

Y 2020 Earnings Call

Company Participants

- Joao Paulo Brotto Goncalves Ferreira, Chief Executive Officer of Latin America
- Jose Antonio de Almeida Filippo, Chief Financial Officer
- Roberto de Oliveira Marques, Group Chief Executive Officer and Executive Chairman
- Viviane Behar de Castro, Investor Relations Officer

Other Participants

- Andrew Ruben
- Gabriel Disselli, Analyst
- Gustavo Oliveira
- Joseph Giordano, Analyst
- Richard Cathcart
- Robert Ford, Analyst
- Thiago Macruz, 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 Fourth Quarter 2020 Results. (Operator Instructions)

This presentation may contain forward-looking statements, such statements are not statements of historical fact and reflect the beliefs and expectation 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. Ms. Behar, the floor is yours.

Viviane Behar de Castro {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's fourth quarter and full year 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 Natura &Co 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 this call is available on the Natura &Co Investor Relations website. Roberto will start today with an overview of our performance, Filippo will detail our financials for Natura &Co. And after that, Roberto will make concluding remarks and we will open the floor to your questions. For the sake of timing, in order for us to accommodate questions from all of you, would like to ask you to please limit yourselves to one or two questions each in the Q&A session. Thank you very much 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 all of you are safe and well in this still challenging times.

I'll begin on Slide 3 with an overview of our highlights for 2020. 2020 was an year that changed the world. In many respects, it was a year that show us how vulnerable and interdependent we all are. A year that has transformed Natura &Co. for the foreseeable future, that brought a strong validation of the group omni-channel in multi-brand strategy and a clear demonstration of Natura & Co's purpose-driven approach. I would like to make a call out to our teams across the world for their extraordinary dedication throughout the year and solid results.

As soon as the pandemic hit, we determined there was a time to care. We made the health and safety of our associates, our network of consultants and representatives our utmost priority. We provide financial and workplace support to our associates and networks of partners. We also quickly shift production to essential products such as soap and hand sanitizers and mobilized significant donations across the world from our four brands. It was also a time to adapt and we rapidly pivoted our brands to online sales and digital social selling, when lockdowns across the world temporarily shut down retail operations. This extraordinary year actually accelerated many of our strategic initiatives, especially in digital. We posted very strong growth in e-commerce and social selling, digitalization of consultants and representatives continue to gather momentum in adoption of the Natura enabling digital platforms is growing steadily.

We also became truly omni-channel. The group digital sales which combines e-commerce and social selling grew 79% in Q4. We also took decisive steps toward geographic expansions in the past year. Buying back the Body Shop's operation in Japan, launching the At Home in the U.S. and making further progress in our future entry into China.

2020 was also the year, in which we welcome Avon into our family of iconic brands and we are making great headways into its integration. Synergies are ahead of plan and we have successfully launched a new campaign called Watch me now. We have simplified the

commercial model across all markets, with monthly campaign in the new earnings model at Avon International and started to pilot the representative segmentation model in South Africa, building on learnings from Natura.

We also made further advances in innovation with the strategic product launches at all of our brands. One example the breakthrough innovation in skincare line or new [ph] now powered by Protinol, a scientific discovery made by Avon which accelerate collagen production. Natura's innovation index reached 67% in Q4 growing strongly by 8.7 percentage points versus 2019. And Aesop brought digital innovation features such as live assistance and WeChat e-boutique in Asia to gain strong online traction. We're strengthening our capital structure with two successful capital raising totaling BRL7.6 billion, including a USD1 billion global offering that was the largest ever in Latin America consumer space.

We deleverage the company to the prepayment of Avon 2022 bonds and this allow us to make investments to accelerate strategic priorities, including the Avon integration, the Group digitalization, geographic expansion and our sustainability commitments.

These commitments are captured in our 2030 Commitment to Life sustainability vision, a very comprehensive and ambitious plan to maximize our social and environmental impact over the next decade. Our longstanding ESG practice result in Natura &Co as a group gaining B-Corp certification, become, in fact, the world's biggest B-Corp and the Group was once again included in major Sustainability Index such as Dow Jones and ISE on B3 this quarter actually.

On Slide 4, we focus more specifically on Q4 and I'd like to highlight four key achievements. First, Natura &Co posted a very strong performance, with sales growth of 24% and net income up 200%. All of our brands contributed to revenue growth supported by digital social selling and e-commerce, with total Group digital sales up 79% in Q4. Our consolidated EBITDA margin remained strong, while reflecting phased investments in branding, R&D and technology to support our continued sustainable growth. This excellent performance in a very challenging context translated into market share gains in key markets and very significant outperformance of our global CFT market by 6 percentage points in the quarter.

Second, we made further progress on Avon's turnaround and integration. Synergies reached USD25.5 million in Q4 and USD73.3 million in the full year, ahead of guidance through initiatives in administrative, procurement and manufacturing. We also initiated Avon's brand rejuvenation with the launch of impactful campaign around the world, reconnecting the brand with social causes such as fighting domestic violence, promoting gender equality and anti-racism. Despite the higher impact of COVID-19 in Europe in key categories, like makeup and fragrances, we are pleased to see that Avon International gained market share in cover, driven by key markets, which Filippo will comment later on.

Third, our ESG agenda continues to advance in line with our 2030 Commitment to Life sustainability vision. We made further progress on our gender parity agenda and you will be hearing more from us next week as the world celebrates International Women's Day.

And we are on our way to reaching net zero carbon emission by 2030, 20 years ahead of the UN goal.

Finally, we optimized our capital structure, achieving a net debt to EBITDA ratio of 0.97 times. We generate cash flow of BRL1 billion in the quarter and end up the year with a robust cash position of BRL8.3 Billion.

Before handing over to Filippo, as we announced, his transition already, I would like to take this opportunity as he is going to be stepping down as our CFO at the end of the year to personally thank him for his leadership, partnership and strong contribution since he joined the Group. During the time, he played a leading role in the acquisition of Avon in January of 2020, which included listing Natura &Co both on B3 and in the New York Stock Exchange. Managed two successful capital raises last year, implemented Natura &Co global financial structure and strengthened our internal controls and liability management functions, completing a very successful cycle within Natura &Co.

To ensure a smooth transition, we are pleased to announce that Guilherme Castellan will be joining the Group as Deputy CFO. He will work closely with Jose Filippo over the coming months and will become the Group CFO after Filippo completes his cycle. Guilherme is a Brazilian National, joined Natura &Co after seven years at AB InBev Group, where he held senior financial position in New York, Sao Paulo, Shanghai and Hong Kong. Before joining AB InBev Group, Guilherme spent several years in the banking industry. In his last position, he was the CFO at Budweiser Brewing companies at Asia Pacific, a listed company based in Hong Kong. He will start his new role at Natura &Co next April and at the proper time you're all going to be able to also welcome in meet Guilherme.

Thank you again Filippo and over to you to go into our financials in greater detail.

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

Thank you for your kind words Roberto and hello to everyone. On Slide 6, you see that we posted very strong consolidated sales growth in the quarter of 24.3% in reals and 6.4% in constant currency, reaching nearly BRL12 billion. This reflects double-digit growth in reals in all our brands. In the full year, Natura &Co's consolidated net revenue stood at nearly BRL37 billion, up 12.1% and in constant currency down by a limited 2.2%, which demonstrates the resilience of our module in a very challenging year.

On Slide 7, we focus on our digital performance for both e-commerce and digital social selling. As Roberto mentioned, digital sales largely offset the impact of COVID-19 on our retail activity, which continued to be impacted in the quarter, notably in Europe. The Group's consolidated digital social selling and online sales grew 79% in Q4. At Natura, digital sales were up 82% in the quarter, at Avon International, digital sales were up 65% in Q4, at the Body Shop Online and At Home sales reached 40% of total sales, and at Aesop, online sales accounted for 27% of total sales in Q4.

Slide 8 shows that we posted the solid 12.3% increase in consolidated adjusted EBITDA, reaching close to BRL1.5 billion, excluding Avon acquisition-related effects, transformation

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costs and an impairment at the Body Shop related to loss making legacy stores, mainly in the U.S., which were further impacted by the pandemic. The strong growth in adjusted EBITDA was supported by cost discipline across all businesses and was driven by a solid EBITDA at Natura &Co LatAm, the Body Shop in Aesop.

Adjusted EBITDA margin in the quarter was 12.4%, down 130 basis points. This is primarily due to the phasing of investments in brand R&D and technology concentrated in Q4 after rigorous cost control steps taken in the first half of the year. Reported EBITDA for Natura &Co was BRL1.25 billion, up 21.3% with margin of 10.5%. In the full year, adjusted EBITDA reached more than BRL4.2 billion, up 5.1% with a healthy margin of 11.4%, down only 80 basis points which is a very strong result in a challenging year.

Turning to Slide 9, we see that Natura &Co posted strong growth in profitability in Q4. Reported net income was BRL174.4 million, up by 200% year-on-year as we reverse the net loss of BRL176.1 million in Q4 of 2018. Underlying net income in Q4 grew by 47.5% to BRL249.3 million, driven by higher EBITDA and lower income tax payment. As a reminder, underlying net income reached BRL72 million in the quarter of Avon acquisition effects, transformation costs and discontinued operations. In the full year, underlying net income reached BRL395 million and net income was a loss of BRL650 million, due to the impact of on activity from the pandemic. Avon acquisition related PPA and tax effect. Management will propose to offset losses against capital reserves, subject to approval by the Extraordinary Shareholders Meeting to be held on April 16.

On Slide 10, we show that we ended the year with a robust cash position and a much stronger balance sheet. In the quarter, we generated BRL1 billion in cash which helped to reverse negative cash flow in the first half of the year. This allowed us to end the year with BRL8.3 billion in cash. As you know, we completed a capital raise of USD1 billion in the quarter and used the proceeds to prepay Avon's USD900 million bonds due in 2022 allowing us to rapidly deleverage to lower interest expenses and reduce exposure to U.S. dollar denominated debt.

As you see on the graph, our net debt to EBITDA ratio was 0.97 times at the end of Q4 down from 3 times at the end of Q3, giving us a very healthy balance sheet. The second graph provides you with our amortization schedule that shows that we have cash far in excess of the BRL3.7 billion in debt maturing this year.

Let's turn now to our performance by business unit, beginning with Natura &Co LatAm. The net sales were up 20.5% in reals and 30% at constant currency in Q4. This excellent performance was driven by growth at both the Natura and Avon brands. The Natura brand was up 24.7% in reals and 20.9% at constant currencies, supported by a very strong market outperformance in Brazil of 10 percentage points. The Avon brand recorded growth of 16.2% in reals and 3.9% at constant currency, which is a very encouraging trend driven mainly by improved productivity of representatives.

In the full year, Natura &Co LatAm sales stood at BRL20.5 billion, up 9.4% in reals and 3.7% at constant currency. The Natura brand posted strong double-digit growth both in

reals and constant currency, while the Avon brand was slightly down in reals at minus 1.8% and down 9.2% at constant currency.

The Natura and Avon brands combining Latin America gained significant market share in the year above 12% versus 11.8% in 2019. In Brazil, the brands combined and also gain market share of 4 percentage points in the quarter and 0.6 percentage points in the year. This consolidates the Group's clear leadership in both Latin America and in Brazil.

On Slide 13, we look at Natura brand. Sales at Natura brand in Brazil rose 16.2% in Q4, a very solid performance on the back of successful Christmas campaign, a strong innovation pipeline and continued brand preference. This demonstrates the success of our social selling model, which led us to the 17th consecutive quarter of higher productivity in Brazil, up 1.4% even with the higher consultant base which increased by 12.9% year-on-year to BRL1.2 million. The Natura consultant loyalty index in Brazil reached the highest level ever.

Hispanic LatAm, the net revenue grew by 44.5% in reals and 35.8% in constant currency in the quarter, with growth across all markets notably, Argentina, Chile and Mexico. The average number of consultants increased by 16% to over 800,000 productivity of consultant loyalty also increased. In the full year, net sales grew both in Brazilian and Hispanic LatAm by 16.5% and 33.8%, respectively in reals. Sales in Hispanic LatAm at constant currency were up by a strong 18.7%.

Turning to Avon brands on Slide 14. Revenue in Brazil grew by 4.9% marking the second consecutive quarter of growth. This performance was supported by higher activity and improved productivity, while the number of representatives was stable. Fashion and Home category sales grew by double digits and considerable advances were made to increase the brand's perception as giftable. Avon also completed the pilot of a new commercial model in Brazil to be roll it out starting this quarter.

Avon brand returned to growth in Hispanic LatAm, up 23.9% in reals and 3% in constant currency, driven by growth in Argentina, Chile and Mexico its largest single market. In the full year, the Avon brand sales were down slightly in Brazil and Latin America by 1.4% and 2.1%, respectively in reals and down 16.2% in LatAm at constant currency.

On Slide 15, adjusted EBITDA for Natura &Co LatAm rose strongly in the quarter, reaching BRL774.1 million driven by revenue growth synergies and operational leverage at both Natura and Avon. Margin grew and 120 basis points to 12.2%, driven by Natura Hispanic LatAm and Avon Brazil even with investment in brand, R&D and technology to support future growth. We saw similar trends in the full year with adjusted EBITDA up 25.1% and margin up 150 basis points to 11.9%.

Let's now move to Avon International on Slide 17. Net revenue was up 12.1% in Q4 in reals and was down 11.5% at constant currency. Sales were impacted by the second wave of COVID in certain markets, notably Central and Eastern Europe and also sales of categories like fragrances and cosmetics were more affected by the pandemic in other categories.

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On the other hand, Avon International gained share in color in Q4, driven by key markets. The UK is stood out with sales up 3% at constant currency, gaining market share for a third consecutive quarter versus the previous year. In Russia, market share improved sequentially since Q2 and the Philippines gained strong market sharing in fragrance in this quarter. Full year sales were up 2.9% in reals and down 18% at constant currency.

Adjusted EBITDA was impacted by the drop in revenue in foreign exchange and adjusted margin at 4.1% in Q4 and 5.2% in full year, reflecting the strategic investments in brand digital and commercial areas to accelerate future growth.

On Slide 19, we now move on the Body Shop with sales up 48.4% in reals and 9.7% at constant currency, driven by the UK and Australia. This growth was boosted by a successful pivot to omni-channel to offset lost retail sales. New restrictions in some markets, notably Europe resulted in 78% of the stores being opened in the quarter down from 97% in Q3. At Home sales grew 206% and e-commerce sales grew 7.2%, which combined accounted for 40% of total sales.

Note that retail store revenue now includes Japan following the acquisition in October of the head franchisee in the country. In the full year, sales were up 32.4% in reals and broadly stable at constant currency. Reported EBITDA margin in Q4 was impacted by an impairment of BRL144.5 million related to loss making legacy stores, mainly in the U.S., which were further impacted by the pandemic.

Adjusted EBITDA was up sharply, both in Q4 and in the full year by 32.6% and 27.7% respectively. Margin was robust at 23.7% in Q4 and 20.2% in the full year but was down by 290 basis points in Q4 and a more limited 80 basis points in the year due to the pandemic's effect on retail sales and channel mix effects.

On Slide 21, Aesop recorded an outstanding performance, net revenue was up 62.1% in reals and 19.3% at constant currency in the quarter, driven by a remarkable performance in Asia. Notably, Japan, it's large single market, an impressive growth of 190% in online sales which accounted for nearly one-third of total revenue. Digital innovation features such as Live Assistant and the WeChat e-boutique in Asia supported strong online moment. In the full year, sales rose 50% in reals and 13.2% at constant currency and surpassed the symbolic mark of AUD0.5 billion.

Q4 EBITDA was up 66.1% with margin of 37.1%, an increase of 90 basis points driven by top line sales growth and cost discipline. Full year EBITDA rose an even stronger 72.6% with margin up 410 basis points to 31.1%, driven by strong sales growth and strict cost discipline.

Let me now hand back to Roberto.

Roberto de Oliveira Marques {BIO 17538675 <GO>}

Thank you, Filippo. And by the way, we're still counting on you as our CFO over the next couple of months.

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Let me now conclude on Slide 23 with the key takeaways. First of all, we are on a sustainable growth path, our four brands are performing strongly. The Natura brand continues to post double-digit growth both in Brazil and Latin America, while the Avon brand grew for the second consecutive quarter in Brazil and returned to growth in Hispanic LatAm. We also saw further growth in the UK and progress in Russia and the Philippines. The Body Shop successfully switched to online and At-Home and Aesop post another stellar performance. And we did all of this, while maintaining our purpose-driven approach that result in Natura &Co becoming the world's biggest certified B-Corp.

Second Natura &Co omni-channel model has shown its strength throughout the COVID-19 crisis, helping to offset the impact of this terrible pandemic. All of our businesses are increasingly omni-channel and digitalization of consultants and reps continues to gather momentum. Digital social selling has been key to our strong market outperformance in the quarter.

Third, the Avon integration is on track, in fact ahead of schedule, with synergies ahead of plan and advances in the pilot of the new commercial model. The business simplification is progressing and digital social selling is gathering momentum, supported by a new brand campaign. And finally, we have optimized our capital structure as we deleverage our balance sheet and we have further resources to boost investments in key areas to accelerate our growth. So while the COVID pandemic is far from over and we continue to be vigilant, we continue to grow and progress on our strategic initiatives. I would like to conclude by expressing once again my heartfelt gratitude to the teams across our Group who really enabled this performance.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Today's first question comes from Thiago Macruz with Itau BBA. Please go ahead.

Q - Thiago Macruz {BIO 16404924 <GO>}

Hi, guys. Good morning and congratulations on a very good quarter in year. Well, I have a couple of questions, the number one is regarding cash flow, we know that the company's cash generation was always a bit more focused in Brazil with a softer currency, but after the improvements we've seen at the Body Shop and Aesop continuing to lead their way in terms of growth, is it fair to say that cash flow has started to arise from international operations as well on the course over the last 12 months?

And my second question is regarding Avon winning Latin America, Brazil and LatAm, you've touched base on the digitalization of the relationship with the sales rep at the end of your presentation, Roberto. I would like to have more information on that, how has that evolved in the course of the last 12 months and what milestones are left for us to really

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think that, at least from a channel and relationships standpoint, Avon is aligned with the best practices of Natura? These are my two questions. Thank you.

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

Hi, Thiago, Roberto here. Nice hearing from you. Hope all well. So on the cash flow, I'll ask Filippo to detail, but the short answer is, we are seeing improvement of cash generation across all of our business, including Avon International, The Body Shop and Aesop that is actually creating a nice balance of cash generation in different currencies other than just Brazil. I'll ask Filippo to give a little more details.

And then I'll turn to JP to talk about it, but we're very exciting about the progress on the commercial model, a lot of the learnings that we now transfer to Avon both in Latin America and also at Avon International just one point is that we are now in full mode of a segmentation pilot in South Africa that is pretty much applying all the learnings of the segmentation model that has been implemented here in Brazil and in Latin America with Natura.

So I'll turn to Filippo and then JP will comment.

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

Yes. Thanks Roberto. And hi Thiago, how are you? Regarding cash flow, the BRL1 billion generation in the last quarter was with the contribution from all of our business units. So all business units generated positive cash in the fourth quarter. When you see the full year, there were impacts in the beginning of the year, you may recall on the transaction expenses and the integration on the Avon integration then. So that is -- there was impact, but overall the end of the year was able to offset those impacts in the early of the year, so we end up positive, it was small positive but important positive.

So what we see here is the contribution of all of the business units, we expect that to see going forward. Of course, there are different commitments in terms of investment and other another capital use. So it's going to be guiding from there, but overall the business are ready to generate cash going forward.

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

Hi, Thiago, JP here. As regards to your question on the digitalization of the Avon business. Well, actually if you spend any minute watching TV recently, you probably heard that (inaudible) Avon is on, it's catching up, so they usage of the app and the instant message e-brochure is growing everywhere across the region, actually everywhere around the world, all right, but strong growth here in the region. And we expect that throughout the year, it will catch up with the current levels of -- that we see in Natura as well. But so excellent progress and transferring technology, accelerating adoption and should catch up with the rest of the operation throughout the year. Thanks.

Q - Thiago Macruz {BIO 16404924 <GO>}

No. Thank you, guys. Thanks for the answers.

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Operator

Our next question today comes from Robert Ford with Bank of America. Please go ahead.

Q - Robert Ford {BIO 1499021 <GO>}

Good day everybody. Congratulations on the quarter and all the progress with Avon. I had a question with a little bit more detail and I apologize ahead of time, but can you talk with a little bit more detail about the current functionality in that interactive e-brochure and then with the suite of digital selling tools for reps and consultants, can you touch on new functionalities, ease of use, how you expect those to evolve, the training that you're providing the networks and the brands of geographies where they're currently available as well as the roadmap you have for wider deployment, I think that's very critical as you move forward and you have so many positive developments. I'm really excited to learn?

And then Roberto, you touched on the segmentation pilot in South Africa, can you perhaps give us your early findings and how you're thinking about broader implementation of segmentation? Thank you.

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

Hey Bob, Roberto here. I'm going to try to give you a short answer on your very detailed questions, but one thing that I want to give you a little comfort that you're going to see much more details at our upcoming Investor Day, but I'll try to address. First, in terms of the digitalization at Avon, we are seeing really the e-brochure is being the main vehicle for adoption and really utilization of social selling. Total Avon has been growing over 90% and this is being consistent.

In terms of geographies the ones that are really we're putting more focus on investment and really training and adoption is more of the developed markets and UK has been really our spotlight, right. So we really want to make it work in UK, first to then potentially get the learnings on the features, get the learnings on the -- how the reps are really working with Avon On. The Avon On is the name of the app similar to what Natura has here. It doesn't have all the features yet that Natura has, but we are catching up in pretty quickly. But just UK we are seeing growth of 300% of adoption and growing off e-brochure for three consecutive quarters, and I can assure you that that is the reason that UK is now growing sales and gaining share for three consecutive quarters which is, as you know, that's the first time that Avon is showing market share gains in UK for at least five years, right. So more to come, but it's really very encouraging.

Now in South Africa, the early results are very encouraging. What really is driving that is the retention of the reps. We're actually testing this on the second brand that Avon has in South Africa Justine, which is a more premium brand. Decided to choose Justine because it's a more contained group of reps and we really want to validate the whole growing segmentation model very similar to what we have here at Natura, and the early results are very encouraged in terms of retention, productivity gains in South Africa and hopefully with the learnings we are going to be able to expand to other markets throughout 2021. JP, anything that you want to add in terms of some of the tools.

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

Some of the tools. The most basic one is already available accessing the e-brochure with a very easy navigation, allowing the reps to share that content with all of our -- through social media with to all of our contacts, get the orders even through WhatsApp and load it to the system. So the basic social selling functionality is already available and harmonizing with Natura, as Roberto pointed out.

Q - Robert Ford {BIO 1499021 <GO>}

That's exciting. Thank you very much.

Operator

And our next question today comes from Richard Cathcart with Bradesco. Please go ahead.

Q - Richard Cathcart {BIO 16457807 <GO>}

Hi, everyone. Good morning and congrats on the strong results. Just a couple of questions here on Avon. The first one in Brazil, and I think in Latin America, JP you made a reference to the marketing campaigns that you're running, I'd just be interested to understand a little bit more kind of if you're seeing kind of what early signs of engagement you're seeing from consumers and perhaps also reps with the brands and kind of what kind of consumer are you targeting with these campaigns in a basic campaigns that you had in the fourth quarter and obviously your supporting Big Brother in Brazil advocacy?

And then the second question just on Avon International, just if you could sketch out what should -- what we should expect to see from Avon International through this year in terms of revenue hopefully perhaps stabilizing the decline by the end of the year? It would be great to hear your views on that. Thank you.\

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

Hi, Richard. I'll turn to JP to talk about Brazil and some of the exciting things in terms of the new campaign that it's coming, and then I'll comment on the Avon International sales. So JP please.

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

Hi, Richard. I'll start from the end. Next Monday International Women's Day, we are launching Avon's new positioning so-called Watch Me Now but translated to Portuguese and Spanish within our internal network. So from then onwards, it will reach the end consumer in the coming weeks and months. So all the study that you already heard has been spread through Europe under Angela's leadership. It's now going to reach the end consumer in Brazil in the coming weeks.

In the meantime, from the end of last year, you probably notice we have been investing on Avon quite a lot, tied to launches of extremely relevant high technology products like

the ones with different terms of schemes that were linked to anti-racism positioning here in Brazil, all the power stay line both in Brazil and in Latin America and the Hispanic Latin America and a much more modern presentation of the brand, which is driving not only higher awareness, but higher consideration of the brand, so very happy so far and the best is yet to come.

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

And Richard to build on that. I mean, as you know, we started the rollout of the new campaign Watch Me Now in the international markets. And there is no question about it that despite again the headwind that we are seeing in Europe with the second wave of COVID-19, we actually gained market share in color, in makeup at Avon International in Q4, which is really exciting to see. Of course, as you know, Avon International is highly depended on Europe and highly dependent on actually color cosmetic and fragrance and those are the categories that have been hit the most. Just for you to have this data point, the top European markets declined over 12% in CFT and minus 23% in color cosmetics in Q4 because of the strict lockdown applied in Europe.

But the good news again for Avon International is that because all the progress that we're doing on the fundamentals, the new campaign, we are able actually to gain market share in makeup in Q4. So that for us will create a good foundation that when we have some easiness of the restrictions in Europe and hopefully with the vaccinations everything else, we do believe the fragrance and makeup are two categories that are going to rebound the fastest actually based on historical performance of those categories post-crisis.

Q - Richard Cathcart {BIO 16457807 <GO>}

Great. Thanks very much for the reply guys. Thanks.

Operator

Our next question today comes from Tobias Stingelin with Citibank. Please go ahead.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Yes, thank you very much. Maybe Roberto you delivered some very strong results and I think the synergies -- you achieve synergies higher than expected at least for the first year, is there any indication that you might be able to increase the synergy guidance going forward or is just really because the process has been moving on faster than you kind of decided to -- you were able to anticipate, so might be an early question, but just to get a sense if you are more bullish now than you were before, sorry, that's the first question.

And the second one, just going back again to Avon International, which has kind of the milestones, the KPIs that we have to look at in order to see how the progress is evolving please? Thank you very much.

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

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Hi Tobias, Roberto here. Two good questions. So on the synergies, we are still pretty much within the guidance that we provided to the market even though, to your point, we actually over delivered in terms of the synergies in 2020. So if you look at our guidance, we were supposed to probably achieve about USD55 million, USD56 million of synergies in 2020 and we deliver USD73 million. We also end up under spending a little bit on cost to achieve, which will catch up in 2021. As you know, we were very careful about the spending in 2020 to manage the uncertainty and the crisis, but we do want to make sure that we make the proper investments to capture the synergy. So at this point, I would say, we feel pretty good about how it's progressing. We are sticking to our guidance, but we are very pleased with the first year how we were able to really deliver on the synergies above our guidance.

On the KPIs, on Avon International, I'd say, there are a couple of things that we are really putting a lot of focus. The first one, I think the question from Bob is the digitalization adoption and this is one metric that we are really putting a lot of focus in terms of utilization of the reps of the app Avon On, the deployment of the e-brochure, the sharing content digitally across our network. So that's one KPI there we're putting a lot of focus. The second is the productivity and retention and appointment of reps, with the new earnings model that's been implemented, a much more simply one, the segmentation that we are rolling out, we want to make sure that the channel is very healthy and that's another metric.

The third one just to give you three is the brand health. How we are really rejuvenating the Avon brand in terms of preference and that's very much tied not only to the brand campaign, the Watch Me-Now, but also the innovation, the new products that we're bringing into the market and make sure that is really helping the brand not only awareness but preference. So just to stay with those three, those are probably the most important ones that we're going to be tracking.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Roberto. Thank you very much. And if I may just kind of a follow-up in terms of the geographical breakdown of the synergies, is there kind of -- is it fair to say that maybe 60%, 70% might be kind of achieve in Latin America specifically where you had a lot of overlap and so on, does it make sense to think kind of this way and the synergies on the other regions maybe much more probably on the, how do we say, on the top line front or something like that?

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

In fact, if you look at 2020, I would say, we actually get more synergies coming from Avon International with the role restructuring that we are doing and leveraging now the group as a whole then even in Latin America. But I would say, for the future, with all the things regarding to supply chain, manufacturing distribution, most of the synergies and the top line, the revenue synergies will come from Latin America.

Operator

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

Q - Andrew Ruben {BIO 20391468 <GO>}

Hi. Thanks very much for the question. Going back to the points on digital, so you've mentioned the accelerated growth figures for digital sales. I was curious if there is any update on digital as a percentage of your sales and how you think that could trend over time? And then within digital, how do you see the split evolving between pure e-commerce and more of a digitally enabled direct sales model? Thank you.

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

Hey, Andrew. What I can tell you and we're going to get more details at the Investor Day, but when you look at it and this is something that we always try to make sure that the market understands. For our color retail business, it's a little easier to track because it's just a movement from a physical to e-commerce and what I can tell you that for example is of right now, e-commerce or digital online sales is about 30% of the business and used to be 10% a year ago, right. Now you can argue that this number might come down as the retail, the physical stores get more momentum back, because again this might be a little inflated because the business really had to pivoted to online digital because of the weakness of retail, the lockdowns, the closure of the store. So I think it is important to calibrate that even though it's hitting almost 30%, we don't think that this will sustain. Now we also don't believe that's going to go back to 10%, right. So I think there is some kind of improvement there.

On the Body Shop, if we combine Body Shop At-Home that is primarily digital and e-commerce is now sitting almost 40% of the total revenue of the business. But again I would caution because this is also driven by some of the restrictions in our physical stores that as the pandemic is out, as we get some level of normality back, mobility, that probably will increase again the percentage of physical stores.

For the direct selling, the e-commerce is just one component, but the most important component is really how the reps are using online to reach out to their customers, even if they buy not through e-commerce and that is the metric that we really putting a lot of focus in terms of utilization, sharing content, e-brochure that we believe that our sales driven by digitalization and online usage, but not necessarily just e-commerce. I hope that helps.

Q - Andrew Ruben {BIO 20391468 <GO>}

Great. That makes sense. I look forward to hearing more at the Investor Day. It does. Thank you. I appreciate that.

Operator

And our next question today comes from Joseph Giordano with JPMorgan. Please go ahead.

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Q - Joseph Giordano {BIO 17751061 <GO>}

Hello, everyone. Good morning and good afternoon for the ones in Asia and Europe. Congratulations on the results and thanks for taking my question. So I'd like to understand a little bit more like and digging into the digital strategy here like you connecting more digitally. So how are you evolving that -- my question is how are you evolving on the creation of your data lake to better understand and launch products and be more assertive on the marketing strategy?

And the second question is, how are you leveraging and training on your sales force to actually reduce your digital marketing investments. So basically relying more on the sales reps? Thank you.

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

Hi Joe, Roberto here. I'll ask JP to talk about data lake, because again, we are leveraging a lot of the things that Natura has started to do and expanding now to Avon in Latin America and that will then expand to Avon International. And then he can also complement some of the training. So JP please.

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

Sure. Joseph, well the usage of data is critical for the business today, yes, and will be even more or so in the future. So I'll focus on Latin America, but I can tell you that the Body Shop, Aesop, they are digging the data on their customers thoroughly to understand where the opportunities are today and tomorrow. In Latin America, we have already merged the data lakes so that we know all that is available as regards consultants representatives and consumers, and we are using that much more currently to reach those rep consultants and consumers rather than to design products.

But as regards our media planning, our CRM individualized offerings, promotions, trainings that is being heavily used already, all right. I think that's it.

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

Good. I also would add to just JP's point Joseph that in the case of The Body Shop and ease of this change more to the online and digital, we are accelerating our CRM, we are accelerating a lot of activities also to connect and create loyalty with our customers that are now accessing the products to digital and e-commerce. And again we are very pleased with the progress, we're going to share more at Investor Day, but it is one area again that it would just highlight where we are putting a lot of investment in 2021 and over the next three years. As you know, after our capitalization, we are very clear that part of the proceeds would go to acceleration of digitalization and some of those areas that you just alluded to are areas that we are putting a lot of resources against to really accelerate that growth.

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

And Joseph you've also asked about how consultants are drawing customers, right. So indeed, we keep training them Joseph, so that they attract their own traffic rather than

having us investing on their behalf. So that is an ongoing effort very successfully so far, successful so far.

Operator

Thank you. Our next question today comes from Gustavo Oliveira with UBS. Please go ahead.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Hi. Good morning, everyone, and congratulations for the results. I have a question that it's a little bit more short-term but in the end what I'm trying to understand is the -- as the current status of your initiatives in Brazil and Latin American in Avon and comparing that to the Avon Europe, you mentioned that your results enable International and Europe were affected by coronavirus, right during the quarter, although, you see the recovery was still ongoing. How do you think that the surging coronavirus in Brazil, especially now could affect the results in the current -- in the short-term the results of Avon in Brazil? Do you think that Avon Brazil is a little bit more advanced in the implementation of the initiatives or perhaps the digital initiatives, but also the commercial model initiatives that would allow you to actually deliver good results like you've been doing with Natura despite of the surging coronavirus cases and the restrictions?

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

Gustavo, Roberto here. There are couple of things that are important, right. So one, some of the markets in Europe actually had to go through a much tougher restrictions than we are seeing in general in Latin America, not saying that the situation it's easier or more comfortable on the contrary, there are some very critical situations in Latin America, but we do see some restrictions that are really tougher in some markets, especially in Central and Eastern Europe, so that's one. Two, it is a fact that some markets in Eastern Europe and that's why we put a lot of focus in UK has lower adoption in digitalization than in some markets here in Latin America and we are seeing Brazil growing also in adoption as we are seeing in UK, so that's the second factor.

The third factor is a category dynamic. In Latin America, Avon also has a higher percentage of their business in home and fashion, which actually as we highlighted is performing very well in the markets in Latin America. Avon International doesn't have that. Avon International is highly dependable on fragrance and makeup primarily, which are the category most impacted by the crisis and by the restrictions with the lockdowns. So if you add those three things you do have a nice picture in terms of some of the difference in performance, but the fundamentals, I would say, they are actually marching very consistently in terms of the new commercial model that was pilot and now it's been rollout in Brazil, now it's been pilot in Mexico and the same thing is happening in some key markets at Avon International.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Very clear Roberto. Thank you very much.

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Bloomberg Transcript

Operator

And our next question today comes from Gabriel Disselli with Santander. Please go ahead.

Q - Gabriel Disselli {BIO 20262791 <GO>}

Good morning and thank you for taking my question. Can you give some more details on the (inaudible) point gain of market share you achieved during the quarter? What can you -- what do you believe that were the main drivers there like was the context of COVID empowering direct selling model or weaker competitive landscape? And for a second question, the innovation made sure a large improvement in Natura Brazil during the quarter, so do you make a similar analysis for Avon Latin America? And if so how it behaved during the year? Thank you.

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

So, it's Roberto. Thanks for the question. I start with the last part and then I'll turn to you. In terms of the index of innovation, we don't have the same methodology applied across our business, we're going to get there. It is one thing that we want to make sure that we start probably sometime later this year to have that visibility. We just have that level of detail for Natura for now. And I'll turn to JP to answer the first part of your questions about the market share gains.

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

Yeah. And by the way, the innovation index is a cumulative index. So it reflects all the launches -- successful launches of relevant products throughout the year, which is one of the reasons that support the market share gain. I mean the brand -- the brands are more relevant now than an year ago, the way we acted throughout the pandemic with our reps, with our consultants, with consumers in general across the region may then consider Natura and Avon primarily as some of the most important brands to support society during crisis, that was one.

And as mentioned, the launch of very relevant products, the high engagement with consultants and reps, actually record numbers that have been achieved during that period given the closeness with which we related during the difficult times. The natural shift from in-store to out of store and the fact that we had different tools to operate out of store as well. So all of those combined lead us through this outstanding market share gain in the region. So we are well prepared not only to defend that gain market share, but hopefully to expand that even further.

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

And again we are extremely pleased with the progress in market share, not only in Brazil and Latin America throughout both Natura and now we are seeing momentum also on Avon Hispanic, but also the market share gains that we are seeing in UK for Avon and the market share gain in total of Avon in color cosmetics, which is the most important category for Avon and again despite some of the headwinds that we are seeing in the category as a whole, the fact that we are outperforming our competitors is very

encouraging to show some of the progress on the fundamentals and some of the power of the brand.

Operator

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

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

Thank you, again, everyone for joining us today. Again, we are very, very pleased with the results despite this very challenging environment that we're still facing, and unfortunately, I think will continue to face over the next couple of months. But I would say, I think our business, our people, our network are prepared to continue to deal with resilience, with agility, with care, really making sure that we stay true to our values, to our principles and again I just want to finish saying thank you to Filippo that will continue with us, but as we announced the succession for all his contributions and partnership. And thank all of our teams for really an amazing 2020, a very challenging year that really transformed Natura &Co and our heartfelt thanks to our teams, to our people, to our own network. Thank you again everybody. Have a great weekend. Thank you.

Operator

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

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