

## Y 2019 Earnings Call

### Company Participants

- Angela Cretu, Chief Executive Officer
- Joao Paulo Brotto Goncalves Ferreira, Chief Executive Officer, Latin America
- Jose Antonio De Almeida Filippo, Chief Financial Officer
- Roberto de Oliveira Marques, Executive Chairman of the Board
- Viviane Behar de Castro, Director - Investor Relations

### Other Participants

- Helena Villares, Analyst
- Olivia Petronilho, Analyst
- Robert Erick Ford Aguilar, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, we would like to welcome everyone to the Natura &Co Conference Call on the 2019 Fourth Quarter and Full Year Results. Today with us we have Mr. Roberto Marques; Executive Chairman of the Board and CEO of Natura &Co; Mr. Jose Filippo, CFO of Natura &Co; Mr. Joao Ferreira, CEO of Natura; Ms. Angela Cretu, CEO of Avon. Ms. Viviane Behar, Investor Relations Director of Natura &Co. This event is being recorded and all participants will be in a listen-only mode during the Company's presentation.

After Natura's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. We have simultaneous translation into Portuguese and questions may be asked normally by participants connected from abroad, either in English or Portuguese. (Operator Instructions) We have a simultaneous webcast that may be accessed through Natura's IR website [www.natura.net/investor](http://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.

This presentation may contain forward-looking statements. Such statements are not statements of historical fact and reflect the beliefs and expectations of Natura &Co's Management. This presentation also includes adjusted information prepared by the Company for information and reference purposes only, which have not been audited. Forward-looking statements speak only as of the date they are made and the Company

does not undertake any obligation to update them in light of new information or future developments.

Now I will turn the conference over to Ms. Viviane Behar, Investor Relations Director of Natura &Co, Ms. Viviane Behar, the floor is yours.

### **Viviane Behar de Castro** {BIO 16620272 <GO>}

Good morning or good afternoon to everyone. I am Viviane Behar; Natura &Co's Head of Investor Relations. Thank you for joining us today for this call to present Natura &Co's fourth quarter and full-year 2019 earnings. Please note, Natura &Co and Avon have filed their respective Q4 and full-year financials separately considering that in this period the companies were independently managed and the acquisition was completed on January 3, 2020. As such, we will briefly comment on Avon's Q4 and full-year financials given that Avon will not host an earnings call of its own, but those numbers are not part of the 2019 consolidated accounts of Natura &Co that we are presenting today. I am joined here today by Roberto Marques, Executive Chairman and CEO of Natura &Co; Jose Filippo, CFO of Natura &Co, as well as Joao Paulo Ferreira, CEO of Natura &Co Latin America and Angela Cretu, CEO of Avon, who will both 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 with an overview of our performance. Filippo will detail our financials for Natura &Co, he will also comment on 2019 pro forma consolidated P&L, combining Natura &Co and Avon and provide a brief overview of Avon's Q4 and full-year results. After that, Roberto will make concluding remarks and we will open the floor to your questions.

Let me now hand over to Roberto.

### **Roberto de Oliveira Marques** {BIO 17538675 <GO>}

Thank you. Viviane and hello to everyone. Thank you for joining us. Let me begin on Slide 3, with an overview of our performance. 2019 was another year of profitable growth and transformation for Natura &Co, as we continue to build what has now become the world's fourth-largest pure play beauty company, with a portfolio of iconic brands further enhanced by the acquisition now of Avon.

Our fourth-quarter performance demonstrates again the power of our multi-brand multi-channel Group. The strength of our results continues to show our ability to serve the ever-increasing number of customers across price points and distribution channels. Again this quarter and year, all of our business and brands contributed to a strong performance, with consolidated net sales growth of 7.3% in the fourth quarter and 7.8% in the full-year.

Natura posted further growth in Brazil and LATAM, while developing its relationship selling model and multi-channel strategy. The Body Shop continues to successfully implement its ongoing transformation plan and extend its margin to achieve its guidance.

In Aesop, we turn to strong double-digit growth in sales and profitability and its store footprint continued to grow, with 20 net openings in the year.

This is all despite the challenges, we continue to face with both a weak CFT market in Brazil and ongoing events in Hong Kong, an important market for both The Body Shop and Aesop. Our consolidated adjusted EBITDA grew in double digits by 12.2% in Q4, and by 7.5% in the full-year.

Our underlying operating income, which provides a picture of our profitability without non-recurring costs rose by a strong 18.2% in Q4 and by a solid 5.7% in the year. Thanks to our strong cash generation, we also continue to deleverage the Group to 2.41 times net debt to EBITDA from 2.71 times at the end of 2018.

The past year was marked by the announcement of our acquisition of Avon, which we successfully closed ahead of schedule just after the New Year. With this transaction, we are taking another transformation step creating a leading direct-to-consumer global beauty group with unparalleled reach and a unique portfolio of global brand.

We recently announced a new organizational structure to ensure a successful integration and leverage the full capabilities of the Group. We also began trading on the New York Stock Exchange through ADRs in early January. We continue to see significant growth opportunity and potential to unlock the planned synergies of \$200 million to \$300 million per year as we announced back in January.

We are already working with Avon's teams to create a group, committed to our triple-bottom-line, making positive social, economic and environmental impact while having a stronger voice to advocate for causes that matters to us. Together, we have started our journey to build not the best beauty company in the world, but the best beauty company for the world.

Before handing over to Filippo, I also would like to share with you that we are closely monitoring the situation regarding the business and financial impact of coronavirus situation. Fortunately, to-date we have not had cases with our employee base, which is the most important thing for us. And the Group low overall safe exposure to China and Asia helped mitigate the initial current impact, although we are fully aware that the issue is evolving and becoming globally on a daily based almost, unfortunately.

I will return to these at the end of the presentation. Let me now hand over to Filippo to go into our financials in greater detail.

**Jose Antonio De Almeida Filippo** {BIO 1726218 <GO>}

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. In addition, the results presented today refer to the Natura & Co Holding SA, which replace Natura Cosméticos SA, as part of the corporate restructuring implemented to conclude the Avon acquisition.

Throughout this presentation, we will refer to the adjusted EBITDA and on Slide 5 we described the principal adjustments that we applied to our reported figures to allow better understanding of our underlying performance. Q4 was marked by fewer non-operational adjustments, as we now have a comparable base for the effects of hyperinflation in Argentina and IFRS 15 and so there are no adjustments in revenues.

We continue to adjust EBITDA for non-recurring items such as transformation costs related to The Body Shop and acquisition costs related to the Avon transaction. All results presented here exclude the effect of IFRS 16. That said, let's now look at our Q4 and full-year performance.

I will start this overview of our P&L with our consolidated net revenue on Slide 6. Our consolidated net sales grew by 7.3% to BRL4.6 billion in Q4. In constant currency net revenue was up 6.1%. This solid increase in sales results from growth in all three of our businesses in Brazilian reais, as we will shortly see. In the full-year consolidated net revenue grew by 7.8% in Brazilian reais and 7% at constant currency to reach BRL14.4 billion.

On Slide 7, we turn our consolidated adjusted EBITDA, which stood at BRL816.7 million in Q4. This represents strong double-digit growth of 12.2%. Adjusted EBITDA margin was very solid at 17.6%, a gain of 80 basis points. On a reported basis, Q4 EBITDA was BRL744.5 million including BRL37.5 million in Avon acquisition costs and two effects at The Body Shop. Transformational costs for BRL18.7 million and intangible write-offs for BRL15.9 million. In the full-year adjusted EBITDA rose 7.5% to nearly BRL2 billion with stable margin at 13.8%.

Reported EBITDA was a little over BRL1.9 million, up 3.2%, with margin of 13.2% reflecting Avon related acquisition cost for BRL141.3 million and The Body Shop transformation cost of BRL51.5 million. It also reflects the same intangible write-off of BRL15.9 million at The Body Shop.

Turning to Slide 9, we look at Natura &Co's underlying operating income in Q4 which accelerated by a very strong 18.2% to BRL641.2 million. This was driven by higher gross margin and well-controlled SG&A expenses. It includes acquisition-related expenses, transformation costs, financial expenses and income tax. And, therefore, provides a clear vision of our operating performance, which as you can see, reflects the strong sales and cost discipline.

Q4 net income after these charges stood at BRL14.3 million. It reflects non-cash, non-recurring accounting effects of BRL206.6 million, and tax linked to the corporate restructuring and net Avon related acquisition cost of BRL104.2 million. Underlying operating income in the full year was up 5.7%. Solid gross profit helping offset slightly higher SG&A expenses.

In the full-year, net income was BRL190.9 million. This figure also includes the same non-cash, non-recurring accounting effect, from tax from the corporate restructuring and net Avon related acquisition costs of BRL206.6 million.

On Slide 11, we will look at our balance sheet items, beginning with cash flow. In the quarter, cash generation was strong at BRL802.6 million, up 13.2%. This was driven by improved working capital at Natura supported by lower accounts receivable and improved inventory levels. In the full-year, cash flow was down 15.2% to BRL397.8 million impacted by Avon related acquisition costs. We continue deleveraging the company in line with our expectations. At year-end, our net debt to EBITDA ratio stood at 2.41 times.

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After looking at our consolidated numbers, let me now comment on individual performance of our three businesses, starting on Page 13 with the key highlights of Natura. Total net sales were up 5.2% to BRL2.76 billion in Q4, with growth both in Brazil and Latin America despite challenging market conditions. In the full-year consolidated sales were up and even stronger 6.7%.

In Brazil, sales rose 3% in Q4, which represents a very strong performance against a very challenging comparable base. If you recall Q4 2018 happened to be the strongest quarter since 2010, with growth of 11.2% driven notably by Natura's best ever Christmas campaign. This year's Christmas was also strong and the gift and fragrance categories performed well.

In the full-year sales in Brazil were up 4% to BRL6.2 billion and we maintained leadership in the Brazilian CFT market. Natura's solid performance reflects the success of our relationship selling model, which is leading to higher productivity in Brazil. Consultant productivity increased for the 13th consecutive quarter up by 0.5%.

The average number of consultants was up 1.8% versus the same quarter last year to 1.1 million consultants. Within the consultant base, we continue to see movement towards our top Silver, Gold and Diamond segments, attesting to the good momentum of the model. Adoption of our digital platform by our consultants continues to increase as with the range of available digital solutions and services.

The number of consultants using our digital platforms which includes the app and the web, rose to over 900,000. We are seeing good adoption of the Natura digital accounts, Rede Natura our online platform and its Q4 with approximately 700,000 virtual stores in Brazil compared to about 400,000 one year earlier. This contribute to double-digit growth in online sales and the quarter saw a significant increase in the number of visits.

We also continue our multi-channel expansion with nine new stores opened in the quarter, all under the new concept, to totally 58 stores which contribute to a near doubling the retail net revenue. Our consultant franchise stores totaled just over 400, doubling from last year, and posted strong double-digit like-for-like sales.

In the quarter, we will launch our premium Una brand, which includes makeup, fragrances and nail polish. Our innovation index reached 58.4% in line with our expectations and reflects the innovation phasing and the focus on extending the life cycle of existing hero products.

The Latin America, Q4 net sales grew 10.6% in Brazilian reals and 28.9% at constant currency. Sales in the full-year were up 13.5% in reals and 23.9% at constant currency. The number of consultants grew 9.2% versus Q4 2018. And we are seeing very strong adoption of the mobile platforms, contributing to significant growth in consultant productivity.

Volumes were up in the region by 29%, highlights included, Colombia, Mexico and especially Argentina, where despite the challenging economic environment we are posting strong growth outpacing inflation. Natura became the leader in brand preference in Argentina and ranked first in four of our five countries in the region.

I will conclude on a Natura with its Adjusted EBITDA on Slide 14 which was BRL467.2 million in Q4, up 7%, and up 2.7% in the full-year to BRL1.4 billion.

We saw growth both in Brazil and Latin America. In Brazil, EBITDA margin grew by a stronger 100 basis points to 20.5% in Q4. Thanks to higher gross margins at 68.9% due to favorable category mix with the strong sales of fragrances. In the quarter, adjusted selling, marketing logistics expenses increased 30 basis points to 39.2% of net revenue, while adjusted G&A expenses also rose 30 basis points to 14.2% of net revenues to drive investments in innovation, IT and projects.

The full-year gross margin was also up by 30 basis points to 68.8%. Adjusted selling, marketing and logistics expenses, as well as adjusted G&A expenses, rose 20 basis points to 41% and 14.5% of net revenue respectively. Both broadly in line with 2018 as was already the case in the nine months results. In Latin America EBITDA was up by a strong 11.5% in Q4. EBITDA margin was 10.7%, up 10 basis points, driven by a strong top-line performance and continued efforts to improve operational efficiency, with SG&A down by 60 basis points. In the full-year EBITDA was up 8.9% and margin was 13%, down 60 basis points as a result of gross margin pressure linked to strong depreciation of the Argentine peso.

Let's now move to The Body Shop on slide 16. Net revenue in reals increased by 6.7% in Q4. And were down 1.2% at constant currency. This reflects the closure of 24-owned stores in the year and ongoing Hong Kong effect. Excluding Hong Kong net revenue grew 0.4% at constant currency driven by solid sales in Australia and the UK supported by retail growth and double-digit growth in the at-home direct sales channel.

In the full-year, The Body Shop's net revenue was up 6.3% in reals and 0.7% in constant currency. Excluding Hong Kong, constant currency growth was 2.4% in the period. Sales were particularly strong in the UK, where it grew by 8.8% in the year attesting the successful revival of the brand in its home market. The Body Shop continues to optimize its store footprint with 56 net closures in 2019 and 170 since the launch of the plan. At the end of the year, it had 2,879 stores.

On slide 17, we show that The Body Shop's EBITDA in the quarter increased by 9.8% reaching to BRL129.3 million, with a margin of 16%, up 50 basis points. In the year, EBITDA margin reached 9.7% up by a 180 basis points, achieving margin guidance of 10% to 11%

for 2019. Nominal EBITDA was BRL399.5 million, equivalent to GBP77.3 million, 6% lower than 2019 nominal EBITDA guidance of GBP82 million to GBP86 million primarily due to the Hong Kong effects.

Adjusted Q4 EBITDA, which excludes transformational costs and intangible asset write-off, was BRL263.9 million, with adjusted margin of 18.4%, up by 20 basis points. Adjusted 2019 EBITDA was BRL467 million with margin up 90 basis points to 11.3%. Excluding Hong Kong, the adjusted EBITDA margin would have been 18.9% in Q4 and 11.5% in the year.

The Body Shop's transformation program is ongoing successful with costs and benefits in line with the plan. Transformation costs in the quarter was BRL18.7 million or GBP3.8 million. The costs we had announced at the launch of the plan have now been fully incurred and the total of GBP30.6 million in line with our estimates, discuss went through such initiatives and stop footprint optimization, discounts reduction and organizational redesign and we are very pleased with the results to-date.

On Slide 19, we look at Aesop, which posted strong double-digit growth in both sales and profitability in Q4 and the full-year. Net revenue grew in reals by 25.7% in Q4, and by 13.4% at constant currency. Like-for-like growth in signature stores increased 7% in Q4, with strong growth in Americas and Asia despite the deceleration in Hong Kong. Digital sales also grew strongly. Aesop continue to open signature stores and the total reached to 247 with 20 net openings in the past 12 months of which 7 in the past quarter. Profitability also grew in strong double-digit in reals with EBITDA up 44.8% in Q4, resulting in an EBITDA margin of 27.5%, up 360 basis points.

In the full-year, Aesop's revenue increased 22.5% in reals and 12.3% in constant currency, to BRL1.3 billion. EBITDA was up 40% to BRL227.3 million. Margin rose to 210 basis points to 17.4%.

As you may have seen this morning, Avon filed their 2019 full-year results. In slide 21, I will provide a brief overview of those numbers. Let me remind you that they are not part of Natura &Co's 19 numbers, as the acquisition was closed on January 3, 2020. But we wanted to give you a bit of color on the progress Avon made during the year. Avon continued to execute against its Open Up Turnaround strategy in 2019 and we recorded a number of key advances that all set a strong foundation for future growth. These include improvement in price mix, and average representative sales, cost reduction and cash flow. 2019 saw more innovation at a higher price point, which is an encouraging sign of Avon's ability to upgrade its business model. For the year, revenue was down 6% in constant currency, with an expected deceleration in Q4. As anticipated revenue declined as a result of sharper choices drive the healthier, more sustainable and profitable business.

Average representative sales were up 4%, and even worked to stabilize the number of active reps while restoring field fundamentals and lowering bad debt. Free cash flow improved \$164 million from a negative \$1 million in the prior year and adjusted operating margin was up by 100 basis points in the year.

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The rollout of digital tools work accelerated and the year -- and that Avon increasingly leveraged the use of influencers, bloggers and social sellers all this paved the way for a smooth integration into the Natura &Co family of brands. Natura &Co worked with Avon's management team to continue the Open Up Avon strategy, restore brand equity and return value to representatives and shareholders. As just mentioned, we completed the Avon transaction on January 3 and the company is therefore not consolidated in our accounts for 2019.

However, we thought it would be useful to provide you with the 2018 consolidated pro forma P&L of Natura &Co and Avon pruning the baseline to capture future value. We aligned Avon's P&L in US GAAP with Natura's IFRS P&L to create a pro forma P&L in IFRS, and these numbers include IFRS 16. This implies two category of adjustments that are detailed on Slide 23. We also like to highlight the new segment reporting that we will be implementing this year. We will have four P&Ls, which reflect the Group's new management structure. These are Natura &Co LATAM, which include Natura, Avon, The Body Shop and Aesop for the region. Avon International, ex-LATAM, The Body Shop ex-LATAM and Aesop ex-LATAM.

So moving to Slide 24, we show pro forma consolidated net revenues which accounted to BRL32.9 billion. On this Natura &Co LATAM represents 56% of total revenues. Avon represents 27%, The Body Shop 13% and Aesop 4%. When we segment revenues by brand Avon represents 56%, Natura 27% and The Body Shop and Aesop continue with 13% and 4% respectively.

On slide 25, we show consolidated pro forma and adjusted EBITDA for 2019, which stands at nearly BRL3.6 billion, of which BRL2.46 billion from Natura &Co Holding and the remaining BRL1.13 billion from Avon. Margin is 10.9% and excluding acquisition costs of BRL316.1 million would be a 11.9%. Consolidated pro forma gross margin stands at 64.1%. SG&A expenses were 55.5% of net revenue. Corporate expenses represent 0.8% of net revenue.

Slide 26 shows pro forma 2019 net income and the underlying operating income. As you see our consolidated underlying operating income reached BRL2.5 billion, of which BRL1.41 billion from Natura &Co Holding, scope and BRL1.12 billion from Avon. These exclude transaction costs and several other non-recurring impacts, including Avon acquisition related costs of BRL316.1 million, transformation costs of BRL601.2 million and taxes on the creation of the holding company for BRL206.6 million. Net income including these non-recurring costs was BRL173 million, of which BRL155.5 million came from Natura &Co, and BRL17.5 million from Avon.

Slide 27 looks at the 2019 pro forma debt profile of the group including Avon. Total debt is BRL1.89 billion, which represents the indebtedness ratio of 2.6 times EBITDA. Please note that this ratio is not comparable to Natura &Co's 2.41 times reported at year-end 2019 because that ratio excludes the impact of IFRS 16 as we previously stated.

In the pro forma basis, in order to be comparable baseline from 2020 numbers, the impacts of IFRS 16 are included. The debt is 56% in dollars and 42% in Brazilian reals, with



the remaining 2% in other currencies. More than half of the debt 56% is in bonds, 24% in debentures and 17% in promissory notes. Note that we do not have major maturities coming due this year and next year. With the May maturities coming in 2022 to 2023 when Avon and Natura bonds fall due. Between 2024 and 2043 when the next Avon bonds is due, there are no further maturities. Against these maturities, we currently have more than BRL8 billion realizing cash.

Let me now hand back to Roberto for his closing remarks.

## **Roberto de Oliveira Marques** {BIO 17538675 <GO>}

Thank you very much, Filippo. Before concluding remarks, I would like to share with you what we know at this stage of the impact of the coronavirus situation on our business on Slide 29. Let me begin by saying that the safety of our people is first and foremost. We are closely monitoring the situation and acting on several fronts, such as limiting travel to essential business trips and mapping effect on the supply chain.

The situation, as you all know is evolving daily and has spread beyond Asia to other regions. As you know, it is still too early to provide you with a complete view of the full impact. Concerning Asia, what we can say at this stage is why it's an important market for us, we have a smaller footprint there than many of the global peers.

This is notably true in China, partially due to our long stand opposition to animal testing for cosmetics. Asia as a whole, represents just under 10% of our pro forma revenue by geography. We have a presence in 23 countries in the region, of which the Philippines is the biggest, with under 4% of the Group sales. China accounts for 0.5% of the Group sales.

In terms of commercial exposure, Aesop is the most exposed as Asia represents about 40% of its net revenue, while accounts for less than 20% for The Body Shop and less than 10% of Avon. Our supply chain impact mainly involve some Christmas packaging set and material sourcing from The Body Shop and the home and fashion products for Avon.

Aesop non-impact as suppliers and manufacturers are based in Australia. And our total results are not materially exposed. As part of our mapping process, we are working to mitigate any potential supply chain impact. We are obviously monitoring the situation continuously and looking -- and its impact beyond Asia and we'll keep you updated.

Let me now conclude on Slide 30 with the key takeaways. Let me mention three of them. First of all, Natura &Co posted a solid performance in Q4 and in the full-year. Our strong revenue growth demonstrate the growth momentum of the global multi-brand and multi-channel group we are building.

Second, we are managing to grow profitability, with double-digit growth in adjusted EBITDA and margin expansion and the strong growth in underlying operating income. And even as we invest in the future growth we have strengthened our financial structure,

with our solid cash flow generation allowing us to continue deleveraging our balance sheet.

And third, after successfully completing the acquisition of Avon ahead of schedule, we created the world's fourth-largest pure-play beauty Group, the integration is now underway. We are all very excited with the growth, the prospect and the synergies ahead of us.

Thank you very much for your attention. We are now going to open the Q&A session with Angela, Filippo, JP and myself happy to take your questions. So, the floor is now yours.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) And our first question is from Ruben Couto from Santander.

#### Q - Ruben Couto {BIO 20636571 <GO>}

Hi guys, good morning. First, can you talk a little bit more about the recent working capital improvement in Brazil? What we saw in the 4Q was something timely or should we expect further improvements in 2020? And I know it's early, but can you guys share a little bit with us how was the first two months of operating the Avon in Brazil? How consultants are reacting? Any sort of feedback on how these first two months would be, quite interesting? And a second one on The Body Shop, the company achieved its margin guidance for 2019 but barely missed the target thinking about the absolute figures because of the soft sales performance. So thinking about the '22 guidance that includes some sort of acceleration in top-line growth? Are you thinking about reviewing this guidance considering now the recent events in Hong Kong and now the coronavirus, should we focus on the 12% to 14% EBITDA margin as a target instead of the absolute EUR130 million target just to get a sense of your point here? Thank you.

#### A - Joao Paulo Brotto Goncalves Ferreira {BIO 16425828 <GO>}

Okay. Hi Ruben, JP speaking. So as regards to your question on the Brazilian operation. Yes, there has been working capital improvement both in inventory as well as in accounts receivable. So that should be the level going forward, basically, if you want to project that. As regards Avon's operations, it's too early to say, just can reassure that there is a lot of excitement in the company and in the field force. So that should -- at least is setting the tone for the improvements that we want to introduce very soon.

#### A - Roberto de Oliveira Marques {BIO 17538675 <GO>}

I will then -- Roberto here, kick-in on The Body Shop. So one, again just for perspective, right? I mean we are super excited and happy with the progress on margin against the guidance. Right? So let's just from context, when we acquired The Body Shop they were operating around 8% EBITDA margin.

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And we are now on adjusted basis finished the year over 11%, so that in itself is a 300 basis points improvement, which is way ahead of our guidance that we provided. Now looking forward to your point, we still are projecting the improvement in terms of the margin. And, of course, we are monitoring the impact in terms of the commercial side and the sales side because of the coronavirus as we articulated in the presentation.

But we are still optimistic if you look at long-term about all the progress. If you look at the sales number, excluding the Hong Kong, the sales for the year grew 2.4%. And all the activities that David and the team are doing we feel confident that we will drive to sales growth, but we remain committed to drive the -- to deliver the guidance especially on the margin base.

### **A - Jose Antonio De Almeida Filippo** {BIO 1726218 <GO>}

And with regard -- regarding the working capital that you (inaudible) I think that we -- yes, at end of the year it's more related to inventories that happens. However, we -- this is an improvement that we need to talk compared to 2018. If you recall that during 2019 we already mentioned that we have been getting better situation here. So I believe that going forward, we still can expect some improvement, but more in a normalized way. I think that 2019 is something that we improved compared to the previous year, which we had a certain higher level of improvement.

So that's what I would expect going forward.

### **Q - Ruben Couto** {BIO 20636571 <GO>}

That's clear. Thank you, guys.

### **Operator**

Our next question is from Thiago Cruz from Itau.

### **Q - Helena Villares** {BIO 21333811 <GO>}

Hi, guys. Actually this is Helena here. We have just a follow-up on Ruben Couto's question. So the thing is that we are talking here about The Body Shop and we understand that the situation is a little bit harder and tougher than you imagined first, but we were just talking about, when do you think that the company is going to show an acceleration of constant currency growth as already presented in third Q? And actually what's the main challenges here? What the things that you're seeing, that is the challenge and the main challenge for the company to start growing top-line to start now to come back to growth in the top-line? So that's the first thing.

And the second thing, it's about Natura Brazil. So we saw improvement in gross margin due to the better mix, especially fragrances and we just wanted to understand what's the - what was a different in the fragrance strategy here, because it's a very challenging market in Brazil, so we just wanted to understand this? And if you have any kind of -- any future improvement in gross margin?

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**A - Roberto de Oliveira Marques** {BIO 17538675 <GO>}

Okay, Helena. Roberto here. On The Body Shop again, right, excluding Hong Kong if you look at the total year we grew 2.4%, which is pretty healthy growth. It's actually the highest that we had for The Body Shop in the last probably five years. But yes, to your point, we're still aiming for continue to improve that. There are two things that are going to really drive that. One is the reset of the store layout, we have one right now in the UK with very good performance that we are planning to roll out in 2020. Also in terms of innovation and the new brand positioning, we are very bullish with the new position and really bringing back the believes, the causes that really made The Body Shop a very strong brand and iconic brand. So those things we'll continue to roll-out in 2020.

But as you all know, we needed to monitor the impact that we are seeing globally in terms of coronavirus. So we need just to be cautious about that. While we control, what we can't control, which is continue to drive the margin improvement and continue to roll-out the new store layout.

**A - Joao Paulo Brotto Goncalves Ferreira** {BIO 16425828 <GO>}

Helena, regarding the gross margin of our Brazilian business we have indeed have been -- we have been successfully moving our portfolio to more premium products, particularly in fragrances which is good, helping to improve the gross margin. However, there is pressure building from exchange rate going forward so -- which we can -- we believe -- which we believe we can cope with. So I would expect gross margins to remain at current levels.

**Q - Helena Villares** {BIO 21333811 <GO>}

Okay, that's very clear. And if you permit just follow-up question about Aesop. We saw a very improvement in accelerating top-line growth, even with the Hong Kong situation. So we just wanted to be -- to understand a little bit more if you have any difference or any change of the strategic on Aesop? What's happened here for we see -- so we can see this acceleration on op-line? Thank you.

**A - Roberto de Oliveira Marques** {BIO 17538675 <GO>}

Yes, thank you for the follow-up question. Again, we're very pleased with the Aesop results and those were driven primarily very strong performance in the US, which again very proud of the team in a very tough environment the UK, we will continue to outpace that in the last significantly -- and also in North Asia, very strong performance in Japan, in Korea. So the fundamentals of the business continues to be very strong and we continue to be very bullish with UK.

**Q - Helena Villares** {BIO 21333811 <GO>}

Okay. Thank you.

**Operator**

Our next question is from Tobias Stingelin from Citibank.

**Q - Tobias Stingelin {BIO 18290133 <GO>}**

Yes, thank you very much. I'm sorry if the question was already made. If you can kind of just give us some kind of just give us an update about your first month kind of looking into Avon from inside, and in terms of kind of the short-term and medium-term priorities that you have for the brand? Thank you so much.

**A - Roberto de Oliveira Marques {BIO 17538675 <GO>}**

Hey, Tobias. It's Roberto here. So a couple of things. One is, as we completed the acquisition in January a couple of things already happened. So one is, we already pretty much met all the management team, the leadership team both at Latin America and the Avon International, as you know, namely Angela who is next to me, who is CEO of Avon. So those things are already up and running. JP is already working and integrating the Latin America organization. So we're feeling pretty good about that.

Our first impressions, I would say, really the passion of the people of Avon about the purpose, the reason for being of the brand is something that very, very important for Angela and her experience in direct selling, understanding the commercial model and working very closely with JP and the team here in Natura, I think it's going to accelerate our competence and confidence in terms of really drive the right commercial model for Avon. I also would say that the Lab of Innovation, we visit Suffern in New York. It's really state-of-the-art. I think it is a facility that only help the innovation for Avon but even beyond that at the Group level. And some of the assets in terms of manufacturing, distribution centers are also something that will benefit the Group.

I don't know if JP you want to comment as well on that?

**A - Joao Paulo Brotto Goncalves Ferreira {BIO 16425828 <GO>}**

I think I can only add that the more I learn about Avon from inside the more confident I am on the size of the opportunity.

**Q - Tobias Stingelin {BIO 18290133 <GO>}**

Thank you. I hope (inaudible). If I can just kind of follow-up. What are the key challenges that you kind of identified in regards to the brand and I don't know if you're changing kind of your disclosure policy going forward but I think to some extent it is also important first to understand and kind of how the brands are performing, how kind of Avon is performing? So, I don't know if you can just kind of send a sense towards Avon right now for instance, in Brazil, they are kind of stable if they are starting to grow, what should we expect going forward? This would be kind of just my follow-up.

And then, Joao, if you can give us a sense of what's happening in the first quarter in Brazil right now? So, the fourth quarter we're -- we saw potholes, but just want to get a sense about how we are starting to year? Thank you very much again for the time.

**A - Joao Paulo Brotto Goncalves Ferreira {BIO 16425828 <GO>}**

Okay, Tobias. Let me start with your last portion. You know that we made several adjustments in our operations during last year merging the online, harmonizing the promotional policies and so on so forth. And actually the second half was much healthier than the first half of the year and we set ourselves for the strong start of 2020 as regards with Natura.

Now, we are also seeing some initial excitement coming from Avon in Latin America. So it looks like a good start of the year. As regards to the brand, rather than having me telling you about the brand, we have the pleasure of having Angela with us today. So I'll hand over to Angela to tell you a little bit about how the brand is going to be strengthened.

### **A - Angela Cretu** {BIO 20927173 <GO>}

Thank you. I would just like to give first a little bit of context about Open Up and Growth strategy, to spend all our efforts to strengthening our core and how we plan to accelerate our growth going forward. As you all know, we are in first of a multi-year transformational plan of the Open Up. And currently, we are looking to stabilize the core and accelerate our recovery tapping into the resource synergies and the turnaround experience that we have Natura &Co. Part of this strategy, there are three main pillars. One is to create a compelling relationship framework. Second, is to reignite our brand. So, back to your question, this is an important pillar of our strategy. And then third, it would be to multiply the access. Now, back to the brand, we all understand that we require a strategic rest to regain relevance, consideration and in creating that instantly gratifying exciting shopping choice for our consumers around the world.

We will do that by simplifying our brand architecture by continuing innovating with breakthrough formulas at all price tiers. And create a new blend of purpose and brand positioning in each and every market where we operate.

### **Operator**

And our next question is from Bob Ford from Merrill Lynch.

### **Q - Robert Erick Ford Aguilar** {BIO 1499021 <GO>}

Thank you and good day everybody and congratulations on the quarter. Filippo mentioned some big increases in app and digital store usage in the Brazilian consultant base. And I was hoping you could touch on efforts, which were more successful in driving digitalization in the Brazilian and LATAM experiences and some of the opportunities and hurdles you face as you attempt to drive a more accelerated digitalization of Avon?

And then, just further to Avon and in Brazil, JP, how quickly can you begin running Avon to be more complementary to Natura in terms of price points, promotions and innovation schedules?

### **A - Jose Antonio De Almeida Filippo** {BIO 1726218 <GO>}

Hi, Bob. So as regards to the situation of our consultants. So we saw the acceleration of the adoption mid last year as we integrated the model the offline, the online, we

introduced our e-wallet as well. So that accelerated the adoption, which is now getting close to 90% of our consultants across Latin America, actively using the digital mobile platform.

Now the level of maturity with which they use, there is quite a lot so, we are also tracking maturity in terms of usage of the various services, which are there. I don't see many obstacles in that respect. It's a matter of getting more users seeing relevance of the services or our sales force are helping and educating consultants towards that end. And so I think we are on track of -- as regard to the digitization of the sales force.

**A - Joao Paulo Brotto Goncalves Ferreira {BIO 16425828 <GO>}**

When it comes to combined strategy between Avon and Natura across Latin America, we have already a draft version of that strategy, which we are refining, as we speak, right. We can -- we do believe that we can use many of our existing assets, digital assets to shortcut that development. We have the leadership team now in place. Towards the end of this month, we are going to have the next layer of organization appointed. So I would expect that towards the second half of this year, you're going to see already result of a combined strategy being implemented.

**Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}**

That's very helpful. Thank you. And if I could just add one other question and it's an unrelated topic, but the growth rates of Body Shop in the UK and Australia were impressive and I assume that a big part of that or a substantial part of that was the at-home business. And I was wondering how you're thinking about developing that at-home or direct sales business within those markets for The Body Shop but across all Body Shop markets?

**A - Roberto de Oliveira Marques {BIO 17538675 <GO>}**

Hey, Bob, Roberto here. Thank you. And you're absolutely right. So we are very pleased to see the performance of both UK and Australia as the two fastest-growing markets for The Body Shop. And you're right, there is absolutely a direct link with the at-home, the direct selling component. Interesting also that we are seeing that the like-for-like the strongest markets in retail are actually UK and Australia, which shows a very nice complementarity between at-home and the retail business.

And to the point that you mentioned, David, and the team we are working now of course with the help of Avon to potentially accelerate at-home at The Body Shop in some other markets. So, hopefully by the Investor Day, end of April, we are going to be able to show you a roadmap what that might look like.

**Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}**

That's very helpful. Thank you very much and again congratulations.

**A - Roberto de Oliveira Marques {BIO 17538675 <GO>}**

Thank you.

## Operator

Our next question is from Olivia Petronilho from JP Morgan.

### Q - Olivia Petronilho {BIO 19090195 <GO>}

Hi, guys. Thank you for taking my question. I have two questions actually. You guys talked a little bit about the variation in FX. I just wanted to understand what is the expectation you guys have with these new levels of FX, especially in Natura for gross margins, how should that impact your COGS? What are you guys doing to cope with the new FX? And in this topic still talking a little bit about the price dynamics, what you're seeing from the competition? Are you seeing a better environment for passing through prices? Because I think in the results we saw lower volumes, which is a mix effect, but definitely higher prices.

And a little bit about Avon not on the operating side, but looking on the debt side. Do you guys expect to refinance the debt or any of those bonds that we currently see listed? That would be that on my end. Thank you.

### A - Jose Antonio De Almeida Filippo {BIO 1726218 <GO>}

Hi, Olivia. It's Filippo. So regarding FX, I think, first of all we have -- of course, we have been dealing with this. Yes, we have the situation of increase in our revenues coming from other sources or other currencies. So this year it's no different. I think now have to see the company has more of a global footprint that we have participation of currency difference that we used to have historically.

Regarding cost, it's going to be something that will be happening. I believe that this is -- we have to live with that in other situations. So we can say that through like managing the situation through anticipating inventory sense and some opportunities. Other than that, our contracts are dollars denominated, the ones that we have are dollar-denominated. They have a financial formula, which amortizes that quite like gradually. So again, we see that this is something that we're already made, so shouldn't be a concern in the short-term.

Regarding debt, of course, there is an opportunity for us to go through now that we have a new situation of inputs for the debt. Leverage management is something that we talk and we considered that opportunity that we seek. But every time we're going to be dealing with debt and sharing with you some of those opportunities, but I believe that there are definitely some upside opportunities going forward for that.

And one last point on that, again, we are in a very strong cash position over BRL8 billion and the first real important debt maturity that we have is only 2022 and 2023, and by that time, we are going to be able to capture a lot of the synergies that we already communicated to the market. So I think in terms of managing cash. I would say, we're in a very strong position. Thank you.

## Operator



This concludes today's question-and-answer session. I would now like to invite Mr. Roberto Marques to proceed with his closing remarks. Please go ahead.

## **A - Roberto de Oliveira Marques {BIO 17538675 <GO>}**

So again, thank you everybody for joining us today. As you saw from today's results, again we are very proud and very happy with the results that we show, again, strong momentum with our Natura &Co business. And of course, we are very excited about welcoming and working with Avon, to accelerate our growth. So thank you very much for your attention and hope I can see some of you or most of you at our Investor Day that we're planning to do, end of April. And wish you all a good day on behalf of all of us. So thank you.

## **Operator**

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

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