

Natura &co

Q1-20 Results Earnings Conference Call Transcript

Moderator: Good morning ladies and gentlemen, thank you for waiting. At this time, we would like to welcome everyone to Natura and Co's first quarter 2020 results. Today we have with us Mr. Roberto Marques, Executive Chairman of the Board of Natura &Co, Mr. José Filippo, Chief Financial Officer of Natura &Co, Mr. João Paulo Ferreira, CEO of Natura, and Ms. Viviane Behar, Investor Relations Director of Natura. 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. We have simultaneous translation into Portuguese and questions maybe asked normally by participants connecting from abroad, either in English or Portuguese. Should any participant need assistance during this call please press *0 to reach the operator. We have a simultaneous webcast that may be accessed through Natura's Investor Relations website www.natura.net/investor, the slide presentation may be downloaded from this website. There will be a replay facility for this call on the website after the end of the event. I will now turn the presentation over to Ms. Viviane Behar. Viviane, you may begin.

Ms. 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's first quarter 2020 earnings. I am joined today by Roberto Marques, Executive Chairman and CEO of Natura and Co, José Filippo, CFO of Natura &Co. João Paulo Ferreira, CEO of Natura &Co Latin America will join us for the Q&A session. Our Investor Relations team at Natura and Co is also with us. The presentation we will be referring to during this call is available on the Natura and Co Investor Relations website. Roberto will start 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 your questions. Let me now hand over to Roberto, Roberto please.

Mr. Marques: Thank you Viviane and hello everyone, thank you for joining us. I hope all of you are safe and well. Let me begin on slide three with an overview of our performance. The first quarter of 2020 is an atypical one for two reasons, one internal to our group, and one external. The internal one is that Q1 is the first to include Avon in our scope. With the addition of Avon, Natura &Co becomes the number one player in the CFT market in Latin America, we are very pleased by the rapid progress that has been made in integrating the company and today we are announcing that we are raising our target synergies by an additional 100 million dollars. The external one is, of course, the traumatic spread of the COVID-19 pandemic which resulted in lockdown measures across the globe. In the face of the pandemic Natura &Co took quick actions to adapt with three key priorities: care for our people, care for our community and societies in which we operate and care for our company.

First and foremost, care for our people. Even before lockdown measures were implemented Natura &Co took steps to protect the health and safety of our associates, consultants, and representatives and suppliers. We imposed strict social distancing measures, gave job security assurance to employees, provided credit flexibility to our

consultants and representatives, and offered such services as telemedicine to our network as well.

Second, to care for our communities and societies in which we operate. Because we sell essential products, as soap and hand sanitizers, Natura &Co quickly retooled its operations across its brands to step up their production by 30%. Sales of hand sanitizers increased by over 500% both at The Body Shop and Aesop, and Natura used some underutilized capacity at Avon plants to produce 60 million units of alcohol gel and 1 million liters of alcohol with partners, mainly directly to donations. All of our businesses made significant donations to hospitals, health workers and NGOs, and I would also like to highlight that the group also launched a very important campaign focusing on the increase of domestic violence associated with social distancing and the Avon foundation donated over 1 million dollars to organizations in 50 countries. These actions are a clear demonstration of Natura &Co's purpose-driven approach.

I would like at this moment to express my heartfelt gratitude to our teams for the exceptional commitment that they have shown during these very challenging times, allowing us to meet essential needs across our network and across all the communities that we operate in.

Finally, care for our company. The group also implemented measures to protect cash and liquidity, including reducing operating expenses, limiting capital expenditure to essential projects, implementing a hiring freeze and reducing executive pay on a voluntary basis. We have a solid cash position of R\$4.6 billion and no immediate debt maturities. We have also strengthened our balance sheet and enhanced our liquidity through an infusion of fresh equity of between one billion and two billion Reais, led by our controlling shareholders, into an additional financing line of R\$750 million without impacting our net debt. This gives us additional financial flexibility to navigate the current challenging environment. We have also continued to deleverage, with the net debt to EBITDA ratio at Natura Cosmetics improving to 2.70 times at the end of Q1 versus 2.95 times 1 year earlier. From a business standpoint this crisis has shown **Natura and Co's** remarkable resilience and the strength of its multi-channel model. Across our brands and businesses, digital sales helped offset the impact of store closures at The Body Shop and Aesop, we have strengthened social selling as a response to social distancing at Natura and Avon, we launched, for instance, a digital and interactive essential-items sales catalog that can be shared over instant messaging tools and social media and our consultants and representatives showed remarkable adaptability. At Avon international, representatives increased adoption of digital assets from very low single digits in 2019 to over 37% in recent weeks. Very exciting! E-Commerce sales have grown exponentially in the past few weeks as a reaction to lockdown and are up almost 250% at a group level with growths of 150% at Natura and Avon combined, over 300% at The Body Shop and 500%, yes 500%, at Aesop. This strong growth in digital and online sales across our brands and the resilience of our direct sales channels at Natura allows us to boast almost 2% growth in consolidated revenues in Reais, while adjusted EBITDA continues to reflect runoff costs related to the acquisition of Avon and the impact of the Covid-19 pandemic. The integration of Avon is making great strides and the company continues to see progress in its open-up strategy to stabilize the core business and rapidly set up digital adoptions in the face of the current situation. The rapid progress in integration led us to raise our total synergy target, including now top-line synergies in Latin America, to 300 to 400 million dollars over the next four years. We will have the opportunity to detail this later today at our Investor Day, but for now let me now hand over to Filippo to go into our financials in greater detail.

Mr. Filippo: Thank you Roberto and hello to everyone. Before going into our financials, I thought it would be helpful to step back for a second and remind you of the adjustments that impact our numbers as shown in slide 5. Throughout this presentation we will refer to the adjusted EBITDA and this slide describes the principals adjustments we apply to our reported figures to allow better understanding of our underlying performance. This includes nonrecurring costs associated with the Avon acquisition, transformation costs at both Natura and Co LATAM and Avon International this quarter, and at The Body Shop in the first quarter of last year, purchase price allocation as a result of the business combination with Avon, a reversal of a provision for ICMS tax in Q1 of 2019 and a gain on the sale of an Avon manufacturing facility in China in 2019. That said, let's now look at our Q1 performance.

I will start this overview of our P&L with our consolidated net revenue on slide 6. Our consolidated net sales grew by 1.9% to R\$7.5 billion in Q1. In constant currency net revenue was down 6.2% excluding currency effects in the quarter. This solid increase in sales was driven by double-digits growth in Reais at Aesop, a solid performance at Natura and The Body Shop, despite the impact of COVID-19 in the second half of March, and a strong acceleration in digital social selling and online sales across all brands, with the E-Commerce sales up almost 250% at group level in the past few weeks.

On slide Seven we turn to consolidated adjusted EBITDA which stood at R\$71.5 million in Q1, excluding three effects. First: nonrecurring Avon related acquisition costs of R\$298.3 million, second: a noncash nonrecurring purchase price allocation effect of R\$402.9 million, resulting from the fair market value assessment of Avon, which reflects a step up in inventory value in the cost of goods sold, and finally: the transformation costs at Natura and Co LATAM and Avon International for R\$25.1 million. Adjusted EBITDA margin in the quarter was 7.6%, down 220 basis points on the reported basis, EBITDA was R\$145.3 million.

Turning to slide eight we look at Natura and Co's underlining net income in Q1 which excludes nonrecurring and/or noncash effects, and which stood at a negative R\$284.8 million. This reflects two main effects. First, R\$510.9 million in expenses associated with the Avon acquisition and second, R\$25.1 million in transformation costs at Natura and Co LATAM and Avon International. We recorded a net loss of R\$820.8 million in the quarter, reflecting COVID-19 impacts on EBITDA, a higher effective tax rate due to non-deductible acquisition related expenses and PPA effects at The Body Shop.

On slide nine, we look at our balance sheet items and capital structure. We have a strong cash position with R\$4.6 billion in cash at the end of the quarter. Cash flow in the quarter was an outflow of about R\$1.7 billion as expected, reflecting our historical seasonality and further impacted by COVID-19 effects. It includes Avon and is mainly related to nonrecurring acquisition costs of R\$501 million, financial expenses, COVID-19 impacts on sales, and foreign exchange effects due to the depreciation of the Brazilian Real in working capital at Avon international, The Body Shop and Aesop. Working capital was also impacted by extended payment terms offered to consultants and representatives at Natura and Avon. On an estimated and non-audited basis, proforma cash flow in Q1 2019 would have been an outflow of R\$765 million.

As Roberto mentioned in his opening remarks, in the current environment we have taken two additional steps to further strengthen our capital structure and our liquidity. First, we are raising fresh equity of R\$1 billion to R\$2 billion and we have already secured R\$1 billion through the commitment from the controlling shareholders and a select group of

investors. Subscription rights will be available to all current shareholders based on their ownership position as of close of trading on May 12th at the price of R\$32.00 per share. This will result in an improved capital structure and reduced leverage. Second, to improve liquidity we have raised new one-year financing of R\$750 million, with no impact in net debt.

On slide 10, we show that we continue to deleverage in Q1 with Natura Cosméticos net debt to EBITDA ratio dropping to 2.7 times compared to 2.95 times in the same quarter last year. At Natura &Co Holding consolidated net debt to EBITDA stood at 4.91 times and at 3.84 times, adjusted for non-recurring transaction costs and PPA impacts on EBITDA. Please note that indebtedness ratio at the Holding company level will not be considered for financial considered for financial covenant purpose in June 2020.

On slide 11, we provide some color on our consolidated indebtedness. As shown on the first pie chart, 66% of our debt is in bonds of which 45% in Avon bonds and 21% in Natura bonds. Another 32% is in debentures and 6% in promissory notes. By currency, as shown in the second pie chart 52% is in Reais and 45% in dollars. The average maturity is 3.9 years. We have no major maturities until September 2021, the main maturities are in 2022 and 2023 and there are no further maturities between 2024 and 2043. After looking at our consolidated numbers let me now comment on the individual performance of our four businesses, including Avon for the first time.

Starting on page 13 with the key highlights of Natura &Co LATAM. As you know that is the new business unit and reporting segment we set up that encompasses all four of our brands in the region: Avon, Natura, The Body Shop and Aesop. To allow comparison we adjusted 2019 results proforma. The brands combined are the biggest player in the Latin America CFT market, with the number one position in such markets as Brazil, Argentina and Colombia. Total net sales were up 2.4% to R\$4.1 billion in Q1, driven by strong growth at Natura both in Brazil and Latin America despite challenging market conditions. In constant currency, sales were down 1.3%.

On slide 14 we look at the Natura brand. Sales at the Natura brand in Brazil rose 9.8% in Q1, which represents a very strong performance in a challenging environment. This reflects record revenues in January and February with a strong price-mix improvement. The trend was interrupted in March by the COVID-19 pandemic but we were able to keep our operations running to produce essential products, such as soap and hand sanitizers, and a big increase in digital sales contributed to the strong performance. The Natura brand's solid performance reflects the success of our Relationship Selling Model, which is leading to higher productivity in Brazil. Consultant productivity increased by the 14th consecutive quarter, up to a strong 7.6%. The average number of consultants was up 1.6% versus the same quarter of last year. Digital played a critical role in the current context and the adoption of our digital tools by consultants doubled in the weeks following the COVID-19 impact as well as the number of orders from our consultants' digital stores. As a response to social distancing we implemented a digital and interactive brochure focusing on essential items that can be shared over instant messaging and social media, in addition to our complete e-catalog. Over 95% of our consultants used our digital platforms and approximately 700,000 consultants have virtual stores in Rede Natura, a 40% increase versus last year. In the last few weeks, since lockdown measures began, Rede Natura sales grew over 200%. In the retail channels, own store performance remained strong until lockdown in mid-March, with increased traffic and higher conversion resulting in strong double-digit growth in net revenue. Our 400 franchise stores accelerated sellout sales in the quarter until lockdown. At the Natura brand in Hispanic Latin America, Q1 net sales

grew 25.8% in Reais and 19.7% at constant currency. We saw very strong growth in volumes, up 18.2% with strong sales momentum in Argentina, Mexico and Chile. We also felt the impact of COVID-19 related lockdowns in Argentina, Peru and Colombia in the second part of March. The number of consultants grew by a strong 12.1% versus Q1 2019, to almost 714 million, and strong adoption of the mobile platform helps contribute to a significant growth in consultant productivity.

Turning to Avon on slide 15. The Avon brand's revenue in Brazil declined 4.3% in Q1 with an encouraging price-mix increase of 9.8%. This quarter saw important launches in skin care and in color cosmetics, both significantly outperforming estimates. Sales via digital brochure have increased five times since January 1st and E-Commerce sales grew 85% in Avon Brazil and Hispanic LatAm combined. In Hispanic LatAm the Avon brand's revenue declined 8.9% in Q1 in Reais and 16.8% at constant currency due to a 13.6% reduction in the average number of representatives and lower units sold. The second half of March was significantly impacted by strict lockdowns due to COVID-19 in Central America, Argentina, Peru, Colombia and Ecuador. The period also saw important launches in fragrances that are outperforming expectations.

I will conclude in Natura &Co LATAM with its adjusted EBITDA on slide 16, which rose in double digits by 10.5% to R\$287.5 million in Q1. Adjusted EBITDA margin was up 50 basis points to 6.9%. Adjusted EBITDA excludes transformation costs of R\$10.5 million and a non-recurring purchase price allocation impact on cost of goods sold for R\$42.3 million. On a reported basis, EBITA was down 0.5% at R\$234.7 million, excluding PPA effects. Selling, marketing and logistics expenses increased by 300 basis points to 43.8% of net revenue, mainly driven by commercial measures to mitigate COVID-19 impacts such as extended payment terms for consultants, more flexible credit conditions and higher online sales commissions. Also, excluding PPA effects, administrative, R&D, IT and project expenses reached 13.5% of net revenue, down 80 basis points in the quarter, on the back of cost control initiatives adopted by both Natura and Avon to offset COVID-19 impacts, which included freezes in hiring, pay rises, promotions and travel, as well as a reduction in executive remuneration and discretionary spending.

Let's now move to Avon International on slide 18. This is the first quarter in which Avon is included in our scope and Avon International comprises Avon's activity in 50 markets in Europe, Asia, Africa and the Middle East, with 3.7 million representatives. In the first three months since completing the acquisition of Avon there has been a continued focus on stabilizing the core business, which will continue throughout 2020. Q1 saw continued signs of recovery, building on the turnaround initiated in the second half of 2019 with the launch of the Open Up Avon plan, including another quarter of stabilization in the representative count compared to the previous quarter and Increased digital adoption compared to Q1 2019. Net revenue declined 2.4% in Q1 and 15% at constant currency to R\$2.1 billion, mainly impacted by a 6.3% reduction in the average number of representatives, partially offset by improved price-mix of 2.6% across most markets. Units sold declined 17.4%. In the quarter, representatives were boosted buy new digital capabilities, including new order management features in the instant messaging digital brochure and direct to consumer shipping, available in 25 markets. Sales via digital brochure have increased nearly fivefold since January 1st.

As shown in slide 19, Avon international's suggested EBITDA was R\$102.9 million, with adjusted EBITDA margin of 4.8%. This was impacted by the previously described revenue decrease and lower gross margin which was partially offset by a positive price-mix effect. Selling, marketing and logistic expenses were up as a result of commercial measures to

mitigate COVID-19 impacts and G&A expenses were also up but contained thanks to spending cuts.

We will now move on to The Body Shop in slide 21. Net revenue in Reais increased by 2.6% in Q1 to a little over R\$893 million and was down by 10.5% at constant currency. This reflects the closure of 21 owned stores in the last 12 months as part of the store footprint optimization plan, as well as the impact of store closures due to the COVID-19 impact. They, in general, reported positive like for like sales growth but this was interrupted as COVID-19 started to spread, first in APAC, then in European markets and in North America in March, leaving about only 25% of company stores open in some markets. In this context, digital sales and direct selling stood out. Since the closure of most of the stores due to the lockdown restrictions, e-commerce grew 300%, recovering 40% of lost retail sales, and we saw 61% growth in at-home direct sales in the quarter, largely driven by the UK. The Body Shop benefited from having about 35% of its sales comprised of essential items. Two new concept stores were launched in the period, in Toronto and in Hong Kong. The quarter ended with 977 owned stores and 1,728 franchise stores, for a total of 2,705.

On slide 22 we show that The Body Shop's EBITDA in the quarter stood at R\$133.6 million with a margin of 15%, down 460 basis points on an adjusted basis. The margin decline was due to revenue reduction from store closures, lockdown measures and the phasing of cost measures taken in Q1 that will benefit coming quarters. SG&A expenses increased in Reais due to the foreign exchange impact. At constant currency, these expenses decreased by 2.5%. It is worth highlighting that The Body Shop no longer incurred transformation costs as of this quarter.

On slide 24, we look at Aesop, whose success story continues with strong double-digit growth in both sales and profitability in Q1. Net revenue grew in Reais by 26.6% in Q1 and by 10.5% at constant currency to R\$340.9 million, despite physical store closures, which were in about 90% of the market in the end of Q1. Their revenue still grew in the quarter, although with a lower rate, supported by key markets in Asia, where our online sales were the highlight. Since closures of most of the stores due to lockdown restrictions, E-Commerce grew over 500% in recent weeks over the same period of last year, recovering 50% of lost retail sales. Market highlights included the Americas, Asia and Europe which posted double digit sales growth offsetting sales drops in Australia and New Zealand due to COVID-19 lockdowns. Aesop signature stores reached 247 in the quarter, up 17 since Q1 2019 and flat versus Q4 2019. There were 91 Department stores in Q1 2020, stable versus Q1 2019 and down 8 stores since Q4 2019. Profitability also grew in strong double digits in Reais with EBITDA up 28.1% to R\$77.8 million and EBITDA margin of 22.8%, up 30 basis points, supported by sales growth and cost reduction initiatives, including discretionary spending cuts, hiring and travel freeze and furloughing of staff.

Let me know hand back to Roberto.

Mr. Marques: Thank you, Filippo. Let me now conclude on slide 26 with key takeaways. Let me mention three. First of all, Natura &Co's multi-channel model has shown its resilience in the middle of the COVID-19 crisis, with strong growth in digital social selling and E-Commerce. Second, with the addition of Avon, Natura and Co is the leading player in the Latin American CFT market. We are very pleased with the integration and have raised our target synergies to be achieved over four years by 100 million dollars, now between 300 to 400 million dollars. And third, we have strengthened our financial structure to be able to capture future growth opportunities. The environment continues to be challenging. In this changing environment, social distance and lockdown measures

will continue to have a significant impact on the CFT market and in our business, especially in the second quarter, but markets in which measures were eased have shown some rebound already, especially in Asia, we're starting to see, and in some countries in Europe. We have decided to suspend the guidance that we had provided before for Natura Cosméticos for medium term compound annual growth rate for revenues and EBITDA, both as a result of the changed scope of the group, following the Avon acquisition, but also due to the current uncertainty. We will provide new group guidance in due course as visibility improves.

Thank you very much for your attention, we are now going to open for our Q&A session and Filippo, JP and myself will be happy to take your questions. The floor now is yours.

Moderator: Thank you. Ladies and gentlemen. We will now begin the question and answer session if you have a question please press *1 on your telephone keypad. If you'd like to be removed from the queue please press the pound sign or the hash key. From Bank of America we have Bob Ford on line, please go ahead.

Mr. Ford: Thank you for taking my question and I hope you and your families are all very well. Roberto, how are you thinking about dropped earnings and cash consumption in the pandemic? And with much of The Body Shop selling space closed, can we get some update on the outlook for store-based expenses or the ability perhaps to deploy sales people with e-commerce tools? And then also at Avon, can you talk a little bit about the declining consultant numbers, is that similar to what was done at Natura or is this something else? And should we expect faster adjustments to the network in terms of the structure, the compensation, packages and processes given early successes and the added pressure from the pandemic? And then lastly, your e-commerce and digitalization benchmarks were impressive, which E-Commerce tools have proven to be the most effective and what are you doing to accelerate the availability and adoption of those?

Mr. Marques: Hey Bob, Roberto here hope you are doing well and your family as well. So, thank you for the question. So, on the retail side we got to a certain point on the peak of the crisis that we had almost 90% of our stores, between Aesop and The Body Shop, closed. This number now is coming down, because we are seeing reopening, especially in Asia and in some countries in Europe, which are starting to come back up. During this period, I think that the key learning was the amazing response on our E-Commerce business, both at The Body Shop and Aesop. It forced us to be very creative and very agile. The Body Shop was quickly responding to create a new distribution center to be able to meet the demands on a different fulfillment, with smaller quantities, shipping directly to customers versus selling to stores. Aesop for instance used over eight of their stores to become fulfillment centers, where they were able to then divide the orders and ship directly to the customers. The good news is that we are seeing a surge on E-Commerce on both businesses. The Body Shop grew in the last couple of weeks over 300% and Aesop over 500%, which is pretty impressive. As we look forward, we're starting to model with the business, and we are going to talk more about this in a little more detail this afternoon, that we don't think we're ever going to go back to prior to the crisis, so we are now doubling down on the E-Commerce. Of course, retail will be important, but we are really now reassessing what's the right mix between physical and E-Commerce with the surge that we're seeing on E-Commerce. Your second question on Avon's decline on representatives, I would say that at this point, Bob, it was more directly linked to the lockdown that we have seen in many markets, but I think it's fair to say that is the same thing that Natura has done. One of the key strategies that JP is putting in place, and Angela, is changing the earnings model and the segmentation of our representatives at Avon and that most likely might continue to see some kind of streaming of number of reps

overall. But I would say this quarter was more particularly impacted by some of the lockdown. And finally, in terms of your question on digital tools that are really working well, no question, especially in Natura, and JP can comment, on the growth of digitalization, of the online consultants' page, it has been very, very successful. And I would say that Avon is the expansion of the digital brochures we now are pretty much, for the markets at Avon with the digital brochures, we are now in pretty much almost 40 markets with the digital brochures, with a growth of almost 500% compared to prior years. So, we are seeing a tremendous growth in terms of adoption of social selling tools and I think that this will also be something very promising moving forward. JP do you want to comment specifically on some of the tools in digitalization for Natura and Avon?

Mr. Ferreira: Sure, Roberto. Hi Bob, so first of all the growth you see in our online channels, so to say, has not been driven by increasing promotions for instance. That has all been driven by the reduction of barriers for our consultants and representatives, so we made it even easier for them to open their online stores or start sharing the e-catalog, the e-brochures, the posts, customizing their content. So, we made it even easier and very fast. We did that very quickly during this period, as well as we enhanced training and improved their margins so that they could try and maintain their profitability by shifting their business to the online channel, both for Avon and Natura. That caused that amazing growth in all of our operations.

Mr. Ford: That's very helpful, thank you. And quickly if you could comment a little bit about how you're thinking about dropped earnings and cash consumption in the environment?

Mr. Marques: Filippo do you want to answer that, just in terms of cash consumption?

Mr. Filippo: Sure, thanks Roberto and good morning to you, Bob. As Roberto mentioned of course we have a lot of actions in place to really prioritize cash and also results, a lot of things we have already mentioned during the presentation, so we're still very focused on that. What you must also notice, we ended the first quarter with a very strong cash position with a R\$4.6 billion of cash and recently those initiatives of banking our cash in our balance sheet above the capitalization and also helped us on making sure that we keep that position, so there is no net debt increase, there is the increase in capitalization, but also we are taking care that no spending happened. So, we created a lot of ways of control in the financial leaders of each business, to track that and monitor, especially spending are really concentrated and centralized to make sure we keep this. Generally, we are taking those initiatives and making sure that we monitor that very closely to make sure that we keep this. So, I believe that in terms of the cash position I think we're happy the way we are and the way we finished our very first quarter. As you know with the consumption of cash normally that we end up with a very strong position, that leaves us in a very comfortable situation going forward. Basically, that's how we are addressing this.

Mr. Marques: Just one thing to add, Bob. Again, just to be clear, this capitalization and the line of credit of R\$750 million, we're doing that not actually to consume that. We want to keep it really as a reserve for us at this point, so we didn't do that because we needed it from a cash perspective. So back to Filippo's point, we feel very strongly about how we finished the quarter, with over R\$4.5 billion in cash, and our projections, even in a more conservative scenario, we still would be without the use of the capitalization or of this new line of credit, above our minimum thresholds. So, at this point we feel pretty good about the usage and our starting point.

Mr. Ford: That's very helpful, thank you very much.

Moderator: From JP Morgan we have Joseph Giordano. Please go ahead.

Mr. Giordano: Good morning, everyone. Thanks for taking my question and thanks for the very detailed release, it was very helpful to understand the trends in Avon inside. So, I have a few questions, first related to the synergies. I want to understand how much you guys feel you should need to reinvest of those synergies to reaccelerate growth in the operations of Avon so, I understand this US\$400 million is mostly on a gross basis so how much really of that stays afterward. The second question Roberto mentioned, then JP followed up on the efforts and initiatives related to Avon sales Rep base, I'd like to understand how you guys plan to revamp volume growth with these sales reps, because I understand that probably with the segmentation strategy here we do have a member base that continues to decline but on the flip side we want to start to see volume growing, so that's been a challenge. So, any color here would be great. Thank you.

Mr. Marques: Hi Joseph, Roberto here. So, starting with the synergies, again I want to highlight that this has been the result of an acceleration of the integration and the teams working together since January, that has given us strong confidence about those numbers. Different than when we announced in January, which was the synergy between US\$200 to US\$300 million, this time we are including some synergy that will come from revenue growth in Latin America. We're going to explain more later this afternoon, but it's really a component of three different ways: of a turnaround of Avon in Latin America, then opportunity that we call cross-sell and upsell, among households that either by Natura or buy Avon, or consultants that potentially work with one product versus the other catalog, and the opportunity to really expand the portfolio. And the third way is the expansion of Natura brand in markets in Latin America that they are not present in. JP will detail that later this afternoon on Investor Day. We feel pretty good about that and, as we communicate it, we think that this will create fuel, those synergies, that we can then reinvest to accelerate growth, specifically in areas like digital. You know this momentum that we're seeing, we want to build on that momentum. We think that this might be a little bit of a silver lining of this very devastating crisis is that maybe some of the plans that we had on digitalization, that we were planning maybe in 18, 24 months, it's happening in a much shorter period of time, and we want to seize that opportunity and double down on that, as well as the relaunch of the Avon brand, the team is already working on that, and we're very excited about, potentially in the third quarter, to relaunch Avon as a brand and at the same time take all the learnings from Natura about, again, the earnings model and the segmentation of the representatives and consultants at Natura who will serve almost as a footprint, both in Latin America, but also very good collaboration between JP and Angela to make sure that we take all that learning to Avon international as well. So, we don't have exactly what is the percentage of the synergies that we want to reinvest at this point, but I would say we are very excited that the number went up with a high degree of confidence and that we are going to reinvest to accelerate growth in some of those areas. The other thing that is just important to highlight, because I don't know if all of you noticed, but the synergies actually went up by US\$100 million dollars on a different exchange rate, right? When we announced back in January the synergies were between US\$200 to US\$300 million, we were using exchange rates of Real at 3.85. We actually now are using a more close-to-current exchange rate and even with that it's increased US\$100 million on an annual basis. If we were to use the same, apples to apples, constant currency compared to January, the synergies would have gone up almost US\$200 million on this revised plan. So, we feel pretty good about that and that will create a lot of fuel for us to, not only improve the bottom line, but be able to reinvest.

Mr. Giordano: All right, perfect. Thank you very much.

Moderator: From Bradesco we have Richard Cathcart. Please go ahead. Richard Cathcart, your line is open.

Mr. Cathcart: Hi, good morning, everyone. Thanks for taking my question and again thanks for the disclosure between Natura and Avon brands in Latin America and Brazil, that's very helpful, and that's actually one of the first questions that I have, just about Natura in Brazil. The growth is very strong there so, perhaps, JP, you could just talk a little bit about what was the main drive there. Any new product launches or particular promotional campaigns that went well, and just the second part of that question, if you could give us any idea of how Aqui Tem Natura stores were performing in terms of same stores sales growth before the COVID crisis hit. And then the second question, Roberto, you mentioned that you're seeing some of your markets beginning to open up particularly in Asia, so is there anything that you can tell us about stores, perhaps in Hong Kong, to help us understand the dynamics around footfall once we come out of these lockdown measures, that could perhaps help us as a read across some of the markets in Europe? Thanks.

Mr. Marques: JP go ahead first and then I'll take the latter part of Richard's question.

Mr. Ferreira: So, Richard, with regards to Natura and Co's performance in Brazil in Q1, it was very, very strong and that was driven by commercial strategy, so the way we built the first quarter and then we leveraged now the different segments of our consultants in the network. So that is now allowing us to be even more precise in our commercial strategy, targeting them differently, together with investments in certain categories and brands that are more demanded in the first quarter. Those very well combined in the support of the categories and brands with new commercial strategies for the quarter. So that is basically it. And with regards to Aqui Tem Natura stores' performance, we were extremely happy with that. Double digit like-to-like sales growth so far before the shutdown of COVID. Roberto?

Mr. Marques: Yeah, Richard, regarding Asia what we are seeing is, again and some of that we are incorporating also in our modeling, is a more gradual recovery, right? So even though some of the lockdowns are being eased or lifted there is still very much attention to resurge of contagion and the virus and therefore there are a few measures to make sure that it doesn't go back in large scale. So, for the most part traffic is still down, and that varies by category, but we're seeing between some categories between still traffic minus 20 to minus 40%. We are seeing a higher basket in general, so people are making fewer trips but potentially buying more, and E-Commerce and digital selling continues to be very, very strong. So, I think to the point that I was making to Bob, I think that we see this really as an opportunity to double down on digitalization and we needed to be prepared and will continue to invest behind that. So, those are kind of the early signs of what we're seeing in Asia Richard.

Mr. Cathcart: Thank you very much. And if I may just follow up perhaps for Filippo this one just on the Avon international if you could just talk a little bit more about profit decline there obviously there was weakness in revenue because of COVID-19 but perhaps we could have expected to see a little bit more cushion from variable costs falling so if you could just give us a little bit more insight into the drivers of the margin decline in Avon International.

Mr. Marques: Fillippo go ahead, please.

Mr. Fillippo: Yes, hi Richard. As we said we are studying the turnaround, this is a new business unit that was created so there is a lot of focus on keeping increasing the profitability of the business, but I think there's still some situation that was affected like you said in terms of the COVID-19 impact in some markets, LatAm was a little bit in the end of the quarter, I think central Europe and Asia, which are the core of Avon International, was in there. But there's one very important thing about Avon International regarding the cost reduction, as you know, after we did the season to change and to have the business units separate, we no longer have that corporate structure that Avon used to carry, as of course it is a public company that has a board and has a lot of compliance requirements for that, this is no longer needed, it was absorbed by Natura & Co, which already had this structure in place, so this is going to be something that you're going to see going forward, this effect of leaving the burden of that structure from Avon International. But this quarter of Avon International was affected by some of the transaction costs because it said for most of the quarter but going forward, we can see an evolution for that regarding those costs that affects the profitability of the business, that's what I see.

Mr. Cathart: Okay, great. Thanks very much for the answer, it was very clear. Thanks again.

Moderator: From Citibank, we have Tobias Stingelin. Please go ahead.

Mr. Stingelin: Yes, thank you so much and congratulations for the disclosure, I think we have a lot of information to process, thank you very much there. If I can just make a question, I know that you said about moving parts, the group is much more geographically dispersed right now and has different realities in different markets because of the COVID situation, but is it possible to get a sense of what is happening during the month of April and the beginning of May, you can just give us a sense if you can compare it to last year, we are running events to sales, the amount of level just to have an idea of the running and I know as I said there are moving parts, Asia starting to improve again, with Brazil probably still behind a little bit, but if you can maybe give us a sense of what is going on that would help. And also, just with all of this transformation with regards to digital, that's kind of been running late right now, the E-Commerce of the group as a whole and maybe some specific markets, just to kind of get a sense of where the business is. Thank you so much.

Mr. Ferreira: I'll start, Tobias. Hope all is well with you now. So, listen, going to your point, there are a lot of moving parts and again I think it's fair to say, as a result of that, there's still a lot of uncertainty. We do project the second quarter probably to be the toughest one, right? It probably will be the biggest impact of the lockdown in most of the geographies and the ones that are most critical for us, if you take Brazil, if you take UK, even parts of the United States which, for The Body Shop and Aesop, are important markets, that we believe we will see the biggest impact in Q2. We are again, as I think we highlighted, seeing tremendous agility and resilience and response from our business in actually finding ways to mitigate the lockdown. We always talk about the resilience of the direct selling channel, which clearly, we're seeing this, and the adoption of social selling tools, and consultants and representatives continuing to be active by using more and more social selling tools and the E-Commerce component that is growing exponentially. What I can tell you is that for the most part this is still moving parts, you know? You saw, you heard from Filippo, you know, The Body Shop with the growth of E-Commerce and At Home at some point compensating between 50 to 60% of store closures, which is extremely remarkable if you

think about that almost 90% of the stores at the peak were closed. Aesop compensated even more than that, you know, growing 500% their E-Commerce business. So we are seeing an ability for the business to really navigate and respond to that in a way that probably we did not anticipate, but, having said all of that, of course it will continue to have an impact in terms of business and we believe that Q2 probably will be the most challenging one.

Mr. Stingelin: Perfect. And with regards to the second question, can we get some kind of just some basis for all e-commerce. I don't know, to be really objective I'd like to have like a number of how much you're selling right now on the E-Commerce on a consolidated basis. And I know it might be hard to know something like that, but any color just to understand what the basis of the E-Commerce businesses, for sure from everything that you're saying will change completely right, and it's going very fast. It will be the future as well.

Mr. Marques: I mean it is, Tobias, it's a hard question because it depends, right? At some point, for example, when you had for Aesop and The Body Shop almost 90% of the stores closed, you are pretty much almost at 85% of your business in E-Commerce, right? But that is actually not very realistic to say that our business will be 85% in E-Commerce because you had all your physical stores closed. As we are reopening the stores I think that we're going to have a different accommodation, but what I can tell you is that before the crisis, so let's just take, you know, the business of The Body Shop and Aesop, that they were about 12% in E-Commerce before the crisis. We think that, again based on what we're seeing of growing 200, 300, 500%, this is probably going to double, right, even after the crisis. So, we think that is realistic to say that as we are seeing growth of 300, 500%, even if you have some accommodation, with of course all the stores coming back up, we don't see E-Commerce going back to 12%. So, it's going to be at a much higher level.

Mr. Stingelin: Perfect. And can I just ask you something, I think you have already addressed some of these issues but what kind of long-lasting changes are expected to see that you have been able to identify already in regard to the wholesale stores? You have already mentioned that you're going to have to revise this at some point because everything is kind of going digital, but you also spoke about the e-books and all the digitalization. Is there something else that you are seeing, some extra kind of the sales force between the consultant's perspective? Some trends that may not be obvious that you're seeing right now but it can be very important long-term. Thanks again.

Mr. Marques: Yeah, so I will start answering then I will invite JP to share his perspectives on Latin America. I think, again, we are very excited about the acceleration of the integration with Avon and I would say that, again, maybe another silver lining of this very unfortunate crisis is that we are seeing the teams working together, in a way that probably would have taken longer for us to get to that point. So, one example, we are already seeing Natura products being produced at Avon manufacturing sites, we're already seeing The Body Shop products being produced at Avon sites. Probably things that we wanted to do them over time, are already happening. So, this integration is being accelerated and we see that very positively. We see the digitalization and the E-Commerce, we talked a lot about that already on the call, but we are very bullish about that because we always believed in this notion of social selling and direct selling evolving to be much more an offline-online relationship selling, and the adoption, and the training, and the tools that are becoming more and more available, I think it is something that will continue after the crisis. I would add a third one is the portfolio. You know, there's no question about it that we are seeing high demand of parts of our more essential products, soap and hand

sanitizer, more personal care items, and I think even coming out of the crisis there's going to be a change in terms of consumer behavior. Consumers are being much more aware about some of those caring aspects, hygiene etc. and we're already working with the business in terms of innovation and new product development to be able... that we can really seize this consumer demand and new consumer habit. JP what else do you want to share from your perspective, that you're seeing more specifically in LatAm?

Mr. Ferreira: Well I think you highlighted a big one, which is the integration. I think with regards to the digitalization, it is the most obvious, but I'd just like to point out that as our online sales are growing at the rate of many 100%, depending on the country, it is interesting to see that from, the incoming orders, the orders coming from new customers are growing twice as fast. So that means that we're bringing customers in and from some previous research we know that many of them that bought in that channel were not buying our products as frequently as the average. So that is interesting because we are bringing more customers to the brand and also very interesting that most of the new customers have been acquired by the consultants and representatives, which shows the very structural change in the way they do the direct selling, the social selling, digitally enhanced, which is what I'm going to come back to. Also, perhaps interesting to notice is that in this crisis, similarly, home delivery is something that is part of everyone's lives, and everyone accepts that having products and services delivered to your home is safe and convenient. So, here's the opportunity where the new direct selling, if you want, has the opportunity of being positioned as perhaps one of the fairest, most trustful, convenient and safest means of commercialization. So, I think the way we see direct selling may be positioned in an even stronger way for the society after the crisis. That's all I wanted to add.

Mr. Stingelin: Perfect. Thank you so much again and hope everybody stays safe.

Moderator: Thank you. We will now turn it back to Mr. Roberto Marques for closing remarks.

Mr. Marques: So, thank you everybody and I appreciate it. As you know we're going to have an Investor Day later this afternoon where each CEO will talk a little bit, in more details, about the great things that they're doing to cope with the crisis, and then really starting to think about the new normal. Some of the areas that we want to really double down and think about how we need to continue to position the Natura and Co group. Listen, we still feel very good about where we are going. Number one, I think we are seeing progress on the integration, acceleration of this integration, which is very important with the synergies now going up, which is very important, not only to improve profitability, but to create fuel for growth in some of those strategic areas. Number two, we are seeing tremendous growth in social selling, which is something that we always believed in, in terms of the future of direct selling and E-Commerce as a way to really truly become an even more omnichannel business. We are seeing the importance of having iconic brands. Consumers are choosing our brands and making those changes from channel to channel because we have strong and iconic brands in our portfolio. And last but not least, we have a very solid financial position, not only in terms of cash position, in terms of how we are managing cost moving forward, but also now this infusion of fresh capitalization and the line of credit that will give us even more strength to go through these challenging times. So, thank you very much for your time, I hope we all stay well and safe and I will talk to you, and maybe most of you, later today at our Investor Day, so thank you very much.

Moderator: Thank you. Ladies and gentlemen, this concludes the Natura audio conference for today. Thank you very much for your participation and have a good day.