

Q3 2020 Earnings Call

Company Participants

- Joao Paulo Brotto Goncalves Ferreira, Chief Executive Officer of Natura &Co Latin America
- Jose Antonio De Almeida Filippo, Chief Financial Officer
- Roberto de Oliveira Marques, Chief Executive Officer
- Viviane Behar, Investor Relations

Other Participants

- Andrew Ruben, Analyst
- Daniela Bretthauer, Analyst
- Gustavo Oliveira, Analyst
- Helena Villares, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Richard Cathcart, Analyst
- Robert Ford, 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 Natura &Co Third Quarter 2020 Results. This event is being recorded. And all participants will be in listen-only mode during the company's presentation. After Natura's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given.

We have simultaneous translation into Portuguese and questions may be asked normally by participants connecting from abroad, either in English or Portuguese.(Operator Instructions) This presentation may contain forward-looking statements. Such statements are not statements of historical fact and reflect the beliefs and expectations of Natura & Co's management. Forward-looking statements speak only as of the date that they are made and the company does not undertake any obligation to update them in light of new information or future developments. This presentation also includes adjusted information prepared by the company for information and reference purposes only, which have not yet been audited.

I will now turn the conference over to Mrs Viviane Behar, Investor Relations Officer of Natura & Co. Ms. Behar, you may -- the floor is yours.

Viviane Behar {BIO 16620272 <GO>}

Good morning or good afternoon to everyone. I'm Viviane Behar, Natura & Co's Investor Relations Officer. Thank you for joining us today for this call to present Natura & Co Third Quarter 2020 earnings. I'm joined 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 Latin America who will join us for the Q&A session. Our Investor Relations team of Natura & Co is also with us. The presentation, we will be referring to during the 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. 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 would like to ask you to please limit yourselves to one or two questions each at the most in the Q&A session. Thanks for your understanding and cooperation on this. Let me now hand over to Roberto. Roberto, please.

Roberto de Oliveira Marques {BIO 17538675 <GO>}

Thank you, Viviane and hello to everyone. Thank you for joining us. I hope you're all safe and well in this still challenging times. Let me begin on slide 3 with our Q3 highlights. Overall, we posted a very strong performance in Q3, amid the continuing pandemic with a robust 32% sales growth significantly outperforming the global CFT market and with a strong EBITDA and margin improvement as well. We saw growth in all of our businesses driven by Natura & Co in LatAm with strong growth in Natura and Avon in Brazil showing continued productivity improvement and the strength of our digital social selling model.

The Body Shop and Aesop, saw further acceleration in digital and e-commerce even as retail gradually reopened. Avon International's fundamentals show improvement with early positive sign in some key markets. Digital social selling continued its strong acceleration with Group e-commerce sales doubling in the quarter. I'm also pleased to announce a new step in our digital journey with the launch of &Co Pay, our preparatory financial services platform. &Co Pay will help drive productivity for our consultant and representatives by allowing them access to key financials, while promoting digital and financial inclusion.

&Co Pay launches first in Brazil, will be rollout in Latin America and then globally within the next couple of years. Second major highlight, the continued progress we made on the integration of Avon which is proceeding according to plan. Synergies are on track with \$18 million [ph], captured in Q3 and we made further progress in working together including cross-company manufacturing, distribution, storage and combine logistics contracts. We also initiated a pilot of Avon's new commercial model in Brazil. Then it will be Mexico early next year and also in South Africa.

Capitalizing on learnings from Natura. At Avon International, we move to monthly campaign cycles from two to three week cycles in five market including the UK, which will

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simplify the business model and reduce costs. The Avon brand relaunch begun with the rollout of the Watch Me Now campaign in mid September through online and digital channels in over 30 countries. Third key highlight, our ESG agenda. We are very pleased to announce that Aesop was certified as a B Corp joining now Natura and the Body Shop. Also in line with our 2030 sustainability commitments, we are partnering with the United Nations on two key initiatives, Ambition 1.5 degrees Celsius and Target Gender Equality both a test to our determination to tackle issues of climate change and diversity and inclusion. We also participated in Amazonia [ph] Day with Natura, and in breast cancer awareness month led by Avon with education programs for millions of women around the world. And four major highlight. We strengthened our financial structure in October, with the successful completion of a \$1 billion capital raise. That was the largest ever in the Latin America consumer space. We do appreciate the strong vote of confidence from the market and the credit rating agencies, which attest to the attractiveness of our Group and validates our strategy. The capital raise was done to optimize our capital structure by accelerating deleveraging through the prepayment of the Avon 2022 bonds. And allow us also to make investments, accelerate strategic priorities including the Avon integration, group digitalization, geographic expansion and the 2030 sustainability commitments.

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

Let me now hand over to Filippo to go into our financials in greater detail.

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

Thank you, Roberto and hello to everyone. On Slide 5, you see that we posted very strong consolidated sales growth in the quarter of 31.7% in reais and 11.6% in constant currency excluding the phasing effect of the Q2 cyber incident, sales were up 26% in reais and 6.7% at constant currency significantly outperforming the global CFT market. Natura & Co LatAm's revenue increased by 29.5% in reais and 20.1% at constant currency. The Natura brand performed particularly well growing by 41.2% while the Avon brand grew 19.3%. The Body Shop and Aesop also had very strong performances with sales in reais up 51.9% at the Body Shop and 8.2% in constant currency. And Aesop revenue up 67.2% in reais and 19.9% at constant currency. Avon International's revenue increased 22.5% [ph], down 7.3% at constant currency. In the nine month, consolidated net increased by 7% in reais and was down 5.8% at constant currency. As Roberto mentioned, we managed to largely offset the impact of the COVID-19 pandemic in our business with the rapid report [ph] to online complemented by the gradual reopening of retail stores throughout the quarter.

On Slide 6, the Group's online sales grew 115% in the quarter supported by 83% at the Natura and Avon brands to 164% at Aesop and 102% at the Body Shop. At the Natura brand, content sharing grew by 170% since Q1, online orders grew by 45% year-on-year

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and consultant online stores increased by 75% versus the same quarter of last year and topped the 1 million mark. At Avon International, sales via representatives sharing e-brochures more than doubled. The number of consumers accessing the e-brochures was up 70% and e-brochures sales in the UK grew by 300%.

Slide 7 shows that we posted very strong 71% increase in consolidated adjusted EBITDA, reaching more than BRL1.5 billion excluding transformation costs. Adjusted EBITDA margin in the quarter was 14.8%, up 330 basis points. The strong growth in adjusted EBITDA was supported by cost discipline across all businesses and was notably driven by solid EBITDA at Natura & Co LatAm and followed by the Body Shop and Aesop. In the nine months, adjusted EBITDA reached more than BRL2.7 billion with adjusted EBITDA margin up [ph] 11%, down 60 basis points.

Turning to Slide 8, we look at Natura & Co's underlying net income. In Q3, it stood at BRL587.1 million up 2.6% excluding Avon acquisition effects and transformation costs. The growth in underlying net income was driven by higher EBITDA and lower income tax expense, partially offset by higher depreciation and financial expenses. Reported net income was BRL381.7 million in the quarter up 1.3%. In the nine months underlying net income reached BRL88.5 million with reported net loss of BRL827.6 million.

On Slide 9, we show that we have strengthened our balance sheet by the \$1 billion capital raise that we successfully completed last month. In the quarter, we had strong cash generation of BRL793 million, which help us to end the quarter with BRL8 billion in cash before the capital raise. We use the proceeds from the capital raise to prepay Avon's \$900 million bonds due in 2022 in the beginning of this month. This would allow us to accelerate deleveraging, reduce US denominated debt, currency volatility and high interest costs.

As you see on the graph, our net debt to EBITDA ratio was three times at the end of Q3, down from 3.63 times at the end of Q2 and it drops to 1.38 times post the prepayment of Avon bonds. Attesting to the strengthening of our balance sheet and improved credit profile, we were upgraded by S&P and Fitch in October and early November, respectively. The rating outlook by both agencies has also been revised to stable from negative. The second graph provide you with our amortization schedule and shows that we have limited debt maturities this year of BRL100 billion with an average maturity of 3.4 years.

Let's turn now to our performance by business unit on Slide 11 beginning with Natura & Co LatAm. Total net sales were up 29.5% in reais, and 20.1% at constant currency. Ex cyber incident, net sales were up 21.2% in reais and 12.6% at constant currency driven by the Natura brand whose sales were up 41.2%. The brand strongly outperformed the CFT market in Brazil and posted solid growth in Spanish LatAm.

Avon showed early positive signs with 19.3% growth in reais and 9.9% in constant currency. Ex cyber incident, sales were up 3.3% in the quarter in reais and up 6.1% in Brazil. This was driven by increased representative numbers and higher activity. On Slide 12, we look at the Natura brands. Sales at the Natura brand in Brazil rose 30.5% in Q3, which represents an exceptional performance with continued brand preference and market share gains.

This demonstrates the success of our social selling model, which led to the 16th consecutive quarter of higher productivity in Brazil, up 13.8% even with the higher consultant base, which increased by 12.8% year-on-year to nearly BRL1.2 million. In Spanish LatAm, net revenue grew by an impressive 65.7% in reais and 32.7% at constant currency in the quarter. We saw growth across all market notably, Argentina, Chile and Mexico. The average number of consultants increased by 13.3% versus Q3 2019 to 759,000.

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Turning to Avon on Slide 13. The Avon brand's revenue in Brazil grew by 24.9%. Ex cyber incident, Avon's growth was 6.2% in Q3, the first growth since Q4 2018 supported by higher activity level and number of representatives. In Hispanic LatAm, the Avon brand posted revenue growth of 15.7% in reais and was down 3.3% in constant currency. Ex cyber incident revenue increased 1.4% in reais and was down 14.9% at constant currency. The region saw improving trends towards the end of the quarter, with key markets such as Argentina, Mexico and Chile posting growth in September in constant currency.

On Slide 14, adjusted EBITDA for Natura & Co LatAm nearly doubled in the quarter, reaching BRL1 billion, driven by strong revenue growth and operational leverage at both Natura and Avon. Adjusted EBITDA margin was up 560 basis points to 16.5% with the improvement at both Natura Brazil and Hispanic LatAm. Avon Brazil also contributed to this increase helped by operational leverage and the positive impact of sales from the cyber incident. Let's now move to Avon International on Slide 16.

Net revenue grew 22.5% in Q3 in reais and was down 7.3% at constant currency. Ex cyber incident, sales were up 19.5% in reais and down 9.6% at constant currency. Most markets showed signs of recovery from the impact of COVID-19 notably in Western and Central Europe. Key markets such as Russia and Turkey reported growth versus Q3 2019 offset by markets still impacted by strict lockdowns such as South Africa and the Philippines. Adjusted EBITDA was BRL183 million with margin of 7.4% down to 100 basis points as a result of the impact of lower constant currency revenue, foreign currency impacts, higher sales leaders and field investments to accelerate to recover revenues and also IFRS conversion adjustments in G&A. We now move on to the Body Shop on Slide 18.

Net revenue increased by a very strong 51.9% in reais in Q3 and by 8.2% at constant currency driven by growth in the UK and Australia. As well as the direct sales and online channels. The direct sales at home grew 333%, supported by 261% growth in consultants and online sales increased 103% helping offset slower retail sales as a result of the pandemic. Own stores like-for-like sales decreased 16.5% but by the end of the quarter, 97% of retail stores had reopened. Adjusted EBITDA in Q3 increased 81.1% to BRL308.3 million with margin of 22.3% up 360 basis points, driven by revenue growth, lower discounts, reduced discretionary spend and COVID-19 related government support.

On Slide 20, Aesop posted outstanding net revenue growth of 67.2% in reais and 19.9% in constant currency. This performance was driven by strong growth in digital sales offsetting partial retail closures related to COVID-19 in markets such as the US and Australia, while retail like-for-like sales were down 16%, online sales were up to 164%. Q3 EBITDA stood at BRL154.4 million, up an impressive 121.6% with EBITDA margin of 31.3% up 770 basis points, driven by top line sales growth, target cost reduction and utilization of government support programs to mitigate the impacts of COVID-19.

Let me now hand back to Roberto.

Roberto de Oliveira Marques {BIO 17538675 <GO>}

Thank you, Filippo. Let me now conclude on Slide 22 with the key takeaways. First of all, Natura & Co's omnichannel model has shown its strengths in the past quarter and more generally, throughout the COVID-19 crisis. All of our business and brands are showing resilience and increasingly becoming omnichannel E-commerce and digital social selling drove also strong results this quarter. We are planning increased investments in those areas to further build on this momentum. We posted a strong performance in Latin America driven by Natura and Avon in Brazil. The integration and digitalization of Avon is progressing well with some early positive signs in our Q3 numbers. Our digital journey took another step forward with the launch of &Co Pay. Our ESG agenda is advancing as demonstrated by Aesop becoming a B Corp and our active involvement at UN climate Week. Lastly, we have optimized our capital structure with the successful \$1 billion capital raise, we continue to deleverage our balance sheet. And we have further resources to boost investments in key areas to accelerate growth. That position Natura & Co very well for the future.

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

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We have a question from Helena Villares from Itau BBA.

Q - Helena Villares {BIO 21333811 <GO>}

Hi guys, good morning. Thank you taking my question and congratulations for the results. My first question is actually for JP. We wanted to -- expand a little bit more about Natura brand dynamic. We saw very strong results in terms of top line and profitability this quarter. And what we are trying to understand here about the market share gain that you showed. So we are just trying to understand if you have any kind of KPIs figures that you could share with us to understand how much of this market share gains is going to go for the next -- for the coming quarters, and next year. So that's our first question. Maybe something about clients -- new clients. The profile of new clients could help us a little bit. And the second question is about the Body Shop. This is actually about direct sales for the Body Shop. So it's a complete new channel and what we are trying to understand here is about the consultant profile. So, how -- who is this consultant? Why do you think that going so well. And how you are seeing this channel for the future? Thank you.

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

Hi, Helena. Roberto here. How are you? We'll start [ph] -- I will ask JP to talk about Natura brand and the market share. And then I'll take with the Body Shop. So JP please.

A - Joao Paulo Brotto Goncalves Ferreira {BIO 17379429 <GO>}

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

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

Thank you, JP. Helena on the Body Shop At Home, there is some similarity to what JP just said in Brazil. What we are seeing on At Home is the exponential growth. So we are seeing this quarter over 300% growth in the two market that we have At Home primarily UK and Australia. As you know. We are expanding now At Home into the US, we are already present in a very short period of time in 50 states, recruiting about 4,000 consultants. The profile of those consultants tend also to be more tech savvy, therefore more native in digital, social selling. But one thing that is very important which I think JP alluded to is the very symbiotic connection with the brand identity. Right. And the strength of the Body Shop brand now, especially in the UK is also driving the recruitment of new consultants into the brand. So the whole effort of the brand rejuvenation, the activist are [ph] positioning of the Body Shop, it's helping bringing a profile of a younger, more digital savvy consultants into the profile of the At Home business and that is helping accelerating the social selling at the Body Shop At Home business.

Q - Helena Villares {BIO 21333811 <GO>}

Great. And just a follow up about this subject because you just talk about this for Natura and the Body Shop. So we think here that maybe this is also (technical difficulty) of the right sales.

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

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I know. Absolutely. And that's why -- yeah, so Helena, that's why one of the key priorities for Avon is the rejuvenation of the brand, because we think that is also -- there is a very strong link on our ability as we strengthen the brand and we make the brand more relevant to also attract new consultants with a more social selling profile and that's one of the things that we're very excited about it as we roll out this quarter over 30 countries, the new positioning of the Avon brand, Watch Me Now campaign, which exactly try to make that connection even stronger.

Operator

Thank you. Our next question comes from Robert Ford from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

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

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

Hey, Bob. So let me start on the Avon International and then I'll ask JP to comment on Brazil. Of course, Avon International to your statement, we are taking a lot of learnings from Natura on the commercial model on the segmentation. Those things to be honest, hasn't been implemented yet. Okay. So that still to come. Right. So we are planning a pilot with South Africa using the kind of the same framework of segmentation from Natura, actually planned to be implemented in Q4 this year. JP will comment on some pilot as well in Latin America, but while we are already seeing at Avon. I would call some quick wins at Avon International, is we are seeing increase on the channel additions especially on four key markets growing double-digit and the retention is also increasing. So we are seeing a lower churn. And again, those are things that were ready there [ph] call it quick wins on the earnings strategy of Avon International and we are starting to see market share gains. So we saw market share gain for the first time in UK, Russia, Poland, which is encouraging. But I want to be clear, there is still a lot to be done. The true change on the commercial model and segmentation yet to be implemented. But we are seeing some positive wins, especially in terms of making the channel, a little easier for new consultants to come in driving digital tool adoption to a much higher level than what it used to be before. So all those things are contributing to some increase in productivity as well. And number of actives reps, especially in some of these key markets. So turn to JP to comment specifically about Brazil and some of the things in LatAm.

A - Joao Paulo Brotto Goncalves Ferreira {BIO 17379429 <GO>}

Hi, Bob. So we are indeed positive about the more recent results of Avon across Latin America and in Brazil, in particular. And they are based on quick wins. They are not yet the structural changes as Roberto pointed out, but they -- it suggest us what the path that is ahead of us. Starting with the brand, we resumed investing behind the Avon brand. So for instance in build, Avon advanced 10 positions in the Merco reputation ranking. We also resumed communication advertising the new power stay line couple of weeks ago and

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only two days ago, we launched the new black skin line with outstanding technology, very relevant for our market and still associated with social causes related to (inaudible).

So that is pointing towards the relaunch of the Avon brand that is to be seen here in Latin America early next year but already started in other geographies. We also talked about strengthening the relationship with the representatives and in this period Avon in Brazil as well as Avon in Mexico reported highest satisfaction indices -- representative satisfaction indices of the last many years, which is showing that the proximity with the field, some of the incentives that are being put in place are also in the right direction. So with that combination, we are starting to be able to see [ph] the sort of tailwinds that we have been living through in these markets. Now, that gives us the confidence that when the structural changes come early next year and based on the pilots that are already going on, we will be able to sustain the positive momentum that is growing through Avon across the entire Latin America.

Q - Robert Ford {BIO 1499021 <GO>}

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

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

Yeah, hi Bob. How are you? I think that what we saw is more on a -- less dilution on some of those expenses. I don't think this is a trend. I wouldn't consider that. I think they're very specific that you see here. But I believe there is and as I said, there is a lot of programs that were put in place (inaudible) of the efficiency also in terms of Avon International, we have to see, there were investment also in the channel. So it helped us a lot and that impact. So I don't think that is something that could be considered as a trend, it's just a situation that we had, specifically in the quarter. And then I don't think this is a standard vacancy [ph] going forward.

Operator

Thank you. Our next question comes from Richard Cathcart from Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

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

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

Hi, Richard, Roberto here. So you are right, I mean we are putting a lot of focus in UK on social selling and really, we are seeing is an incredible increase in the adoption of social

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selling tool in UK. One data point is the e-brochure sales were up in UK, almost 300% this quarter. So really, this is a key driver of the market share gain. I also would say that we are putting more focus on the simplification of the portfolio of Avon on the catalog, on the campaign UK move now also to a multi cycle. So all those simplification focus on the key categories and the key brands, and the adoption, a heavy adoption of the tools, e-brochures are really the key driver of the market share gain in UK. UK for us is a market that will -- we'll continue to invest and continue to drive a lot of the social selling tools, new campaign the Watch Me Now campaign. It's just online campaign. UK will benefit also from that. So, still a lot to be done, but we are seeing some early wins, early signs, positive signs that are very encouraging in UK.

Regarding China. China it's early stage for us, but we are now very committed to make a more robust entry in China, especially with Aesop and the Body Shop. We already establish our Natura & Co legal entity and the Body Shop and Aesop. We are now starting the process of product registration that will take probably about the first half of next year. Of course, we have been very careful in working with the right provinces to make sure that the way we do it will continue to align with our value not -- no testing in animals, so we are potentially planning to have a first physical store likely to be Aesop in Shanghai in the fourth quarter of next year and then as we enter 2022 expanding that also with the Body Shop.

Q - Richard Cathcart {BIO 16457807 <GO>}

Perfect, thanks, Roberto.

Operator

We have a question from Ruben Couto from Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

Hi, everyone. Can you talk a little bit more about &Co Pay. This seems to be a very interesting new initiative. So I wanted to understand what is the difference compared to the previous financial solution that you already offered to consultants in partnership with banks and I also wanted to understand, what to expect in terms of resources, is this kind of a initiative aimed chiefly to improve consultant's productivity and benefits that will give to the channel or could you expect incremental features that eventually could be monetized in bringing direct contribution through fee revenues or other source of revenues. Thank you.

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

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

A - Joao Paulo Brotto Goncalves Ferreira {BIO 17379429 <GO>}

Thank you, Roberto. Ruben, so as Roberto pointed out, it is a new business unit, and hence it has its own P&L which generates new -- it's a new revenue stream. However, it is meant to strengthen our core business. Precisely for the reason that you pointed out, the better payment solutions and financial solutions drive higher consultant productivity. And we know that from our previous experiences. So this is an initiative that has a double benefit, it enhances the core [ph] and captures new revenue streams. It is different from our previous experiences because it's now all integrated, orchestrated within Natura through partners and completely embedded in the consultant's experience. Also all the information that is captured it's -- is used to improve the knowledge we have about that relationship -- that commercial relationship that is building. So that is all new -- completely embedded into the beauty consulting journey.

Q - Ruben Couto {BIO 20636571 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

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

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

Hi Gustavo, Roberto here. Thank you for the question. What really the key elements of what we believe are transferable and again, the Avon International team is working very closely with the team here in LatAm, and in Brazil to really understand is the notion of a lifetime value approach and the segmentation where the retention, driving productivity, sometimes it's very important than just the transaction -- the first transactions and just growing the channel. So there is a lot of simplification that is already being implemented by the Avon International organization. As I mentioned, monthly cycle are focused on earnings model that it's simpler than what it used to be. All those things are already ongoing, but I would say the segmentation approach of a lifetime value of the reps are probably something that again we want to validate it, we want to again do some prototypes and pilots. We want to make sure that also, it works well. We know that even as we did it here in Brazil and LatAm, it's not a simple execution because you need to adjust in each segments, create P&Ls for each one of those segments to make sure that it works well as a whole.

But we are excited about it. I think as a nation, we are preparing a pilot in South Africa. And then the idea, once we validate that and starting a rollout sometime next year. But it's really based on this notion of a lifetime value and segmentation approach. So I'll turn to JP. JP I don't know if you want to comment on anything else in terms of the model that we transferred to Avon International, and then you can comment on the specific question.

A - Joao Paulo Brotto Goncalves Ferreira {BIO 17379429 <GO>}

No, I'll just highlight that Avon international, Angela and her team have been in continuous contact with our team here in Latin America. So we can exchange all the learnings we had over the last many years and so that gives us the confidence that the acquired know-how will be transferred with the necessary adjustments. So, and to your other question, Gustavo, on new consultant. The number of new consultants in Brazil. I think there are two main drivers for that increase, one is all the investment and know-how that we've developed on digital recruitment that became really seamless and facilitating those newcomers to learn about the activity and the products and how to reach their customers that's one of the drivers. The other one, of course is the fact that people spend more time at home, unemployment, trying to find new alternatives and guess what. I mean that combination allowed us to attract a higher number of new -- of consultants, new consultants and they are on average 10 years younger than the average of the network. They are tech savvy. They joining our network already through digital environment and because of that they are being able to reach customers that love the brand, but didn't find a good shopping experience so far. So they are coming back to the brands through this new recruits. So thank you for the question.

Operator

Thank you. The next question comes from Tobias Stingelin from Citi.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Yes, thank you. Good morning and congratulations on the results. I think that the question is to some extent a follow up to the question that Gustavo just told. In regards to just increasing the number of consultants in Brazil, do you think that this trend will continue. And you mentioned that they are kind of what tech savvy, that they already are more native to the environment. Do you have kind of productivity indicators of this consultants already. This is the first question. The second question is just in regards to Avon Brazil, you mentioned that consultant satisfaction is very high. Can you let us know why the satisfaction increased so much? What are you doing that is increasing the satisfaction of the Avon consultant, please.

Operator

Please standby, we will resume momentarily.

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

Hello. Are we back?

Operator

You may proceed.

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

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

Operator

Thank you. We have a question from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Yes, hi, good afternoon. Good morning. Sorry, and thank you very much or good afternoon to those in Europe. But thank you very much for taking my question. I was curious, in the same-store sales growth and reopened stores were you able or are you able to provide a little bit of how that's been trending for both Aesop and the Body Shop? It was very useful to have that number for the third quarter, but I'm just curious, specifically when you just look at the stores that have been reopened, how those have been trending and maybe connected to that about how you're thinking about the store footprint for Aesop and the Body Shop in 2021 and beyond? I know you've made obviously -- shown already a large chunk of the adjustment at the Body Shop, but I'd just be curious for both franchises where you sort of see the growth trajectory from here?

And then the second question just really minor question, government support in for Aesop and the Body Shop. I know it helped to some extent, the EBITDA margin this quarter. But if you just sort of indicate to us, maybe the magnitude or sort of how we should think about this impacting margins in the next quarter? Thank you.

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

Yeah, hi, Roberto here. Thank you. Thank you for the question. Regarding the store reopening. This quarter at the end, we saw approximately 95% of the stores open. What we are seeing again and that explain a little bit a very strong quarter that is even with the reopening of the store, we still continue to see very strong momentum of our eCommerce at the Body Shop and Aesop. So of course the eCommerce came down a little bit versus what used to be in Q2, which as you might remember was about 30% plus, almost 40% of the revenue, it came down, but it came down still almost more than double than what used to be before the pandemic.

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So even with the reopening of the store, we still see very strong performance of the eCommerce. The store in itself, we are seeing traffic still way down versus prior to the pandemic about 40%. But we are seeing higher ticket, average ticket per person in general. Of course, we will continue to monitor now as we enter in Q4 which is our most important quarter amidst [ph] some of the lockdowns in some markets, especially in Europe. But one of the things that we are seeing is that we also got a lot of learnings in terms of being able to adjust, so things like click and collect, curbside delivery, all those things are still in place. So in the combination of eCommerce, we still think that we're going to be able to manage the Christmas season well, but, of course, we will be monitoring that. In regards to margin. What I can say is that in our calculation, I would say, it's probably about 100 to 150 basis points in terms of the -- call it the subsidies or the government incentives that we think that are non-recurring that at some point will disappear, but even if we exclude that we are still showing margin improvement on a recurring base which is again, which shows the strength of our fundamentals.

Thank you for the question.

Operator

Thank you. Our next question comes from Andrew Ruben from Morgan Stanley.

Q - Andrew Ruben {BIO 18834624 <GO>}

Hey, great, thanks very much for the question. I guess just following up on the margin point, so more broadly, you showed some strong leverage in LatAm, Body Shop, Aesop, so if you could just provide some color on the bigger margin drivers and if there is anything in addition to the government support that might be more temporary or any spending shifts in general, we should be aware of as we think about modeling into 4Q and 2021. And then just if you could clarify the 100 to 150 basis points, is that just for Body Shop and Aesop or is that on a consolidated basis. That would be very helpful. Thank you.

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

Hi, Andrew. Yes. So I think that just to have for the question. The 100 to 150 basis points is consolidated basis. It's not specific. Also there are piece of that that is related to the cyber phasing that we already mentioned before. So we consider like half will be cyber and half would be the stimulus. So again like we said, with that -- it's taken that even if we do this, we still have an expansion in margin compared to the previous years. So I believe that we can see. Of course, this quarter we had this increase, but I think the trend is to really, to see that going forward on adjusted basis like we said. That's how we expect to see.

Operator

Our next question comes from Joseph Giordano from JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hi, good morning, everyone, thanks for taking my question. They are actually couple of ones. The first one is on the Avon integration. So if you could shed some light on how you are deploying the technology you have on Natura to waver [ph]. So what can be done now, particularly in the context that you prepaid your most restrictive bond, so that's my first question.

And second question is, how do you guys feel about the outlook for Christmas. Right. So particularly in Brazil. We saw like an outstanding growth. We had some emergency aids probably helping the sales [ph], so -- and you mentioned that you saw that mostly perfumes and fragrances. So how do you feel about it? And what's the strategy in terms of like packaging and bundling like you have been doing over the past calendar events. Thank you.

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

Hi. Joseph, Roberto here. So in terms of the restricted aspects or the covenants of the prepaid bond. This will allow us again to continue to optimize our structure as a group, especially in terms of subsidiary and better combined some of those at a global scale and some of the opportunities that we have as we now have Avon, Body Shop and Aesop overlapping some of those geographies. So that will give us some more flexibility for optimization on that. In terms of the synergies, they are on track. I would say that is also explain part of the improvement on margins because we are already capturing about \$17 million [ph] of synergies, this quarter. So that's on track based on our communication and guidance that we talk about it back in Q1. So we are excited about it. We are already seeing very mature examples up distribution centers, manufacturing sites, especially in Latin America, working in a combined way between Natura and Avon, and that's very promising in terms of not only driving cost now, but improving services through our reps and our consultants. So that's also pretty exciting.

And I think that -- did I miss anything on your question. I think that was it. Right.

A - Joao Paulo Brotto Goncalves Ferreira {BIO 17379429 <GO>}

Christmas.

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

Do you want to comment on that?

A - Joao Paulo Brotto Goncalves Ferreira {BIO 17379429 <GO>}

Yeah. So Joseph, JP here. As regards Christmas, you know that for Aesop, the Body Shop, Natura, all these celebratory dates are quite important. And all the businesses around the world are well prepared to fulfill the demand of Christmas. And actually, we do think that in spite of the pandemic, people will be willing to see each other, touch each other, send a token of gratitude. And so we think that the demand will be here. And we learn how to serve those customers in different ways. That's what you've heard so far. Perhaps what might be new and relevant is that Avon didn't look at those dates with the same intensity as the other business do.

So I can tell you that we are upgrading Avon's effort for those celebratory dates and for Christmas in particular. So I think, Avon will see a positive performance out of -- relative performance from the Christmas campaign.

Operator

Thank you. Our next question comes from Daniela Bretthauer from Eleven Financial.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

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

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

So in terms of the -- overall for Avon, what I would say is again, some of the structural things we haven't implemented yet. While we are seeing again some of the actions that we took to simplify the model, to make it easy for consultants to join, of course, all the efforts on social selling and adoption. It's part of that and while we are seeing also as we make a couple of changes on the earnings model that is also helping the rep sustain a longer and that's what's translated in a reduction of the churn that we mention. Regarding Brazil, I'll invite JP to comment on some more specific, please JP.

A - Joao Paulo Brotto Goncalves Ferreira {BIO 17379429 <GO>}

Hi Daniela, good to hear from you. So we're going to push for productivity gains. That's the nature of our approach to direct selling and social selling. In Brazil, both Natura and Avon grew the number of representatives and consultants. Across Latin America though, we didn't see Avon growing yet the number of consultants. But I'd like to highlight that many of the Latin American (technical difficulty). Sorry, what was it? So I just want to conclude saying that many of the Spanish speaking countries faced more strict, much more strict lockdowns. And so we're going to see improving numbers as of now. Thank you.

Operator

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

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

Thank you, everybody. So let me first apologize, I don't know what happened, somebody entered in the line. So apologies for that on behalf of Natura & Co. We are very excited about this quarter in how we really performed.

It's really an outstanding results in any stretch or any angle that we look at it from a top line growth, from a margin expansion, from a very solid performance in each one of our business, which is really testament of our teams, our four amazing iconic brands and our really approach on the direct to consumer omnichannel when you see retail, eCommerce working in a synergistic way. When you see our more direct selling both physical and now through social selling also compounding the performance of our business. So really very excited with the quarter. Having said that, we are also monitoring cautiously optimistic about the future. We believe, we'll continue to outperform the market, but we will continue to monitor some of those recent events on the lockdown in parts of Europe. We are still not past this global pandemic, and we, of course, we'll continue to monitor and adjust in response to those challenges. But anyway. Thank you so very much for joining us. Hope, you all stay well, stay safe and I hope to talk to you guys soon. Thank you.

Operator

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

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