less than one year in the activity and mature when they cross that line. Productivity increases overtime, that is well-known. By the way, this is one of the reasons why you saw consultants' productivity coming down this quarter on an aggregate basis due to a much higher number of beginners, which joined the network mid-last year, right. And the very, very good news is that they were retained, it's not that they entered during the pandemic, the crisis and went away; they were retained thanks to the to the strength of that value proposition. So, that productivity should grow continuously right now in the coming quarters.

Now our strategy is being for many years to try and get modest growth in Brazil in the number of consultants, right, and a much more aggressive growth in Hispanic Latin America, where there's still more room to increase that consultant base.

**Roberto Marques:** Yeah, Andrew, and again, just to complement what JP said, the very exciting thing is that the digitalization is attracting new profile of consultants and reps and applying the same lifetime value segmentation. We expect that also is going to translate in higher productivity down the road, but it's exciting to see the channel expanding with a different profile because of the now enrollment and all the process being done through social selling.

**Andrew Ruben:** Great, that's very helpful. Thank you.

**Operator:** João Soares, with Citibank, is online with a question. Please, go ahead.

**João Soares:** Good morning everybody. Thanks for taking the question and congratulations on the strong quarter. I have two quick points on my side, and I apologize for going back to a thing already talked about. So, going back to Avon brand in Brazil, it was very interesting the discussion and very helpful color on the rep base, but I wanted to explore more productivity, and you mentioned in the release that once the base stabilizes you expect incremental productivity.

So, if you give us any color on how we should expect that productivity to evolve going forward will be very interesting, very helpful.

And the second point, in the Hispanic Latam you talked about productivity is very, very strong and should remain so, but looking into the e-commerce impact and you mentioned that you launched the e-

# Natura & Co

commerce platform in Mexico, so how do you expect the dynamics going forward? How do you expect the e-commerce platform to win back the productivity in the region? It would be very, very helpful as well. Thanks.

**Roberto Marques:** Thanks for the question. So, as regards Avon's representatives' productivity in Brazil, the commercial model that has been introduced is to foster productivity increase, similar to what happened in Natura. So, if you go back to early 2017 and see how the productivity went up, productivity went up quarter after quarter, so this is what we're aiming at for Avon, right. So, that's number one.

As regards to the introduction of e-commerce in some other geographies across the region. Well, first of all, that allows us to achieve new customers, new shoppers in different shopping occasions, we increased the base of customers we have, and as consultants learn how to operate their online stores, that also increases their productivities as they can reach new clients which they wouldn't be able to do otherwise.

**João Soares:** Thanks. Thanks, JP.

**Operator:** Irma Sgarz, with Goldman Sachs, is online with the question. Please, go ahead.

**Irma Sgarz:** Yes, hi, thanks for taking my question. I was curious, we're hearing lots about the different input price pressures that companies across, it's globally, but those who are specifically in Brazil are experiencing So, I was just curious about how you're thinking about price increases across your brand specifically in Brazil, but maybe also in some of the other markets where specifically where you're experiencing pricing pressures and how you're thinking about the ability to raise prices versus the ability for the consumer to absorb any potential price increases. Thank you.

**Roberto Marques:** Hi, Irma. I'll start it and then maybe, Filippo, if you want to complement. So, listen, we are seeing and we continue to be monitoring that carefully across all geographies, but as you saw, actually, our gross margin across all businesses went up this quarter and the reason for that is twofold: one, as we mentioned, we are seeing some of the synergies, the efficiencies kicking in, and in most part is also impacting gross margins, so that's helping us on one hand; on the other hand, we are also doing revenue management across all businesses in terms of portfolio, promotion, and make sure that we are managing that through. As you know, I mean, it's taking The Body Shop over the last two years we were able to reduce discount by a magnitude of about 30% to about 15% on average. So, managing the portfolio, promotion schemes, some categories, is probably the first line of defense against this on top of the synergies and efficiencies that we're having across our network.

And again, I would also remind all of you that we now, as we updated our synergies, we included some synergies that are coming outside of Latin America and one example of that is moving the production of body butters to Avon Poland manufacturing and that is creating a lot of efficiencies also for The Body Shop, for example. So, we will continue to monitor the situation, we think the team has done incredibly well in being able to offset this far resulting in increase in gross margin, but it is one area of attention and there will continue to be monitored.

Felippo, do you want to add something?

**José Filippo:** Yes. Hi, Irma. Yes, we've been the facing pressures definitely, as all of the industry in terms of commodity prices, inflation, some FX as well. This is not something that's new for us, we've been dealing with this for a long time.

I think that's important to recall about our relationship with the supply chain that we think it is very, very differentiated and we manage that very well. But also, like Roberto said, there's a lot of opportunities and we are already executing in terms of synergies and efficiency gains on this, like merging distribution centers, planning logistics, there's a lot of opportunities that also we will take into account and using that can help us on addressing those challenges in terms of the costs.

**Irma Sgarz:** Thanks.

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**Operator:** Ladies and gentlemen, as a reminder, if you would like to post a question, please press the star key followed by 1 on your touchtone phone now.

Joseph Giordano, from JP Morgan, is online with a question. Please, go ahead.

**Joseph Giordano:** Hi, good morning everyone, thanks for taking my question. So, they're actually a couple. So, the first one is on the cash flow generation. So, the company is like quite unleveraged at this point, very close to its target, so my question here is if we should be seeing you guys getting more active on the M&A front and buying like some niche brands like Aesop and accelerate them on the new global platform. So, that's the first one.

And the second one is like if you guys could provide some updates on the development of Natura brand in Asia, and here particularly in Malaysia. Thank you.

**Roberto Marques:** Hi, Joe, Roberto here. Thank you for the question. Listen, we are very pleased with the deleverage and again how we continue to be progressing our capital structure, and again, very pleased with the successful bond issue that we did this quarter, but again, you know, the plans that we share with the market and the guidance was all based on organic growth, and that's the focus that we have right now.

Of course, we have the responsibility to continue to monitor the market and we will continue to do so in terms of opportunities, but I would say right now the focus is again on the integration, the turnaround of Avon, continue the momentum of digitalization across all of our business, you know, great momentum of Natura, The Body Shop, Aesop. So, we still think that we have a runaway that is very exciting for the business with the organic growth.

Regarding Asia for Natura, as you know, we have a pilot in Malaysia, I would say that it is still early. Last year was of course a year that there were so many variables and etc. that is difficult to really read, so we will continue to focus on getting the right portfolio, the right go-to-market, the right positioning, and once we have more confidence about, you know, the model that we're testing with no Natura in Malaysia, then the goal is to expand to some other markets.

So, hopefully, you know, we'll get a better reading by the end of this year and then we'll come up with the right plan.

**Joseph Giordano:** Perfect, thank you.

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

**Roberto Marques:** OK, thank you all for joining us and participating and for the questions. I want to just finish with two comments: one is, this week we also heard that, you know, our brands were well-recognized in terms of strength through the brand finance by Brand Director Ranking. Natura in fact was elected the strongest brand in cosmetic globally, which is really something that we're very proud of. At the same time, you know, The Body Shop the first time came as part of the top 50 in the ranking, which also shows the progress that the team has been doing. And Avon continues to be within the ranking. So, very, very encouraged by that.

I want to also send a shout out to our entire teams, associates, network for what we believe was a remarkable quarter under still very challenging set of circumstances, so thank you all very much for that. And thank you all very much for your attention, I hope you all stay well, taking care of yourselves and your families and loved ones still in this very challenging pandemic. Hopefully, with the vaccines we will be able to turn the corner, we're seeing some green shoots in some countries and that's encouraging, but there is a long way to go in some of the other markets.

So, stay well, stay safe, thank you very much everybody.

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