Q3 2021 Earnings Call

Company Participants

- Guilherme Castellan, Chief Financial Officer
- Guilherme Strano Castellan, Deputy Chief Financial Officer
- Joao Paulo Brotto Gonasalves Ferreira, Chief Executive Officer of Latin America & Member of Executive Board
- Roberto de Oliveira Marques, Exec. Chairman & Group Chief Executive Officer
- Viviane Behar, Investor Relations Director

Other Participants

- Andrew Ruben
- Bob E. Ford
- Danniela Eiger
- Eric Huang
- Helena Vilares
- Irma Sgarz
- Joao Soares
- Joseph Giordano
- Richard Cathcart
- Stephanie Wissink

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, we would like to welcome everyone to the Natura &Co Third Quarter 2021 results. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After the Natura's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (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 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 been audited.

Now I will turn the conference over to Ms.Viviane Behar, Investor Relations Officer of Natura &Co Mrs.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 third quarter and nine months 2021 earnings. I'm joined today by Roberto Marques, Executive Chairman and CEO of Natura &Co; and Guilherme Castellan, CFO of 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 with us.

The presentation we will be referring to during this call is available on the Natura &Co Investor Relations website which was recently completely redesigned. Roberto will start today with an overview of our performance and other announcements we made yesterday. Guilherme will detail our financials for Natura &Co After that, Roberto will discuss our business and financial outlook and make concluding remarks and we will then 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 one or two questions each 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.

As we flagged last quarter, we saw a deceleration and a contraction in our results during this third quarter. Two main reasons for that. First, we faced the highest ever comparable base against 2020, when we posted a strong 26% growth, excluding the effects of the cyber incident last year. As we also successfully pivoted the businesses to digital channels, especially social selling, benefiting also from other channels that were more impacted during the second half of 2020.

Second reason is more externally driven, with some still uneven pandemic recovery across key markets, rising inflation and supply chain disruption. This is reflected in our Q3 numbers for this year, which shows net revenue down 4.2% with adjusted EBITDA margin of 8.6% and net income achieving BRL272 million. However, as Gui would explain in greater details. Excluding a number of this exceptional effect from this challenging operating environment both in this year's Q3 and last year's, our adjusted EBITDA margin in Q3, 2021, would have increased by 10 basis points.

These effects includes a 500 basis points impact in margin from inflationary pressure, supply chain disruption, and FX effect, which were, for the most part offset by the synergies already captured by the Avon integration process and also by the group's revenue management capability. That's the snapshot of Q3. However, if you look at the year-to-date basis, we see very strong sales growth of 14.4%, and comparing our Q3, '21 to two years ago, prior to the pandemic, which we believe is a more reasonable comparison, sales then grew almost 21%.

We outperformed the global CFT market over both periods, demonstrating the strength of our business, and our multi-brand omni-channel approach. And the net income in the first nine months reached BRL352 million, reverting a loss of BRL827 million in the same period last year. The growth in both periods were driven by all brands with double-digit growth in reais at Natura &Co LatAm, the Body Shop and Aesop, and also growth at Avon International.

The group continued to make major advances on key strategic initiatives that will fuel future growth. A key highlight is the progress made on Avon's turnaround. Indeed, total sales of the Avon brand, which combines both operations in Latin America and in international markets, showed growth of almost 11% in reais, equivalent to 3.4% at constant currency in the first nine months of the year versus the same period last year. This is the first time in five years that this has happened, underscoring that the transformational plan that we have embarked is showing its first results and the plan synergies are fully on track. I'll return in greater details to the Avon's performance in the next slides.

Let me also comment on two strategic initiatives that we are announcing today. First, we are launching a share repurchase program up to BRL1.5 billion, highlighting our strong ability to generate cash and our commitment to return value to shareholders. And second, for the holding group, we are evaluating a switch to a primary listing on a major U.S. exchange next year while keeping the dual listing in Brazil, through a BDR program. Among other benefits, this will allow Natura &Co to reinforce its position as a global company, amplify its sustainability agenda while at the same time, assessing a broader investor base and increasing liquidity of its shares.

Let me now look at greater detail at some of the key business highlights of the quarter and year-to-date performance. On the next couple of slides, we'll focus on initial positive indicators of Avon's turnaround, starting on the Slide 4.

In Latin America, Avon's new commercial model, a key pillar of its turnaround has been fully implemented in Brazil with initial impact mirroring those seen in Natura back in 2017. We also implemented in Ecuador. And the first results are very encouraging, pointing to improved productivity. Avon's e-commerce platform was also roll-out to some Hispanic markets and digital adoption continues to increase.

Digitalization of the business progressed and the number of representatives now using the Avon on platform improved by 5% points relative to Q3 '20, reaching out 19%. All of this has translated into a record level of representatives' satisfaction and sets the stage for further improvements in 2022. Notably, through the acceleration of the revenue second wave of cross-selling and upselling of both Natura and Avon.

We are fully on track on the integration plan that we presented back in April at our Investor Day with important progress in administrative cost optimization and procurement. Synergies captured in Q3 accelerated to $61 million, helping to partially offset raw material inflation pressure and foreign currency headwinds. And as a plan, we should achieve this year 40% of the total 2024 synergies of between $350 million to $450 million.

On the following slide, we see major progress in Avon International transformation. Key markets such as the UK, South Africa and the Philippines gained share this quarter and in the first nine months of the year, showing that we are outperforming in those markets where we are seeing consumption contraction overall. Here, we're also pleased to report that a new commercial model that mirrors Natura segmentation approach has been implemented across Avon International's top nine markets after a successful pilot in both South Africa and the Nordics, resulting in improved productivity.

Investments in digital made since the acquisition are resulting also in a steady ramp-up in social selling adoption at Avon International, which has reached 15% from 3% prepandemic. Our digital initiatives will converge into one platform named Avon On, and that will be a scale up in 2022. To enable the implementation of both the commercial model and the digital platform, significant advances in streamlining the operational model have been implemented across all markets. Standardization of campaign cycles, optimize resource allocation with key markets serving as hubs, and a 20% reduction of nonstrategic SKUs, generating an annual run rate in savings of over $100 million, which is already captured in our guidance.

In 2022, further focus will be placed on Avon brand rejuvenation, focus on hero cult products and gifting strategy as part again of our key strategic initiatives and transformational plan for Avon.

On Slide 6, we look at the continued headway we are making on digital as part of our omni-channel transformation. Digital-enabled sales which include both online sales from e-commerce and social selling as well as relationship selling using our main digital apps reached 50% of total revenue, 6 percentage points above Q3 2020, which was already a high point for digital in the mid of the pandemic and significantly above the pre-pandemic level of 37% in Q3 of 2019.

As expected, there is now a rebalance of channels with the reopening of retail. Online sales accounted of 9.4% in Q3 2021, which is still three times above pre-pandemic lavels. At Natura, online sales grew 13.3%, and at Avon globally, sales were up by 14% compared to last year.

Aesop's total online sales and the Body Shop's online and at-home channels are twice above their pre-pandemic levels. Concerning relationship selling using apps, adoption of the Avon On app and Avon International has grown consistently over these last seven quarters, reaching 50% of total representatives, which is five times higher compared to pre-pandemic levels.

At Natura in Latin America, the average number of consultants sharing content is nearly four times higher than it was two years ago. Orders through the 1.5 million-plus consultant online stores in the region doubled again compared to Q3 2019.

As an example of advances in digitalization, the consultant brochure in Brazil and the customer brochure in Argentina have become now a 100% digital. Natura also launched an interactive platform in Brazil, where consultants can now watch the live Christmas launch events online and shop exclusive offers without actually leaving the screen. By the way, a live shopping platform for customers is also being tested.

In our digital payment system, Ecopay, posted above-target growth in both number of accounts reaching nearly 300,000 in total payment volume, TPV, which is ahead of the BRL4.0 billion annualized estimate. This gives us confidence in the implementation of our payment enablers across the brands in Latin America, and we are planning to accelerate that throughout 2022.

On Slide 7, we also feature some product innovation that we launched this quarter as part of our robust innovation pipeline, including some technological skin care breakthroughs across our brands. Chronos Super Serum Wrinkle Reducer Natura that combines Brazilian biodiversity prebiotics. Avon introduced Anew Renewal Power Serum containing its exclusive award-winning Protinol technology that smoothen lines and firm skins. And Aesop launched Parsley Seed Anti-Oxidant Intense Serum with natural ingredients. Finally, the Body Shop launched a new hair repair line powered by new Vegan Silk Protein, actually leveraging Natura's R&D with over 90% natural ingredients and a 100% recycled packaging.

Talking about natural ingredients and recycled packaging. Let me now talk on Slide 8 some of our advances on our ESG agenda. As you know, the world's eyes right now are on Glasgow and the COP 26 Conference on Climate Change. We see this as a defining moment for the future of our planet. Natura &Co participated very extensively during these last few weeks in more than 30 events to spread out a key message that we should build an efficient global carbon market and also to protect nature and more specifically Amazonia.

We led a call to action to world leaders at the COP 26 Summit to address not just climate change, but to connect the importance of nature, recognizing that without the Amazon and forests like it, we will not reach net-zero emissions or achieve the goals of the Paris climate agreement. And to back up our words with action, Natura has launched PlenaMata platform, which aims to mobilize people, businesses, institutions and communities to work together for forest conservation and to end deforestation in the Amazon.

We also launched the Eco-Beauty Score Consortium, along with other global CFT peers, to create a common environmental impact assessment of our cosmetic products that will help customer to have a common way to actually compare products on this promising scoring system.

In addition to that, we made further progress on our 2030 commitment to life targets. For instance, we reached our target of full gender balance in the senior leadership team one year ahead of our plans.

With that, I will now hand over to Gui for a closer look at our financial performance.

Guilherme Castellan {BIO 21101351 <GO>}

Thank you very much, Roberto, and hello to everyone. On Slide 10, you see that, as Roberto mentioned, Q3 was difficult as we came up against a very tough comparable base and faced a very challenging operating environment.

Net revenue at BRL9.5 billion was down 4.2% in reais and 4.5% in constant currency. But the nine months performance is very strong with 14.4% growth in reais and 8% in constant currency to BRL28.5 billion, with growth in reais at all brands. And revenue growth versus the pre-pandemic period or versus 2019 is an even stronger 20.7%, which a test the remarkable resilience of our businesses.

Comparing Q3 2021 to Q3 2019, Natura &Co LatAm's net revenue was up by strong 18.2% in reais and 7.9% at constant currency. Avon International's net revenue was up 2.4% versus Q3 2019 in reais and down 22.1% at constant currency. The Body Shop's net revenue was up by a strong 52.5% in reais versus Q3 2019 and also up 7.1% at constant currency. And at Aesop compared to Q3 2019, net revenue was up by a very strong 87.3% in reais and 36.8% at constant currency.

On Slide 11, we focus on reported and adjusted EBITDA which reflect the challenging operational environment we have mentioned. Reported EBITDA was BRL953.9 million in Q3 2021 with margin of 10%, down 400 bps versus Q3 2020. Adjusted EBITDA was BRL819 million, down 47.1% with an adjusted margin of 8.6% down 620 bps. Over nine months, adjusted EBITDA margin stood at 9.1%, down 190 bps and reported EBITDA margin was 8.5%, down 50 bps.

On Slide 12, we show the impact on EBITDA, reflecting a challenging operating environment. As you can see, in Q3 2021, we incurred a 530 bps impact from inflationary and foreign currency pressure, they were able to fully offset through 570 bps in synergies and revenue management gains.

Other temporary business pressures, notably sales deleverage, reduced margin by an additional 280 bps, and high investments to accelerate growth, lower margin by a further 9 bps consistent with our business plan. At the same time, it's important to recall that Q3 '20 adjusted EBITDA margin benefit from 300 bps from pandemic-related one-off effects of cost containment and government support, as well as the phasing of sales from the cyber incidences.

So if we exclude the effects of the challenged operating environment in both years, adjusted EBITDA margin would have actually increased by 10 bps this quarter to 11.9%, which constitutes a solid underlying performance.

On Slide 13, you see the net income was BRL273 million in Q3 compared to BRL382 million in Q3 2020, reflecting favorable PPA effects of BLR88.7 million, and unfavorable A1 acquisition-related effects of BRL140.7 million. Underlying net income was BRL325 million compared to BRL680 million in Q3 2020, mainly explained by lower EBITDA contributions due to the challenging operating environments, which was largely offset by lower income tax expense and onetime tax benefits, including tax credit recoveries in Brazil.

In the nine months period, net income reached BRL352.6 million, reversing a loss of BRL827.6 in the same period last year, while underlying net income reached at BRL867.3 million, up more than five-fold from BRL153.1 million in nine months 2020.

On Slide 14, we look at our improvement in liquidity profile. In October, the company entered into our revolving credit facility in the amount of up to $625 million for a period of three years. This represents an additional source of liquidity, allowing a more efficient cash management while enhancing the company's liquidity profile. Q3 2021 versus Q3 2020 shows a deleverage in our consolidated net debt-to-EBITDA ratio down to 1.8x from 3x, including the effects of IFRS 16.

We ended the quarter with a strong cash position of BRL5.4 billion. This strong liquidity position allows us to announce today a share repurchase of up to BRL1.5 billion, that demonstrates our strong confidence in the business fundamentals.

The second graph provides you with our amortization schedule and shows that we have cash far in excess of the debt maturing over the next three years.

Let's turn now to our performance by business unit, beginning with Natura &Co LatAm on Slide 16. Total net sales, excluding the cyber incident effect that shifted BRL393 million in sales from Q2 2020 to Q3 2020 were down 2.4% in reais and 3.2% at constant currency in Q3, on the back of a very tough comparable base. Natura in Brazil faced its highest ever comparable and Avon in Brazil is undergoing adjustments to its new commercial model.

In Hispanic LatAm, on the other hand, sales were up in strong double digits at both brands, with Natura up 16.6% in reais and 20.5% in constant currency, while Avon was up 11.9% in reais and 10.7% at constant currency.

Market share in the region was slightly positive in the year-to-date despite significant gains of 0.7 percentage points last year. In the quarter, Natura's brand power reached its highest level while the Avon brand continued to gain strength and was above its Q3 2020 level.

Consultant and representative loyalty and satisfaction indices at both brands also reached their highest ever levels. In the nine month period, Natura &Co LatAm posted strong growth of 14.4% or 11.5% at constant currency. Here too, largely driven by very strong double-digit growth by both brands in Hispanic LatAm. Compared to Q3 2019, revenue was up 7.9% at constant currency.

We turn now onto Slide 17 to Natura &Co LatAm's adjusted EBITDA. At BRL531.1 million, Natura &Co LatAm's adjusted EBITDA margin stood at 9.6%, down 690 basis points. We managed to nearly offset an 830 bps impact from raw material inflation and FX headwinds through 750 bps of gains from synergies and revenue management.

Other temporary business pressures, notably sales deleverage reduced margin by additional 390 bps and higher investments to accelerate growth, lowered margin by a further 140 bps, consistent with our business plan. In addition, it's worth recalling that Q3 2020 adjusted EBITDA margin benefited from phased sales from the cyber incident for 160 bps, which partially offset one-off costs for 90 bps. Excluding these effects in Q3 2020, adjusted EBITDA margin would have decreased by 10 bps this quarter.

Over the nine month period, adjusted EBITDA reached at BRL1.7 billion, while margin dropped 90 bps to 10.8%.

Let's now move to Avon International on Slide 19. Excluding the cyber incident, the fact that shifted BRL61 million in sales from Q2 2020 to Q3 2020, Avon International's Q3 net revenue was down 14.3% versus Q3 2020. At constant currency, revenue was down 13.5%, excluding the cyber incident effect. Categories such as fragrance, Color and Skin Care show growth in key markets such as the UK, South Africa and Philippines gained market share this quarter and in the nine months.

The new commercial model has been implemented in the top nine markets and social selling adoption has been multiplied by five to reach 15%. We also saw improved representative satisfaction.

Over a nine-month period, net revenue was up by 6.3% versus the same period last year and down 2.9% at constant currency. Adjusted EBITDA margin was 3.9%, down 350 basis points. We face as 570 bps impact from inflation, FX pressure and sales deleverage that we were able to fully offset through a 590 bps benefit from synergies and revenue management gains. Margin also reflected 230 bps in high investments in digital and IT to accelerate the growth, consistent with our business plan, which were fully offset with 230 bps in temporary cost savings.

Q3 2020 adjusted EBITDA margin benefit from pandemic-related one-off effects of cost containment and phased sales from the cyber incident for 380 bps. Excluding the one-off effects in Q3 2020, adjusted EBITDA margin would have increased by 10 bps this quarter. In the nine months, adjusted EBITDA was 4.1%, down 160 bps. This is in line with transformation plan targets.

On Slide 21, we now move on to the Body Shop, where Q3 sales were up by 0.4% in reais and down 1.2% at constant currency. The Body Shop saw growth across most regions and channel rebalancing as retail stores gradually reopened. Owned stores account for 40% of sales this quarter versus 30% in Q3 of last year. Stores that featured a new store concept see a sales uplift of about 10%. Even with the reopening of stores, online and at-home channels are still twice and 2.5 times above pre-pandemic levels, respectively.

In the nine months, net revenue was up by 20.6% in reais and 7.1% at constant currency. EBITDA was BRL250.6 million with margin of 18%, 430 bps lower. This includes 310 bps in one-off cost savings, which offset 60 bps of higher investments to accelerate growth, consistent with our business plan.

In addition, Q3 2020 adjusted EBITDA margin benefited from one-off pandemic-related effects such as cost containment and government support for 570 bps as well as from the Japan business buyback for 100 bps. Excluding these effects, EBITDA margin would have decreased by 10 bps this quarter. Over nine months, EBITDA was BRL601.9 million with margin of 15.3% and down 270 bps. Over nine months, EBITDA was BRL601.9 million with margin of 15.3%, down 270 bps.

On Slide 23, Aesop again recorded an excellent performance with net revenue growth of 12% in Q3 in reais, and 14.2% in constant currency, despite a tough comp. Revenue growth was particularly strong in Asia and in the Americas. This was achieved despite challenging operating environment. Markets such as Australia, New Zealand and European Union remain impacted by the pandemic, resulting in about 15% lost store days due to the store closures. In addition, the business experienced logistics and supply chain disruptions in certain markets.

Retail accounted for 80% of sales in the quarter, with store sales up 26% at constant currency versus Q3 2020. Online sales were down from their peak as expected as the stores reopen, but are still twice their pre-pandemic level. Over nine months, net revenue was up 39.8% or 27.5% at constant currency. Q3 EBITDA margin was 19.6%, reflecting the impact of planned higher investments in digital, new categories and geographic expansions to accelerate growth, representing 680 bps and other business pressure for 170 bps. This was partially offset by 600 bps in sales leverage.

In addition, Q3 2020 EBITDA margin benefited from pandemic-related effects such as cost containment and government support for 910 bps. Excluding these effects, EBITDA margin would have been stable this quarter. Over the nine-month period, EBITDA was BRL382.5 million, while margin was 22.5%, down 500 bps.

Let me now hand back to Roberto.

Roberto de Oliveira Marques {BIO 17538675 <GO>}

Thank you, Gui. In this section now, I'd like to focus on the key strategic initiatives for 2022 in the next cycle to drive growth and further advance the transformation of the Avon brand. At Natura &Co LatAm, we will roll out the new commercial model in Hispanic LatAm as well as Natura Social selling tools such as e-brochure, live shopping and interactive launch events. We will also be stepping up cross-selling and upselling of Natura and Avon.

At Avon International, we will continue to roll out the new commercial model based on a segmentation approach, and we will consolidate and scale up the Avon On single digital platform. We'll also be continue to invest on the rejuvenation of the Avon brand with focus on cult products and on gifting.

At The Body Shop, we will continue rolling out the new store concept and refuel stations, which results in double-digit sales uplift. We will accelerate the transformation of the Japan business after buying it back last year and continue to advance the Body Shop at home in the U.S. as well. And as part of our initiatives to drive cross-sell and upsell opportunity between our brands, we are planning to pilot the Body Shop At Home in Russia, leveraging now Avon's presence and market share leadership in that market.

Finally, at Aesop, we continue to expand and grow with focus now to enter China with brand activation scheduled and go-to market estimated by second half of 2022. We are advancing in product registration and obtaining good manufacturing practice certification for the plans that Aesop will be importing from. Investments in digital platform and CRM are being stepped up for the omnichannel strategy as well. So, as you can see, we remain bullish in our capacity to drive above-market growth.

On Slide 26, as I mentioned before, and as you saw in the material fact we published, we are launching a share repurchase plan up to BRL1.5 billion, which reflects our capital allocation policy that aims to balance investments for growth and return to shareholders. Secondly, we are now evaluating a new step to underscore Natura &Co Holdings' global profile by switching its primary listing to a major U.S. stock exchange.

Over the past years, Natura &Co has developed itself into a major global business. With the acquisitions of Aesop, The Body Shop and more recently, Avon, Natura &Co has become the fourth largest pure-play beauty group worldwide with operations in over 100 countries and now more than 70% of its revenues outside of Brazil.

Since early 2020, when Avon joined us and the pandemic struck, the group has consistently outperformed CFT market, as you see on the chart on the slide. But at the same time, we still see significant upside relative to market in terms of multiples. As you know, Natura was born in Brazil. We remain in Brazil as a business as a collective and as a brand, and we are very proud of our Brazilian heritage as part of the DNA of the group as well. They are part of our personality and culture and also firmly rooted in our business. But we think that as we move to a post-pandemic world, and following the recent successful capital restructure, which positions the group to become investment grade in the future, the time might be right to consider a switch in the primary listing.

This is part of the group's strategic planning to continue to access global markets and investors while remaining committed to the markets in which we operate via our business units and affiliates. Those will remain headquartered in their existing jurisdictions. In that regard, the holding company will likely be domiciling in UK, where the group has a material part of its business and group resources as a key enabler to a primary listing in the New York.

Let me now turn on Slide 27 to our medium-term guidance, which we are slightly updating today. After recent business updates, we remain confident in our ability to drive top line growth and achieve our compound growth target in the high-single digits over the next couple of years, above the CFT market. Synergies remain on track. But as explained before, some now are being used to offset the unexpected impact of the challenging and unforeseen operating environment, such as, inflationary pressure, supply chain disruption and further FX impact. So as a consequence of that, we will continue to see EBITDA margin progression over time, achieving mid-teens now at a group level by 2024 versus 2023, when we first communicated back at Investor Day in April.

Let me now conclude on Slide 28 with the key takeaways of this presentation. As you saw, Q3 was challenging in terms of the operating environment, but it also showed the underlying strength of our business. In terms of key takeaways, first of all, as you have seen, we are strongly focused on executing our key strategic initiatives even as we navigate in the short-term challenging operating environment.

Second, the Avon turnaround is clearly gaining traction with notably advances on the new commercial model and digitalization, translating into market share and representative loyalty gains. Third, we have multiple initiatives underway in 2022 that will drive future growth. Four, we have launched a share repurchase plan, and we are evaluating a potential switch in our dual listing, which are initiatives to drive value creation. And last but not least, we are on track to deliver our updated medium-term guidance that I just detailed.

So thank you very much for your attention. And Gui, JP and I are now happy to take your questions.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) The first question comes from Helena Vilares with Itau. Please go ahead.

Q - Helena Vilares

Hi, guys. Good morning. And thank you for taking our question. Our question is mostly related to the material facts published last night. If you could please share more details about the study being conducted about the listing outside Brazil and its benefits? And also, why are you still confident about the revenues guidance for 2023 even with the headwinds faced by the company since we understood that only the margin guidance was postponed and not the revenue that would be great.

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

Hi, Helena, Roberto, here. So thank you for the question. So on the re-listing, so I think it's always important to clarify. We are already dual listing. So we already have a listing in Brazil primary listing and a secondary listing to our ADR program Level 2 actually as easy in New York. We think that might be interesting to actually consider that switching, moving the primary listing into New York while keeping the listing in Brazil now to a BDR program that is advancing very nicely, for a couple of reasons.

One, it gives us opportunity to access global markets as investors at the group continue to gain traction as a global group. And while remaining committed to the market with our business units and affiliates continue to operate. We also think that there is an opportunity to increase the liquidity of our share and at the same time, closing some of the gap in terms of our multiples.

If you look at, Helena, our performance over the last year or the last 2 years, we've been consistently outperforming the global CFT market. But yet, we are still with a multiple follow our peers. So we think that there is an opportunity to create value for our shareholders by being in that stage by being able to really assess those global investors, to continue to advance our ESG agenda, which is absolutely critical for us and Natura &Co is playing more and more a global role into that space.

So we think that there is a benefit or we'd like to have more conversations all of you, our shareholders to make sure that this would make sense. Regarding the guidance on the top line, all of our analysis and continued update on our plans continue to indicate because of all the investments that we are doing, both in terms of the Avon integration, the turnaround of Avon, continued expansion of Natura, especially in Latin America, but also the Body Shop and Aesop.

We still remain very confident in terms of our ability to drive superior top line results, again versus our global peers. But the margin, the adjustment, it is a very prudent one because of this unforeseen pressure that we started to see from an inflation, from a supply chain disruption that to be honest, we don't think that's going to be just a quarter. We think that this is probably going to continue for at least another six months. And therefore, we've just been prudent to make sure that all the models will adjust to that. We continue to see progression. We're still very confident we'll deliver that mid-teens, but we think that a year later is probably a more realistic approach. Hopefully, that makes sense. Thanks for the question, Helena.

Q - Helena Vilares

No, thank you. That was very clear.

Operator

The next question comes from Bob Ford with Bank of America. Please go ahead.

Q - Bob E. Ford {BIO 15127836 <GO>}

Thank you. Good morning and thanks for taking my questions. Roberto, given the cost pressures, but also the brand health. How are you thinking about price increases, particularly in light of your increased digital capabilities?

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

Hey, Bob, thank you for the questions. Two things, right, so we are doing a lot of revenue management in terms of how we can optimize our mix, our promotion, even in terms of our portfolio of offerings in order to cope with some of those pressures, cost and inflationary pressures.

We know that in some of our key markets, Brazil being one, we are somehow limiting the ability to increase pricing, because of higher employment because we are seeing some pressure in terms of a drop in consumption. But I think we'd be doing the best we can to manage that. But I would also comment that maybe different than a lot of other companies, we do have the synergies and the synergies are really helping us to mitigate some of that cost pressure.

If you look at our gross margin, we are seeing across the board, especially in the consumer goods space, companies dropping their gross margin by a much significant amount than what we are seeing. And the reason for that is, again, is this integration that is progressing very well, is the synergies that are happening this quarter almost $60 million being captured in synergies that are helping us to navigate this challenging operating environment. Pricing is a component of that, but to your point, we are limited in our ability to increase pricing because we want to be competitive. We are seeing some of the issues in terms of consumption impact overall unemployment and therefore, pricing is not a tool that we necessarily can use to mitigate all the cost pressure.

Q - Bob E. Ford {BIO 15127836 <GO>}

And Roberto, just to follow up. As you move to an increasingly digital interface, where are you in terms of really narrowing promotions and better understanding individual price elasticities? And is that something that maybe is on the horizon for Natura &Co?

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

Yes. So I'm actually going to invite JP to answer because there are some things that are happening in markets like Argentina, which historically been very high inflation. And the way I think we are thinking about digitalization, it becomes actually a good enabler to be even more agile on that. So JP, if you don't mind sharing with Bob, some of the examples in Argentina and now what we are starting to bring to Brazil, I think would be helpful.

A - Joao Paulo Brotto Gonasalves Ferreira {BIO 22166434 <GO>}

Sure. Thanks, Roberto. Bob, in Argentina, we are facing a hyperinflationary environment for quite a while as you know, and also restrictions in terms of the flow of goods and imports. And there is the market where we shifted already to digital brochures, magazines, which is allowing us to react to changes in prices, in product availability, almost real time.

And one of the reasons why we've been so successful there, that practice is being spread across the region, though, in Chile, Brazil with one of the magazines we issued for consultants has become fully digital as of the end of Q3 to allow us to adjust the offerings accordingly. And by the way, it couldn't be more convenient at this time, where in the

Brazilian market, we saw a shift of categories from beauty products to personal care products at lower tickets, and also a trade down within each category to lower price points. So as we speak, we have been adjusting our broad portfolio so as to fulfill the new needs of consumers and the digital solutions we are bringing much more flexibility for us to adjust faster. Thanks.

Operator

The next question comes from Richard Cathcart with Bradesco. Please go ahead.

Q - Richard Cathcart {BIO 16457807 <GO>}

Hi everyone. Good morning. So just back on the guidance, if I may. Obviously, you shifted the margin guidance up by a year, maintained the revenue guidance. While I was hoping if you could just give us some help to understand how you expect EBITDA margin to evolve on a consolidated basis, kind of perhaps over the next few quarters, bidding a view on 2022? And within that, crucially, I'm assuming that eventually additional revenue from Avon will be necessary to drive operating leverage for you to get to those margin targets? So when can we expect to see that revenue coming through, particularly in Brazil but also in Latam and International? Thanks very much.

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

Hey, hi Richard, Roberto here. So listen, even though we're not giving guidance per year. So we still feel very confident we're seeing a gradual increase in margin over time, so over the next couple of years. Again, as I mentioned, we've been very prudent in terms of the margin guidance. And again, really take into account this unforeseen pressure that, I would say, pretty much all sectors and globally, everybody's experience from a supply chain disruption from inflationary pressure, but I think we all saw that U.S. just shared the highest inflation in 30 years over the last 12 months.

So this issue of inflation, the issue of supply chain disruption that I think that the world is mainly going through because of the backlog of the global pandemic is real. And I think it's going to skew having an impact over the next, I would say, at least a quarter to 6 months, hence, us being prudent in terms of delivering the guidance a year later. But that doesn't mean they are not going to continue to see progression on margin.

And you're absolutely right. One key enabler of that, of course, is not just the synergies, the cost synergies and integration, but also the ability to drive top line growth. As you know, one of the key drivers of synergies is what we call the revenue synergies in Latin America, specifically. Now JP and the team are going to really accelerate the Wave 2 in Latin America, which is the cross sell and upsell between Natura and Aesop that will be accelerated in 2022, and that will produce revenue growth.

And at Avon International, I would just highlight one thing that is absolutely pivotal for the turnaround of Avon, which is the new commercial model. And the new commercial model that follows all the learnings from Natura on the segmentation approach is being implemented as we speak in Q3 and Q4 of this year, in the top eight markets at Avon International, and that will be a key enabler for us to drive more retention with their representatives, to drive progression with the representatives and enhance the top line growth.

So it's not going to happen overnight, but it is something that we are very confident. And the initial feedbacks that we are getting from the reps, you're seeing the highest level of satisfaction both at Avon Latin America and Avon international from the reps, it's a very good indicator that it is moving in the right direction.

Operator

The next question comes from Joao Soares with Citibank. Please go ahead.

Q - Joao Soares {BIO 19213781 <GO>}

HI, good morning. Thanks for taking my question. I just wanted to go to Brazil, I wanted to understand a few points. Just understanding a little bit more about the competitive pressure. And you talked a lot about pricing and the difficulty to raise prices at this moment. So how should we be monitoring? How should we understand this competitive landscape? Do you have -- do you see a great trade down towards mass beauty category? So just understanding that competitive landscape will be helpful.

And in that same context, understanding the wave 2 and Roberto just mentioned that JP is going to accelerate the wave 2 implementation. So how should we be looking and what's the time line for the revenue synergy to start reflecting here in the results? Appreciate it.

A - Joao Paulo Brotto Gonasalves Ferreira {BIO 22166434 <GO>}

Hi, Joao, Joao Paulo here. Thanks for the question. Let me start with the competitive environment in Brazil. So in the Brazilian market, there's been a very clear and abrupt change in consumption pattern as of roughly July, given the pressures coming from macro as you mentioned. And in our market, that's translated into a shift from beauty category products towards personal care products, which, on average have a much lower ticket. Also within each category, there's been a trade down to lower price tiers. So the beneficiaries of that change in Q3 for that same reasons, were the mass personal product brands, which are commercialized primarily through cash & carry, supermarket and drug stores.

Now, we were not fast enough to adjust our offerings. But as you know, we have a broad portfolio, which include lower-priced tiers, high-quality products, value products at lower price tiers, and also personal care products. So we are adjusting, as we speak, the offering to adapt to the new context and we are pretty confident we can do that even more so having Avon in our portfolio.

So -- and that is the key for your second question. That is an excellent moment for us to combine our strengths, and cross-sell through our networks of consultants and representatives. You probably heard us before that we have been testing all those mechanics for a few months already. So we are accelerating. We are kicking off some of those mechanics still this year in Brazil, end of year. So we won't see much of that in Q4. But you're going to see that as of the beginning of the year in Brazil, and we are rolling that out throughout Hispanic Latin America during the year. So that will help us combining the strengths of our businesses, brands and portfolios to adjust to the new reality of the market. Thanks.

Q - Joao Soares {BIO 19213781 <GO>}

Thanks, JP. Thanks, very clear.

Operator

The next question comes from Steph Wissink with Jefferies. Please go ahead.

Q - Stephanie Wissink {BIO 17692025 <GO>}

Thank you. Good morning everyone. We had a follow-up question on the change in the time line for the multiyear guide. I'm just curious if you can give us a little bit more context on, if you want us just to stretch our assumptions out pretty equal laterally over an additional year? Or are you also suggesting that the realization of those midterm guidance points, particularly on EBITDA might be more back-end weighted. Just wondering if there has been any change in cadence to the annual assumptions?

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

Hey, Stephanie, Roberto here. We don't anticipate a change on the curve to be honest. So again, we're not providing guidance for a year. But again, as I said, we still remain pretty confident that we'll see sequential improvement on margin. So it's not going to be totally backloaded just on year four. But again, as I said it before, being prudent taking into account this unforeseen cost pressures, supply chain disruptions. And again, we don't see that going away just after a quarter. I think we are seeing this potentially remaining for a longer period of time.

But we're still very bullish on our synergies. The synergies are actually on track. But again, some of them are being used to mitigate some of that impact, while we're still going to use part of the synergies to reinvest for growth. And that's why we continue to be bullish on our top line, high single-digit growth over the same period. Hopefully, that helps Steph.

Q - Stephanie Wissink {BIO 17692025 <GO>}

That's very helpful. Actually, that was -- my follow-up question was related to the investment, the reinvestment cycle. So your plan is also to continue to execute what you had previously planned by year, which would then ultimately result in a slightly lower EBITDA in the shorter term, but in the realization a bit over the medium term. So the investment cycle is still planned to be very consistent with what you had communicated six or seven months ago?

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

Correct. So the cycle will remain the same. Again, we're still very bullish in some of the investments like ease of continuing to expand the enter in China, continue to, again, invest in the wave 2 of the top line growth in Latin America between Natura Enable that JP mentioned, as well as the brand rejuvenation of Avon International that we want to start investing more.

We have some good early indication, a positive from a higher media spending in South Africa that we can potentially roll out, and we want to take advantage of that in the coming years. So yes, so we are not planning to change where we are investing our priorities. Again, just being cautious about the margin, based on this cost pressure that we see kind of short term, but probably throughout first half of 2022.

Operator

The next question comes from Eric Huang of Santander. Please go ahead.

Q - Eric Huang {BIO 21641146 <GO>}

Hi, good morning everyone. And thank you for taking the question. So from our side, we would like to explore a little more about Aesop entering China, more to understand if there is any upside in terms of the expected timing? And also to understand a little more about the roadmap for the regulatory process and the main investment impact on margins? And also, if you can give any more color on how this should go on from now? Thank you.

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

Hi, it's Roberto here. So again, as I said to Stephanie before, we continue to move forward especially with the priority of Aesop getting into China. We are very bullish based on the results of Aesop, especially in North Asia, if you look at the results in Japan and Korea are really encouraging.

And we are in the process of registering the products. We recently obtained the GMP, the Good Manufacturer Practice Certification, which is a key aspect of the process of the sites that we are going to be importing the products from, which is a major accomplishment. But there is a process, and we are following the process with the regulatory agencies in China to be able to enter Aesop. So when we are planning to do that, I think we aforementioned probably second half of 2022, but some of those things are based on the regulatory approval.

There is a lot of companies doing -- going through the same process, registering SKU by SKU. But we have people on the ground. We are leveraging, again, capabilities that we have with the presence of Avon in China that providing support for us as a group. So things are progressing well. We are very optimistic about it. We're making the right steps. And I think, again, hopefully, by end of next year, we'll have besides Avon, Aesop and then after that, the Body Shop with a bigger presence in China as a group. As you know, it's one of our few opportunities for geographic expansion, and we are very encouraged by the opportunity.

Operator

The next question comes from Irma Sgarz with Goldman Sachs. Please go ahead.

Q - Irma Sgarz {BIO 15190838 <GO>}

Yes. Hi. Thank you very much. I was hoping you could just briefly comment on the inventory position that if I did the math correctly, your inventory days went up, and I'm sorry if I missed any comments that you may have already made on that? Is that strategic inventories that you're building, considering the supply chain bottlenecks or was there also maybe a little bit of excess inventory given that the consumption environment deteriorated a little bit more rapidly than maybe initially expected, especially in Brazil?

So I was curious what you -- how you expect sort of -- what drove the increase in this quarter? And what do you expect going forward in terms of inventories? And then maybe in terms of free cash flow generation, given that you announced the buyback program and you're obviously committed to your growth plans. I was just curious like whether you felt that free cash flow generation year-to-date and what you see as an outlook for the year, we're still on track with what you're expecting? Or is there areas where you feel they can still be quite significant improvement? Thank you.

A - Guilherme Strano Castellan {BIO 21259941 <GO>}

Thank you, Irma. It's Guil Castellan here. Let me take that question, and I'll start talking a little bit about the inventory position, as you mentioned, it has, of course, an impact in the cash flow of the quarter, right? So inventory was one of the main centers in working capital for the quarter.

I think you raised the correct two points. I think the first one is it was a strategic decision from the businesses to increase inventory at the end of Q3 as, of course, Q4, which is our biggest quarter, approaches. And of course, we want to deliver a very good service level. So there is a strong component of planning embedded in this inventory increase, which, of course, you can assume that, that is the case.

Also, there is an impact, of course, in a few markets that as you correctly mentioned as well, that was a result of a slowdown in sales in September. So that also impacted a high number of inventories for the end of the quarter. We expect though that inventory is a basic component we expect that, of course, probably in the short-term, given the uncertainties in the market, we may remain with a level above average in terms of inventory. But of course, this should be a short-term impact on our cash flow as we, of course, continue to resume our cash flow priorities, which one of the key pillars of that is to improve working capital, and one of the key pillars in that is, of course, to tackle the inventory days, as you mentioned.

And as the cash flow question that you asked, Q3 is a quarter that usually it's an outflow of cash, right? It's a quarter that we prepare ourselves for the biggest quarter, as I mentioned. So Q3 is a quarter that is usually an outflow of cash. And of course, as expected, this quarter was not different. And of course, if you look historically, Q4 is the quarter that we generated most cash in the year. So it's the quarter explaining the seasonality here, and this year is not going to be different. So Q3, as expected was a cash disbursement.

To your point on the buyback, as Roberto mentioned at the beginning, right. We're always evaluating ways to maximize better to the -- to our shareholders. When we look at our capital allocation priorities right now, we remain extremely focused on our organic growth, and we're investing in it. We have deleveraged significantly in the last 12 months. You can see the difference in our gross debt is almost BRL6 billion in the last 12 months. And of course, one of the ways to remunerate shareholders is through the buyback. And that's why we announced right now, the buyback program as we have a lot of confidence in the plan. Thank you.

Operator

Our next question comes from Andrew Ruben with Morgan Stanley. Please go ahead.

Q - Andrew Ruben {BIO 20391468 <GO>}

Hi. Thanks very much for the question. Most of the items have been answered. Just talking on capital allocation, could you provide an update where you stand in terms of your leverage targets? And within this context, the announcement of the share repurchase how that fits into your overall capital allocation plans? Thank you.

A - Guilherme Strano Castellan {BIO 21259941 <GO>}

Thank you, Andrew. Let me take that one as well. Our capital allocation priorities remain the same. So organic growth is a key component of that. And of course, followed by remunerating value to our shareholders as our leverage ratio continues to be low. As you probably noticed, there was no change in our leverage guidance even with the announcement of the share buyback. So we continue to foresee the guidance of net debt to EBITDA, onetime or lower than that by the end of the 2023 year. So no significant changes on that. As Roberto mentioned, the only change was on the EBITDA margin postponement from '23 to '24.

Operator

The next question comes from Joseph Giordano with Banco JPMorgan. Please go ahead.

Q - Joseph Giordano {BIO 20154008 <GO>}

Hi, good morning everyone. Hi, Roberto, hi JP, and Guilherme. Thanks for taking my question. So my question goes back into the CapEx investments, right? So Irma asked about the cash flow trends. I'd really like to understand what would be the new CapEx level going forward, is it like what we are seeing today in terms of maybe percentage of sales should be the new recurring level going forward? Thank you.

A - Guilherme Strano Castellan {BIO 21259941 <GO>}

Thank you, Joe. Hope you're doing well. As you correctly mentioned, the CapEx in Q3 of this year was above Q2 of '21 and also above Q3 of 2020, right? And when you look at a percentage of sales was slightly above 3%. However, if you look at the year-to-date numbers, we are still lower than 3% with 2.7% as a percentage of net revenues. And again, even though that is significantly higher than last year, I think it's basically what we have been saying for the year, as a result of our organic investments, where we continue to invest in the business. As Roberto mentioned before, our top line guidance is unchanged. And of course, part of that is a result of our investments that we're making here, both in OpEx and CapEx. So we don't give specific guidance in terms of CapEx, but you should not assume anything significantly different than that going forward.

Operator

(Operator Instructions) The next question comes from Danniela Eiger with XP Investimentos. Please go ahead.

Q - Danniela Eiger {BIO 20250080 <GO>}

Hi. Thanks for taking my question. I have just one follow-up on the postponement of the guidance. Something that calls my attention is actually, obviously, the key drivers behind the postponement are exogenous variables that you don't have control over. So actually, you have been doing a very good job in offsetting that part of that with (inaudible) Avon gains. But what called my attention is the fact that you are postponing for only one year, given the strong hit that you are having in the short-term.

So I just wanted to understand if you're seeing additional opportunities on Avon or maybe some other initiatives such as China to help improve this profitability and deliver this guidance with only one year off late.

And the other question that I have is on the new commercial model on Avon, you mentioned that it should stabilize in the short-term. I just wanted to see if you could provide more color on that and also on your expectations, regarding Q4 as obviously, the macro deterioration weight on demand, but as the social gathering helps on the makeup category. That's all. Thanks.

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

Hi, Daniela, Roberto here. Thank you for the question. On the guidance again, , I want to reiterate that we've been very prudent on that, right? I mean our track record has been to always deliver and sometimes over deliver. The only reason why we push back per year is, again, this very significant unforeseen supply chain disruption, inflationary pressure across many, many markets, right, commodity prices increase. And we think that, again, as I said, we don't foresee that is staying for three months, but probably throughout at least first half of 2022.

Having said that, because of our synergies are actually progressing very well because some major initiatives of the transformation of Avon already being implemented as we speak, then we're going to be able to really deliver on this revised guidance with level of confidence on the execution of those plans. And to meet your second part of the question, a key component of that is this new commercial model, earnings model that's being implemented both in Latin America and also at Avon International.

This was always something that we talk about it from day one of the acquisition of Avon. And without that we wouldn't really be able to turn around Avon. The good news is that even in a very short period of time, some of the early indicators in terms of rep satisfaction and change that earnings model are encouraged.

Now also, let's be clear, the learnings from Natura, when Natura implemented that a couple of years ago is that you don't do that overnight. It takes a little bit of time to make the necessary adjustments. That period is what we're going through with Avon Brazil. We are going through now on the top eight markets at Avon. But we have confidence that on the early indications of rep satisfaction, on the feedback on those, new segmentation commercial model that we're going to really be able to drive the top line growth that we're expecting for Avon.

And again, like my last point is, despite all of that, one thing that we didn't talk much is in our view is, is that if you take it at the first nine months of the year, Avon as a total brand is already showing growth, which hasn't happened over the last five years before. Again, I'm very encouraged and very proud of the team being able to implement that in the middle still of a global pandemic. So that gives us also confidence about the plans moving forward.

So thank you for the question. And with that, also, guys, I want to just wrap up the call. I want to thank you all for staying a bit longer. I know that we actually had a lot of information this quarter. So we gave you guys a little bit more time for the questions. So hopefully, you're able to answer all of them. But of course, if there is any other follow-up, Viviane and the IR team is here to help you all. I hope you stay well. I hope we continue to stay safe. Thank you very much, and have a great rest of the day and a good weekend. So thank you, everybody.

Operator

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