Y 2021 Earnings Call

Company Participants

- Guilherme Castellan, Group CFO
- Joao Paulo Ferreira, CEO of Latin America & Member of Executive Board
- Roberto Marques, Executive Chairman of the Board & Group CEO
- Viviane Behar, IR Officer & Member of Executive Board

Other Participants

- Danniela Eiger, Analyst
- Grace Menk, Analyst
- Helena Villares, Analyst
- Irma Sgarz, Analyst
- Joao Soares, Analyst
- Joseph Giordano, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Ruben Couto, 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 Fourth Quarter 2021 Results. This event is being recorded (Operator Instructions)

This presentation may contain forward-looking statements. Such statements are not statements of historical facts and reflect the beliefs and expectations of Natura &Co's management.

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

Ms. Behar, the floor is yours.

Viviane Behar {BIO 16620272 <GO>}

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 fourth quarter and full year 2021 earnings.

I'm joined today by Roberto Marques, Executive Chair and CEO of Natura &Co; Guilherme Castellan, CFO, Natura &Co; Joao Paulo Ferreira, CEO of Natura &Co Latin America, will join us for the Q&A session. The Natura &Co Investor Relations team is also on this call.

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. Guilherme will detail our financials for Natura Co, and after that, Roberto will make concluding remarks, and we will open the floor to your questions.

For the sake of timing, in order for us to accommodate questions from all of you, we'd like to ask you to please limit yourselves to 1 question each in the Q&A session. Thank you for your understanding and cooperation on this.

Let me now hand over to Roberto. Roberto, please.

Roberto Marques {BIO 1959256 <GO>}

Thank you, Viviane. Hello to everyone. Thank you for joining us.

In the current circumstances, we cannot start this presentation without talking about the war that unfortunately is happening between Russia and Ukraine. We're all shocked and sad by the tragic events that are unfolding. In the face of this terrible violence, our thoughts are with those who find themselves in harm's way, and our utmost priority is to ensure the safety and well-being of our teams and to support them in any way we can.

The group and its companies are fully mobilized to provide assistance. We have donated more than BRL3 million to date to relief organizations on the ground in Ukraine as the International Red Cross, and we're also providing donations of personal care products to refugees. Overall, the group has limited presence in Russia and Ukraine. Total revenues in these two markets are less than 5% in contribution to EBITDA margins even less than that.

We have our relationship selling and production presence at Avon and a franchise operation for The Body Shop and Aesop. In light of what's happening, we have decided on the following actions: The Body Shop and Aesop are suspending operations via their franchisees in Russia. Avon is also suspending exports from Russia and moving some volumes to the Poland main facility. Avon, however, is continuing for now to supply to its network of representatives, aligned with our values and business model, mainly from its local plant, to help them with their livelihoods.

At this stage, there is no material impact on our financial statements, and we are continuously assessing the situation. At Natura &Co, we believe the world must unite and stand together for peace while acting with solidarity with all people impacted by this unacceptable aggression against human rights in Ukraine.

Let me now on slide four, quickly take you through the main highlights of the quarter and the year. Overall, we posted a strong EBITDA margin expansion with significant increase in net income, despite a tough fourth quarter. Our Q4 revenue dropped only 3% in reais and 5.3% at constant currency. This reflects a very challenging environment, including a decline in CFT market in Brazil and still pandemic effect in key markets for The Body Shop and Avon with Omicron wave. We also faced continued cost pressure from high inflation, supply chain disruption and strong exchange effects even as we continue to invest in the business for future growth.

Moreover, we are comparing against an exceptionally strong comparable base as we had posted 24% growth in Q4 of 2020 versus the same period in 2019. Compared to Q4 2019, our sales were up by a strong 20.6%, underscoring the underlying strength of our business. And even in this challenging circumstances, profitability was very strong. Our strict cost discipline, in addition to continued transformational changes at Avon and the ability to extract synergies faster than anticipated allow us to expand our adjusted EBITDA margin by 90 basis points in the quarter and to post net income of BRL695 million.

The gain was also driven by a new benefit from the Avon integration related to our corporate structure optimization. In the full year, we posted revenue growth of 8.8% in reais and 3.8% at constant currency, while net income reached BRL1 billion, reversing a loss of BRL650 million in 2020. If we compare our performance to two years ago, sales were up almost 22% in reais and stable at constant currency. This is ahead of the average of the global CFT market in reported currency.

We made significant advances during the year in Avon's integration and transformation. Overall, net revenue of Avon brand as a whole, combining Avon International and Latin America, was nearly stable in full year '21 versus full year 2020, marking the best revenue trend for the company in 3 years. Synergies are ahead of plan, reaching nearly $200 million in the year, mainly across procurement, logistics and administrative functions. That's close to 50% of the plan, ahead of the 40% run rate in 2021 that we guided to.

We have deployed the new commercial model in Avon International top nine markets, and the result in the quarter has been higher representative productivity and activity levels. Similarly, in Hispanic Lat Am, we are rolling out the new commercial model in Ecuador, the first market in it which was implemented, showing initial positive signs with double-digit improvement in representative activities, increased retention, higher productivity and reduction in churn ratio.

In Brazil, we continue to adjust the model with some measures adopted in October, which are showing some recent positive trends in recruitment and activity. As we continue to have a solid balance sheet, our net debt-to-EBITDA ratio improving sequentially to 1.52x in Q4 from 1.83x in Q3. We ended the year with a strong cash position of BRL6 billion. This allow us to pay a dividend of BRL180 million, in addition to BRL140 million rise in share repurchase through the end of the quarter, underscoring (inaudible) to create value for our stakeholders.

On slide five, we look at the continued progress we are making on digital as part of our omnichannel transformation. Digitally-enabled sales, which includes both online sales from e-commerce and social selling as well as relationship selling using our main digital apps, reached 52% of total revenue. This is, in fact, 2.5 percentage points above Q4 2020 and significantly above their pre-pandemic level of 35% in Q4 of 2019.

As you see on this slide, digitalization is continuing to grow across all brands with increased adoption of the Avon ON app at Avon International. At Natura, we saw an increase in online sales and in the numbers of consultants sharing content, while both The Body Shop and Aesop posted higher online sales compared to pre-pandemic levels. In our digital payment system, &Co Pay and Natura in Brazil posted strong growth in both number of accounts, reaching approximately 340,000 accounts and total payment value rising to BRL6.5 billion in full year 2021, well above the BRL4 billion estimate for the year.

On slide six, we also feature some examples of our robust innovation pipeline in the quarter. Avon expanded its product range to higher-value products in the form of advent calendars for the holiday season. Natura launched a natural tech zero plastic personal care brand in solid bars, that use natural and vegan formulations with recycle and post-consumption recyclable packaging. This underscores our sustainability-oriented innovation. The Body Shop launched their first advent calendar with reusable packaging for order purpose, in line with our sustainability practice as well, and Aesop launched purpose-driven gift called Anatomy of Generosity, which are tied to chosen charities funded by the Aesop Foundation.

With this, I will now hand over to Gui to discuss our financials and brand performance.

Guilherme Castellan {BIO 21259941 <GO>}

Thank you very much, Roberto, and hello to everyone. On slide eight, we continue to face a challenging operating environment, and we also face a very tough comparable base. Net revenue at BRL11.6 billion, was down 3.8% in reais and 5.3% at constant currency compared to the previous year. The full year performance, however, resulted in 8.8% revenue growth, reaching BRL40.1 billion and 3.8% growth in constant currency. Compared to the pre-pandemic period in 2019, Q4 revenue was up 20.6% in reais and broadly stable at constant currency, while full year net revenue was up 21.9% in reais and also broadly stable at constant currency.

Looking at each business segment in the quarter against Q4 '19, revenue was up in reais at all of our brands. At constant currency, we had exceptional growth in Aesop and very solid progression in Natura &Co Lat Am while The Body Shop was down slightly, and Avon International was still down improving quarterly revenue trends. On a full year comparison against 2019, all brands were up in reais. On a constant currency basis, all brands were up as well, notably Natura up 27.3% and Aesop up 41.6%, with exception of Avon International as we continue to evolve its turnaround process.

On slide nine, we focus on our improved profitability despite increasing costs and continued pressure in some of our key markets. All brands were able to expand adjusted EBITDA margin in Q4, with the exception of Aesop due to organic investments. On a consolidated level, both reported and adjusted EBITDA were up in the quarter. Adjusted EBITDA reached BRL1.5 billion with an adjusted margin of 13.3%, up 90 bps. This margin improvement is coming from Avon International, reflecting structural changes in addition to strict financial discipline across the group and also synergies in Lat Am that were ahead of the plan, offsetting continued costs and FX pressures. In the full year, adjusted EBITDA margin stood at 10.3%, down 110 bps.

On slide 10, we show the building blocks that allow us to post margin expansion in a tough environment. As you can see in Q4, we incurred 540 bps impact from inflationary and FX pressures. We're able to fully offset this amount for synergies and revenue management. Other temporary business pressures, notably sales deleverage, reduced margin by additional 230 bps and higher investments to accelerate growth, had an unfavorable impact of further 150 bps with our business plan. But these were more than offset by cost containment actions with strict financial discipline and other one-off effects that had positive impact on margin of 470 bps. This resulted in a margin of 13.3%, which is up 90 bps versus last year.

On slide 11, you see that we posted a very strong increase in net income and underlying net income, both in the fourth quarter and full year. Q4 net income was BRL695 million, growing from BRL177 million in Q4 2020. This increase was mainly driven by increased EBITDA and positive income tax impacts. These impacts are mainly from the recognition of deferred income tax resulting from corporate restructure simplification in Lat Am, enabled by the Avon integration. Q4 underlying net income also more than tripled to BRL980 million. This excludes PPA effects for Avon acquisition-related impacts.

In the full year, we posted solid net income of BRL1 billion, reversing a loss of BRL650 million in the previous year, and underlying net income reached BRL1.7 billion. This enables dividend distribution based on realized profits in the amount of BRL180 million as part of our value creation for shareholders. The dividend proposal will be submitted for approval at the April 20 General Shareholder Meeting.

On slide 12, we look at our liquidity profile. We ended the year with a strong cash position of BRL6 billion after generating BRL136 million in free cash flow in the quarter, higher adjusted earnings and positive working capital, partially offset by income tax payments and increased CapEx to support our strategic plan of long-term growth with margin expansion. As shown in the first graph, our net debt-to-EBITDA ratio stood at 1.5x in Q4. This is down from 1.83x in Q3, but it's above Q4 of last year as a result of lower cash flow generation in the full year.

This was mainly due to an increase in working capital, especially inventories. Our strong cash position is what enabled us to propose to our shareholders the dividend payment of BRL180 million. This comes on top of a share buyback of BRL140 million through December 2021. Management has a strong focus on optimizing cash conversion in the short and medium term.

On working capital, we are working to address excess inventory in the next two quarters on top of simplifying our portfolio structure and planning site to deliver bigger savings in the medium term. We're also targeting improvements on receivables and payables. Other priorities include optimization of CapEx, both gross CapEx and divestments, and a more optimal cash tax rate in the future. Let's turn now to our performance by business units, beginning with Natura &Co Lat Am on slide 14.

In the fourth quarter, total net sales were down 2.8% in reais and 5.7% at constant currency on the back of a very tough comparable base. For the first year, Hispanic markets represented more than half of our sales in the region, highlighting our diversified footprint that helped offset challenging conditions in Brazil. The Natura brand as a whole was up 3.5% in Q4. In Brazil, sales were down 6.4% on a tough comparable base and further impacted by continued erosion of disposable income, resulting in trading down. We adapted with a gifting strategy of more affordable products in beauty and personal care, supporting our Christmas campaign.

Sales accelerated sequentially, continuously improving since Q3. The Natura brand outperformed the target CFT market by 6.1 percentage points in the quarter, thus maintaining its leadership position in CFT in Brazil. Consultant productivity in the quarter was stable, showing a significant sequential improvement from Q3 and a normalizing trend.

In Latin America, the Natura brand grew in all markets, with revenue up 22.4% in reais and 13.3% at constant currency, supported by an increase in the number of consultants and productivity. Natura brand gained market share in all operating countries in Hispanic Lat Am during 2021. The Avon brand in Brazil and Hispanic Lat Am combined was down 12.3% in the quarter. In Brazil, Avon was down 27.2%. The revenue decline was related to a lower representative base, a contracting CFT market in Brazil and lower Fashion and Home sales. However, the measures adopted to increase recruitment and stabilize the new commercial model started to show impact recently.

In Hispanic Lat Am, Avon was down 3.7% in reais and 6.2% at constant currency. We started deploying the new commercial model in Ecuador and 5 markets in Central America as well as Colombia with positive first results. In the full year, revenue for Natura &Co Lat Am was up 9.1% in reais and 6.3% at constant currency. Overall, the Natura brand was up 10.5% in the full year, and Avon was up 6.6%, driven by Hispanic Lat Am, up double digits for both Natura and Avon while both brands were down in Brazil, Natura by 2.5% and Avon by 13.2% as a result of the tough environment in the second half of the year.

We turn on to slide 15 to Natura &Co Lat Am's adjusted EBITDA. Adjusted EBITDA margin was 12.1%, down 10 bps compared to Q4 '20, impacted by sales deleverage, raw material inflation and FX headwinds, partially offset by synergies, revenue management and strict financial discipline. In the full year, adjusted EBITDA at Natura &Co was a little over BRL2.5 billion, up 2.6%. Margin was down 70 bps at 11.2%.

Let's now move to Avon International on slide 17. Q4 net revenue was down 5.6% in reais and down 7.4% at constant currency. Revenue has been steadily progressing quarter-over-quarter since Q1 2020. But as expected, it is still impacted by a 9.3 percentage drop in the number of representatives. This was partially offset by higher representative productivity as a result of structural changes in the new commercial model that were fully implemented in Q4 in the top 9 markets.

Compared to Q4 '19, net revenue was up 5.8% in reais and down 18.2% at constant currency. In the full year, net revenue was up 2.5% in reais versus full year '20 and down 4.3% at constant currency. Q4 adjusted EBITDA margin reached a strong 10.7%, up 606 bps versus Q4 2020. The strong margin was driven by normal seasonality in Q4, strict financial discipline, structural savings from the simplification of the operating model, revenue management and synergies. The growth came despite continued impact from inflation and higher investments in digital and IT to accelerate growth. In the full year, adjusted EBITDA margin reached 6%, up 80 bps from last year.

On slide 19, we move now to The Body Shop. Post Q4 net revenue declined 8.8% in reais and 10.3% at constant currency. Sales were impacted by the omicron variant's effect in retail sales in the holiday season, mainly in the U.K., the brand's largest market. Compared to Q4 '19, revenue was up 35.4% in reais and down 1.5% at constant currency. The quarter saw continued channel rebalancing as expected with the reopening of retail resulting in a slowdown in e-commerce and at The Body Shop at Home, although both channels are still 1.5x above pre-pandemic levels.

In the full year, sales were up 9.2% in reais and up 0.7% in constant currency. Q4 adjusted EBITDA margin was 22.2%, minus 150 bps versus Q4 '20, mainly due to sales deleverage, channel mix effect in the absence of governance support and rent waivers as in Q4 2020. In the full year, it was down 260 bps to 17.6%. On slide 21, Aesop again recorded an excellent performance, with another quarter of double-digit growth. Net revenue increased by 22.8% in reais and 20.8% at constant currency. Growth was driven by retail channels, particularly in North America, Asia and Australia. Like at The Body Shop, Aesop saw some channel rebalancing, with retail accounting for 72% of sales in the quarter and online sales representing 24%, down from 27% in Q4 2020.

Online sales remain 1.5x above their pre-pandemic Q4 '19 levels. Q4 adjusted EBITDA margin was 26.7%, down 10 percentage points compared to Q4 '20. This is mainly due to planned higher investments in digital categories and geographies to drive future sustainable growth. In the full year, EBITDA margin was down 710 bps. Now let me hand back to Roberto.

Roberto Marques {BIO 1959256 <GO>}

Thank you, Gui. On slide 23, I want to focus on our operational priorities and actions to mitigate the challenging environment we expect in first half 2022. It is important to highlight that our fundamentals remain solid, and we are confident we have the right priorities from both a financial and strategic standpoint to navigate the headwinds. First of all, as you have seen, we are strongly focused on execution to preserve profitability as we navigate in a challenging operating environment with further impacts in Central and Eastern Europe.

We continue to advance on strategic initiatives, such as supply chain consolidation and organization structure optimization. Second, we will be paying particular attention to discretionary OpEx and CapEx. Third, we'll be focused on protecting liquidity and cash flow. Fourth, I'd like to take the opportunity to update you on the primary listing project in U.S. that we mentioned in our Q3 call.

Over the last couple of months, we're able to discuss the project with several stakeholders. And so we'd like to thank you for sharing with us and helping us form a view on this project. Our assessment is that the listing in the U.S. with BDRs in Brazil is the right strategic direction, but not the right time to do it as we need to continue navigating these uncertain times and to focus on delivering a successful Avon integration.

Given all of that, we will continue to assess the right timing and will, of course, keep you updated. And last but not least, we count on a strong and experienced team around the world with strong global and local knowledge, especially in Central and Eastern Europe, that will help guide us through the current challenges in the region. We are very thankful to them. In particular, Angela Cretu, our CEO of Avon International, who is from the region, is leading where the team is in the region.

On slide 24, I would like to conclude on our core strategic initiatives to drive sustainable and profitable growth in 2022. At Natura &Co Lat Am, we'll continue to roll out the new Avon commercial model in Hispanic Lat Am and expand Natura's social selling tools such as e-brochure, live shopping and interactive launch events. We also will be stepping up cross-selling and upselling of Natura and Avon with the Wave 2 of our transformational plan and building on the success of &Co Pay we plan to roll it out at Avon Brazil and then at Natura in Latin America.

At Avon International, we will continue the implementation of the new commercial model and scale up the Avon ON digital platform. Efforts to improve profitability through organization streaming will continue, and we put even more focus on the Avon brand rejuvenation with a particular focus on cult products and gifting. At Body Shop, we will continue rolling out a new store concept already deployed in 100 stores with strong sales uplift and complete the deployment of the refill stations in 500 stores. We'll also develop a strong product pipeline and roll it out accordingly.

Finally, at Aesop, we continue to expand in growth in North America and Asia Pacific. The steady progress is being made for the China entry plan late in the year. The brand will ramp up its focus on fragrance and continue to invest in digital platforms. Thank you very much for your attention. And now Gui, JP and I are happy to take your questions.

Questions And Answers

Operator

(Operator Instructions) The first question today comes from Richard Cathcart with Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Just a very quick one on Russia, which I think you've already addressed (inaudible) I just wanted to get your view on whether there are any kind of wider impact on the business beyond kind of Russia and Ukraine. And then my main question, just on the cost containment. If you could give us some more detail about how the 4.7 percentage points from the chart on Page 6 of the release breaks down. And also whether the bonus and incentive plans that were mentioned in the footnote, if you could just give us some more color on whether the positive margin impact that was simply the bonus declining year-on-year or was there also a reversion of bonus provisions made in the prior quarter?

A - Roberto Marques {BIO 1959256 <GO>}

Richard, Roberto here. So in regards to the war and the implications, of course, there is a clear and very significant impact in both Russia and Ukraine, which we already discussed and talked about it. But what we are seeing is actually an impact that goes beyond that, right? We are seeing cost pressures increasing because of some of the sanctions in crude oil and palm oil on top of what we're already seeing before the war in terms of inflation in some of the commodities. So we are seeing that exacerbating in a much bigger way than just in Russia or Ukraine. At the same time, we are seeing confidence level demand also being impacted.

I think there is an apprehension, especially in the Europe region, that it is also creating some impact from a demand perspective. So unfortunately, this war, I would say, has a devastating impact, of course, in Ukraine and also an impact economically in Russia. But it goes much beyond that, which is the reason we're really calling for a resolution and peace, which is what I think we all hope for. But again, as we mentioned in the presentation, we are -- because we are projecting that already taking measures for cost containment, and I'll pass that to Gui that can elaborate a little bit more. So Gui, please.

A - Guilherme Castellan {BIO 21259941 <GO>}

Yes. Thank you, Roberto, and thank you, Richard, it's good to hear from you. Let me start just apologizing here for my voice. I hope you can hear me well. But on your question, Richard, first of all, I want to highlight that in the same waterfall, there you see the 4 percentage point -- 4.7 percentage points impact in the adjusted EBITDA margin. You see 150 bps of higher investments that we did in the business. As for those, our new categories that will continue to invest depending, of course, on the (inaudible) DU [ph] and depending, of course, on the category that we're talking about.

But the 4.7% basically, they are savings in some categories that we didn't have in Q4 2020 and one-off impacts, right? A big part of this number, you can assume is recurring savings, they are recurring savings which basically are our results of the transformational savings that we're doing in Avon International. And of course, other synergies in G&A that we continue to deliver in Lat Am more specifically. On top of that, there are, of course, additional efficiencies that we have in the business, which will continue to be recurring.

But yes, there is also a part of, let's call it, discretionary savings, which was basically things that we chose not to invest in Q4, but we may invest in the future depending on business momentum. And there is a one-off, to your point, which is mainly related to STI and LTI. And just to make it clear, this is a normal part of the business. right? This is just adjustments that we do throughout the year on our variable compensation.

So in a nutshell, again, this 4.7% is basically composed by a big part of recurring savings, discretionary savings that, again, we chose not to spend in Q4, and this impact in one-offs, which is, again, a regular part of the business.

Operator

The next question comes from Joao Soares with Citibank.

Q - Joao Soares {BIO 19817396 <GO>}

I have two questions. The first one regarding the wave 2 and the cross recruitment that you talked about in the release. I just wanted to understand what are the early signs that you're seeing in terms of consultant rep productivity. And I think it's interesting to see that in this moment that you also talked about trade down into mass consumption categories. How is Avon's lower ticket playing with this assortment allowing you to navigate this competitive landscape? So that's my first question.

And my second question is more of a follow-up to what you just asked -- what you just said, Guilherme, on the savings. Talking -- looking in the short term, in terms of what can you -- additional savings that you can -- may be achieved in terms of other cost containment -- other recurring cost containment that you can achieve in the short term, I think will be interesting?

A - Roberto Marques {BIO 1959256 <GO>}

Joao, Roberto here. So the first question on the wave 2, I'm going to invite JP to talk about it, and then Gui can talk about some of those discretionary savings. But thank you for the question. Please, JP.

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

Let me start with the trade down part of your question. And actually, we are already seeing Avon picking up volume in very -- in many categories where consumers are trading down. We can see that very clearly already. Fragrances, color cosmetics, toiletries. And as I mentioned in the previous occasion, we have been working on optimizing our combined assortment between Avon and Natura to optimize for the changes in the market and the consumption pattern, right? And we've been doing that successfully already through Q4 in our regular offerings as well as in gifts across the region.

And by the way, that applies to all of the countries, not only to Brazil. So very glad that we have the power of this combined assortment. As regards the combination of our networks of representatives and consultants, we basically started sort of a better operation in Brazil in the last weeks of the year, which will now scale up in this first half until it reaches full speed in the second half of the year. For that purpose and given the importance of this wave two initiatives, which includes not only the network of reps and consultants but also the combined portfolio, as you properly pointed, we've allocated a dedicated team led by one of our most experienced executives, Erasmo Toledo, who used to chair -- to lead Natura in Brazil, to lead that initiative. So that's -- so in a summary, we expect it to reach full speed in the second half of the year.

A - Roberto Marques {BIO 1959256 <GO>}

Thank you, JP. Gui, can you talk a little bit about some of the actions on discretionary spending moving forward?

A - Guilherme Castellan {BIO 21259941 <GO>}

Sure, sure. Thanks, Joao, for the question. I think, as Roberto explained in that slide, right, we're starting the year in a very fluid scenario, especially with the war right now that exacerbated in the last couple of weeks, right? So I think here, we are basically accelerating some strategic moves to deliver cost savings. And part of that is what Roberto mentioned in terms of accelerating our global supply organization and how to, of course, continue to optimize resources in the operational side and also in the back office side of the organization, right?

So those are more strategic initiatives that we planned to happen this year. And of course, we are accelerating that given the business and the environment. On top of that, of course, we continue to manage our expenses on a daily basis here, right? It's how we are -- how we run the business, both on discretionary expenses, meaning consultants, travel, all those things that we're again reassessing completely in the beginning of the year. We're trying to protect working money as much as we can, meaning the money that we'll continue to invest in the channels, in our consultants, in the reps and in the brands.

But of course, that is also very fluid depending on the region and depending on the country. And we'll continue to work on synergies, right? I mean, we finalized the last year ahead of the plan with 50% of the synergies delivery in Lat Am We have more to do this year. Joao and the team here in Lat Am, they are working nonstop to continue to look for those efficiencies and the same thing in Avon International with the transformational savings, right?

So again, I hope it helps. I mean we are accelerating a lot of the strategic moves that we did that we were planning to this year, but also, of course, on a quarterly basis -- actually on a monthly basis, taking tactical to protect our profitability and bottom line.

Operator

(Operator Instructions) The next question comes from Joseph Giordano from JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Actually, I would like to go back to the waterfall chart you guys showed. And again, like try to quantify a few things. And why is that, right? So we had a massive beat on Avon International, and I think just like trying to gauge what's actually like the recurring part of this? Could it mean like if you look back in the pandemic, we have like a ton of (inaudible) expenses. So basically, like -- if you can help us to quantify of the 4.7 percentage points of revenues of what's really recurring, it would really help.

And then the second part of my question goes on the cost pressures, right? So you guys mentioned that things are being exacerbated. So I'd like to understand from your side, like what can be done on Natura's front, right, so basically like pricing, revenue management, to kind of cushion those potential pressures that are likely shaping up to be stronger than (inaudible) ?

A - Roberto Marques {BIO 1959256 <GO>}

Joe, Roberto here. So in regarding to Avon International, part of the improvement on margin is the structural changes that we've been implementing over the last 2 years. We've been talking about a change on the structure where we move from a very decentralized organization, almost like 40 different Avons to a hub-spoke lead market approach. That structural change will continue, right? And that benefit would remain moving forward.

We saw also the benefits in margin on Q4, which is related especially compared to Q3 to some seasonality effects that we always have on Q4 of the business. As you kind of project forward in terms of additional savings to actually mitigate some of this challenging environment, as Gui said, there is a combination of many things.

One is, we're going to continue to push for synergies, right? As Gui mentioned, we delivered 50% of the synergies versus a guidance that was above 40% toward the end of 2021. So this is clearly was one way for us to mitigate the pressure, the inflation, cost increases that we saw in 2021. And as we projected, those things will continue and maybe even exacerbated in 2022. We're going to continue to drive as hard as we can the synergies that we are already identifying in the plan and trying to find additional ones, right?

And Gui mentioned some of the structural ones in supply chain, enabling functions, discretionary spending that we'll continue to look at it. So there is no crystal ball. It is about running the business. It is about pushing for the synergies. It is about financial discipline that I think we've been demonstrated over the last 2 years during the pandemic. I think while we are saying it is our projection that this pressure will continue, potentially get even more exacerbated especially in the first half of 2022, but we are going to really put very strong plans to make sure that we can protect the P&L and the cash flow of the company.

Gui, do you want to add something?

A - Guilherme Castellan {BIO 21259941 <GO>}

Yes. Thanks, Roberto. I think that was great. But Joe, just to help you think a little bit more about Avon International, right, I think it's very important for you to start with the gross margin expansion, right? That is there. You can see that Avon International gross margin in Q4 '21 increased by almost 360 bps compared to Q4 '20. And that, of course, is driven by revenue management, efficiencies and mix, right? So those type of savings, of course, depends on the scenario, but they are recurring, right?

Then on top of that, there was a significant amount, as Roberto explained, that comes from the transformational savings, which again is what the team is restless implementing in the different countries, different parts of the organization even international, right? That had a significant impact in the year, and of course, that will continue to impact going forward. Then there were other cost containment actions. And then again, those are more discretionaries right, and one-offs which, again, as I explained before, is the variable comp adjustment, which is part of the business that basically offset sales deleverage and other organic investments, right?

So if you had to think about in international, I'll start with the gross margin, I'll start with the transformational savings. Those again basically were the bulk of the expansion of margin. And then, of course, there were some one-offs and discretionary savings that basically offset the deleverage of revenues and other organic investments. But as Roberto mentioned, there is the seasonality impact in Q4, which compares to Q3 and Q1, Q4 as a quarter with higher sales usually tends to deliver better margins as well.

Operator

The next question comes from Robert Ford with Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Congratulations on the profitability improvements. JP, on Avon Brazil, can you explain the 9% decline in rep productivity? I think I understand the disruption to the network. But presumably with an 18% contraction in the network skewed towards the least productive reps, what happened with the remainder? And how big is the Home and Fashion category for Avon Brazil?

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

Robert, you already gave me the answer. It was Fashion and Home.

Yes. Indeed, it was. The difference between the top line decline and the decline in the absolute number of reps came fundamentally from Fashion and Home. The category contracted and moved to in-store by and large. And we were affected by that. Having said that, as I said, with all the fixes, I mean -- and I should have started with that, by the way, the fixes that we implemented as of October are working. I'm totally confident, totally confident that in the middle of the quarter, Q4, we saw the inflection point in that operation.

And ever since, we have been seeing improving number in total count of reps, the number of active reps, the consecutiveness of all the reps, especially the 1 and 2 start reps as well as productivity. So that machinery is now working properly. And as volumes are being picked up from this -- in these categories, which are being traded down in CFT categories, we are starting to see now more recently a compensation for the lost volumes in Fashion and Home. So that is the explanation, Rob. Thanks.

Q - Robert Ford {BIO 1499021 <GO>}

And how big was Fashion and Home last year?

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

As a category, it corresponded to 30% of the overall Avon business in Brazil.

Operator

The next question comes from Helena Villares with Itau.

Q - Helena Villares {BIO 21333811 <GO>}

Our question is still about the cost savings and the synergies. We totally understand that most of them are recurrent, and we do also understand that first half '22 should be a little bit more challenging with everything that's happening, supply chain, commodity prices and et cetera. What we try to understand here is considering that second half '22 could be a more normalized scenario. And if that assumption holds water, we can use -- can we use this 4Q '21 margins as a run rate for this company? Does that make sense for you guys?

And just a last thing here, of the 470 bps of cost savings and cost control and also one-off things, how much of this 470 is more one-off? And how much is really cost that you can maintain a sustainable way? That's it from our side.

A - Roberto Marques {BIO 1959256 <GO>}

Helena, Roberto here. I will start, and then I'll turn to Gui. So in terms of projection, again, what we can say is we are projecting still a more challenging environment in terms of cost pressure in first half of 2022, hoping that we can get resolution sooner than later on this war and then all the impact that we are seeing spreading out in other geographies besides, again, where the war is happening. That's our assumption, right?

Again, your guess might be better than mine what's going to happen. But what we are doing is actually, again, putting in place a very strict austerity in terms of spending, both in terms of CapEx and OpEx, to try to protect the margins, especially in the short term. And again, we feel that we have a strong track record of doing that. We did that during the peak of the pandemic. Not easy to do, but I think, again, the team is coming together, working very collaborative in a way that we can potentially put in place measures to offset and to mitigate some of that pressure, right?

If everything goes according to what we're projecting, we are expecting a better second half to your point, but it all depends how things are going to evolve. And it's very hard to predict at this point. So hence, why we're not changing guidance, we are not changing any of that because still we are seeing a very volatile, uncertain times. And I hope you all understand that. It's very much outside of our control. We're going to control what we can control, which is primarily all the measures that we are taking from discretionary spending, being much more choice-ful about where and how we are spending CapEx and OpEx. And with the hope that the second half, everything goes according to our projections, we are going to see some of the benefits of the things that Gui was talking about that are more ongoing in terms of margin improvement, especially at Avon, right, but also across our business. So Gui, anything else to add?

A - Guilherme Castellan {BIO 21259941 <GO>}

Yes. No. I think that was great. And then I just didn't quite understand your -- the second part of your question related to the one-offs. So if you can repeat that, that would be great.

Q - Helena Villares {BIO 21333811 <GO>}

Sure. No it's only regarding the bridge of the EBITDA margin. You guys show 470 bps, but everyone already asked about it. But 470 bps of cost savings and also one-off events. So how much of this 470 bps are more related to one-off things? And how much is more sustainable in a more normalized scenario, of course?

A - Guilherme Castellan {BIO 21259941 <GO>}

Yes. I think -- thanks, now I understood. I think I answered that when Richard asked the question. But just to be clear, right, 470 bps, most of it, I want to be clear, is coming from what we call transformational savings in Avon International, synergies in Lat Am and efficiencies across the businesses, okay? So there's a significant part of that, that is 100% recurring, and it's coming from those 3 pillars that I explained.

Now there is the second pillar, which is composed by discretionary expenses, savings and one-offs, right? And discretionary expense savings, to be clear, is how we run the businesses, right? So we chose not to invest. We may invest in the future, we may not. It's how we, of course, we're looking at the market, we're looking at our brands, as I mentioned, trying to protect working money as much as we can. And basically, that drives our decision to invest or not invest.

In the other parts, there are one-offs, right, which, again, it's not the majority of this 4.7%. I want to be extremely clear on that, that is coming from normal accruals and reversals as part of the business, right? And the biggest part of that number in relation to Q4 is what I mentioned before related to the variable comp adjustments that we did.

Q - Helena Villares {BIO 21333811 <GO>}

Okay. So we can look forward. We can think that most of it is recurring, right? That's great. Great.

Operator

The next question comes from Danniela Eiger with XP Investimentos.

Q - Danniela Eiger {BIO 20250080 <GO>}

Just on -- regarding the synergies, I have just wanted to understand the fact that you -- the beat of the 40% expected for the year, was that driven by faster-than-expected synergies being captured or actually higher-than-expected synergies? And also still on synergies, we saw the tax -- the positive tax effect being a positive driver for net income. And we should also potentially expect that to continue going forward as you guys enjoy benefit from Avon's accumulated losses. And just wanted to check if that is actually an upside risk on your synergies guidance regarding Avon? And that's it.

A - Roberto Marques {BIO 1959256 <GO>}

Roberto here. Thank you for the question. So regarding the synergies, it's an acceleration, not an additional synergy that we are projecting. So again, we are projecting to deliver 40% of the synergies by end of 2021, and we are able to accelerate that, again, to deal with some of the headwinds. Again, the team moved with very discipline to actually bring forward some of those synergies, and we're able to finish with 50%. But the number is not changing. So what we promised to deliver to the market the guidance, we are not changing that. It's just that it ended up happening faster as a way, again, as Gui was explaining, to mitigate some of the pressure that we're seeing in terms of cost and inflationary pressures.

In regarding to the benefit on the net income, you're right, some of those come from the accumulated losses of Avon, the nonoperation -- nonoperating losses. This is what we are able to materialize at this point. We'll continue to evaluate moving forward. But at this point, again, there is no guidance. This is not included in our guidance because those things are uncertain. And we'll continue to evaluate the opportunities as they come.

Operator

The next question comes from Steph Wissink with Jefferies.

Q - Grace Menk {BIO 22234395 <GO>}

This is Grace Menk on for Steph. My question is on Aesop. I was wondering if you could talk more about the share gains that you're seeing there and the marketing strategy. What's been working well? And are you seeing any improved efficiency in any areas?

A - Roberto Marques {BIO 1959256 <GO>}

Stephanie [ph], Roberto here. You're absolutely right. I mean we are very pleased to see the performance of Aesop in pretty much all geographies where we are gaining share in the luxury cosmetic market. And it is important that we continue to invest. That's one of the reasons we are overinvesting with Aesop because we are seeing the momentum, the expansion in some new categories like fragrance where we are posting over 50% growth, and of course, very excited about the future entrants in China, which is moving according to plan.

We are progressing with registration, and we are targeting to enter in China with a physical presence toward the end of this year. So we're very pleased to the market share gains and hence, why we are actually over investing with Aesop at this point.

Operator

The next question comes from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I know there's been a lot of focus on expense and cost control, but -- and synergies. But I'd like to go back just in terms of how we think -- how we should think about sort of the revenue outlook. And obviously, some brands have seen some declines. Some of that to do with macro, some of that to do with dynamic-related restrictions. But as we're sort of looking into the first half of this year, if you could just sort of think -- help us think through how we think about revenue growth recovery across your main brands and businesses.

And basically, the question is there. Have we -- is the fourth quarter really sort of the perfect storm? And was that sort of the trough point and we should see a gradual recovery from here? Or do you see sort of near term still continued pressure of the same magnitude because of the macro, for example, in Brazil? And connected to that, I was curious about price increases. What sort of room you saw for taking up prices for the Natura and Avon brand, specifically in Brazil, but maybe also for some of the other markets?

A - Roberto Marques {BIO 1959256 <GO>}

Irma, Roberto here. In regarding to the top line, again, as I said, we are projecting still a challenging first half both because of the macroeconomic situations, still pressure in disposable income, which, as we know, in many of the markets that we operate, we are seeing highs in inflation which has a direct impact on discretionary consumer goods, which were part of that. And so we are projecting that this will continue to impact, especially first half of this year.

On the other hand, we are progressing on some of the fundamentals and especially with Avon with the new commercial model in place and you heard from JP some of the indications of the health of the channel, we're also seeing that at Avon International, right, as we also implemented the new commercial model. So we feel pretty good about the progress on the fundamentals. Brand health, for example, Natura just came again with a report as the most admired brand across all categories in Brazil, in Peru. So we feel pretty good about the brand.

We feel, of course, we have to do more work on Avon transformation from a brand rejuvenation, which are going to also put a lot of focus this year. Commercial model is progressing, but we are facing and we are projecting a strong headwind in terms of consumer demand, macroeconomic environment and impact in consumer demand in general in the first half of the year. In regards to pricing and how we are managing that, especially in Brazil, I'll ask JP to talk about some of the actions that we are taking.

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

Irma, the entire industry has been increasing prices to try and protect the margins and so are we. We even shared with you what happened in the market. Actually, as we started telling you about that in Q3. But even in our release, we show that, in spite of the price increases, the value of the market is being contracting due to the trading down activities and the lower consumption power. So because of that, we look at our competitors, we look at the elasticity of our categories and play the assortment to try and capture more combined value across all categories.

And actually, Natura's results in Q4 shows that we outperformed the market. And we were in the middle of that adjustment. So going forward, I can only tell you that the portfolio is even more adjusted to the needs of the market.

Operator

(Operator Instructions) The next question comes from Ruben Couto with Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

A quick one here. Can you comment a little bit on the impact that you guys expect on the recent IPI reduction in Brazil is somewhat relevant in this process of trying to defend the margin given the many headwinds? That is the question.

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

Ruben, JP here. Well, let me start by saying that we are -- we strongly support the idea of a thorough tax reform in Brazil that will help the country driving productivity up. And we were a bit surprised that the government decreased the reduction in IPI only. Having said that, that's very welcome because we do think that IPI is one of the most outdated taxes we have in our system and with -- that carries a lot of distortions.

Now it is a noncumulative benefit. So it has to be deducted from the previous parts of the value chain. And although it is helpful to release the cost pressure, I can tell you that it's only a fraction of the total cost pressures that we are seeing in the market, Ruben.

Operator

This concludes today's question and answer session.

I would like to invite Mr. Roberto Marques to proceed with his closing statements. Please go ahead, Mr. Marques.

A - Roberto Marques {BIO 1959256 <GO>}

Thank you very much guys, for being with us today. As you saw from the presentation and hopefully also with a little more context on the Q&A, we are operating in a challenging environment, no question about it. But at the same time, I think we have a number of strategic and tactic initiatives to drive our future growth and protect our profitability.

By the way, I think you're all going to have an opportunity to detail this plan shortly with you as we are planning to hold an Investor Day next month on April 8. We'll (inaudible) further details shortly.

Wish you all a good day with hopes for a visible resolution sooner than later in the Central Eastern Europe. Thank you very much.

Operator

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